

Emirates Investment Bank P.J.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

REPORT OF THE BOARD OF DIRECTORS
For the year ended 31 December 2017

The Directors are pleased to place before the shareholders of Emirates Investment Bank PJSC (“Bank”) the consolidated financial statements for the year ended 31 December 2017.

During the past few years, the Bank has been repositioning itself with the objective of becoming a leading regional private bank serving a select client base of high net worth individuals and institutional clients. During 2017, we continued to execute on this strategy while simultaneously building the infrastructure required for growth.

The Bank closed 2017 with an annual net profit of AED 56.5 million, an increase of 67% over the previous year (AED 33.9 million), while maintaining a healthy Capital Adequacy Ratio at 14.81% (Tier I Adequacy Ratio of 13.49%). Over this period, customer deposits decreased by 9% to reach AED 3,132 million (AED 3,430 million in 2016), while total balance sheet assets reached 4,905 million, an increase of 5% over the previous year (AED 4,673 million).

The value of Bank’s fiduciary assets decreased by 19% to AED 5,628 million (AED 6,958 million in 2016) for a total assets under the Bank’s management of AED 10,533 million (AED 11,631 million in 2016).

It is proposed that this year’s profit be appropriated as follows:

	<i>AED</i>
- Transfer to special reserve in accordance with the requirements of Article 58(2) of the Articles of association of the Bank	5,402,400

As we continue our journey to build a leading regional private bank, we extend our gratitude to our clients for their support and to our staff for their dedication and hard work.

Board of Directors
14 February 2018

Dubai, United Arab Emirates



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INVESTMENT BANK P.J.S.C.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Emirates Investment Bank P.J.S.C. (the "Bank"), and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statements of income, other comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
EMIRATES INVESTMENT BANK P.J.S.C. (continued)**

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p>(A) Impairment of available for sale investments</p>	
<p>The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The Group evaluates a number of factors, including the amount of decline and the length of period of the decline in the value of the investments, the normal volatility in share price for quoted investments and the future cash flows and the discount factors for unquoted investments. As at 31 December 2017, available for sale investments represented 40% of the total assets. The determination of a valuation technique for unquoted investments and what is "significant" or "prolonged" for available for sale investments requires considerable judgment and therefore represents a key audit matter.</p>	<p>In relation to the impairment of available for sale investments, our audit procedures comprised, amongst others, of an evaluation of management's assessment of significant or prolonged decline and whether objective evidence of impairment exists for any of the available for sale investments in accordance with International Financial Reporting Standards. For unquoted investments where future cash flows was the primary factor in the assessment of impairment, we critically assessed these future cash flows based on inputs and other evidence available as at the reporting date. We also assessed the adequacy of the Group's disclosure in Note 13 to the financial statements.</p>
<p>(B) Impairment of loans and advances</p>	
<p>There is an inherent risk that the carrying value of loans and advances carried at amortised cost may be misstated. Impairment of loans and advances is estimated by management through the application of judgment and the use of subjective assumptions. Judgement is applied to determine the appropriate parameters and assumptions used to calculate impairment which amongst others include the assumption of customers that may have an increased risk of default, the valuation of the collateral for secured lending and the viability of future cash flows of loan customers. Due to the significance of loans and advances (representing 22% of total assets) and related estimation uncertainty, this is considered a key audit matter.</p>	<p>Our audit procedures included the assessment of the controls over the approval, recording and monitoring of loans and advances and evaluating the inputs and assumptions used by the Group in assessing the adequacy of impairment allowances for individually assessed loans and calculating collectively assessed impairments. We performed detailed credit assessments of loans and advances in excess of a defined threshold. We assessed the reasonableness of the recoverable cash flows, realisation of collateral and other possible sources of repayment. We also assessed the appropriateness of the collateral value held by the Group by comparing them, where possible, with externally derived evidences such as real estate valuations and fair value of investments.</p>



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INVESTMENT BANK P.J.S.C. (continued)

Report on the audit of the consolidated financial statements (continued)

Other information

Management is responsible for the other information. Other information consists of the information included in the Director's Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of the auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the articles of association of the Bank and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INVESTMENT BANK P.J.S.C. (continued)

Report on the audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
EMIRATES INVESTMENT BANK P.J.S.C. (continued)**

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) the Bank has maintained proper books of account;
- ii) we have obtained all the information we considered necessary for the purposes of our audit;
- iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 and the Articles of Association of the Bank;
- iv) the consolidated financial information included in the Directors' report is consistent with the books of account of the Group;
- v) investments in shares and stocks are included in notes 13 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2017;
- vi) note 21 reflects the disclosures relating to related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2017; and
- viii) based on the information that has been made available to us, no social contributions were made during the year.

For Ernst & Young



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

14 February 2018

Dubai, United Arab Emirates

Emirates Investment Bank P.J.S.C.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2017

	<i>Notes</i>	<i>2017 AED'000</i>	<i>2016 AED'000</i>
Interest income	4	68,098	41,625
Net income from investments	5	81,932	65,587
		150,030	107,212
Interest expense		(37,424)	(31,213)
NET INTEREST INCOME AND NET INCOME FROM INVESTMENTS		112,606	75,999
Fee, commission and other income	6	57,154	60,319
Exchange gain, net		2,391	6,666
OPERATING INCOME		172,151	142,984
General and administrative expenses	7	(95,118)	(81,399)
Net impairment loss on financial assets	8	(20,518)	(27,693)
OPERATING EXPENSES		(115,636)	(109,092)
PROFIT FOR THE YEAR		56,515	33,892
Attributable to:			
Equity holders of the parent		54,024	33,565
Non-controlling interests		2,491	327
PROFIT FOR THE YEAR		56,515	33,892
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in AED)	9	77.18	47.95

The attached notes 1 to 27 form part of these consolidated financial statements.

Emirates Investment Bank P.J.S.C.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
PROFIT FOR THE YEAR		56,515	33,892
Other comprehensive income/ (loss) to be reclassified to the income statement in subsequent years			
Net unrealised gain on available-for-sale investments		10,137	7,674
Net realised gain transferred to income statement on disposal of available-for-sale investments	5	(5,026)	(9,865)
Net impairment (reversal)/ loss on available-for-sale investments recognised in the income statement	8	(1,210)	3,941
Other comprehensive income for the year		3,901	1,750
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		60,416	35,642
Attributable to:			
Equity holders of the parent		57,925	35,315
Non-controlling interests		2,491	327
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		60,416	35,642

The attached notes 1 to 27 form part of these consolidated financial statements.

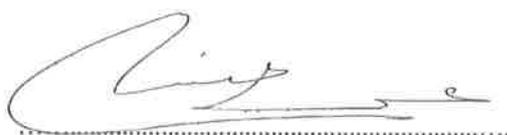
Emirates Investment Bank P.J.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

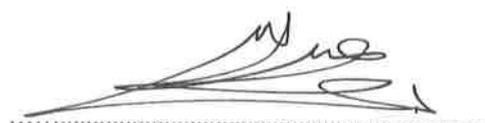
As at 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
ASSETS			
Cash and balances with UAE Central Bank	10	458,553	354,124
Due from banks	11	1,221,921	1,305,217
Loans and advances, net	12	1,074,302	823,986
Investments, net	13	2,110,994	2,154,709
Investment in an associate		-	72
Property and equipment	14	7,624	5,898
Other assets	15	31,371	29,190
TOTAL ASSETS		4,904,765	4,673,196
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	16	1,163,475	705,133
Customer deposits		3,131,840	3,430,356
Other liabilities	17	40,465	70,062
TOTAL LIABILITIES		4,335,780	4,205,551
EQUITY			
Share capital	18	70,000	70,000
Legal reserve	18	35,000	35,000
Special reserve	18	40,556	35,154
Cumulative changes in fair values		18,359	14,458
Retained earnings		257,658	209,036
Equity attributable to equity holders of the parent		421,573	363,648
Non-controlling interests		147,412	103,997
TOTAL EQUITY		568,985	467,645
TOTAL LIABILITIES AND EQUITY		4,904,765	4,673,196

The consolidated financial statements were approved by the Board of Directors on 14 February 2018 and signed on its behalf by:



Omar Abdulla Al Futtaim
(Chairman)



Buti Obaid Al Mulla
(Director)

Emirates Investment Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
OPERATING ACTIVITIES			
Profit for the year		56,515	33,892
Adjustments for:			
Depreciation	14	1,937	2,298
Loss on sale of property and equipment		222	-
Net impairment loss on financial assets	8	20,518	27,693
		<u>79,192</u>	<u>63,883</u>
Operating profit before changes in operating assets and liabilities		79,192	63,883
Changes in due to banks with original maturities of over three months		122,569	100,000
Change in due from bank with original maturities of over three months		141,007	(206,447)
Change in loans and advances (net)		(252,316)	(524,487)
Change in other assets		(2,181)	(11,185)
Change in investments (net)		29,170	(705,148)
Change in customers' deposits		(298,516)	259,971
Change in other liabilities		(29,597)	34,759
		<u>(210,672)</u>	<u>(988,654)</u>
Net cash used in operating activities		(210,672)	(988,654)
INVESTING ACTIVITIES			
Purchase of property and equipment	14	(3,920)	(3,123)
Proceeds from disposal of property and equipment	14	35	-
		<u>(3,885)</u>	<u>(3,123)</u>
Net cash used in investing activities		(3,885)	(3,123)
FINANCING ACTIVITIES			
Funds from non-controlling interests		40,924	103,670
		<u>40,924</u>	<u>103,670</u>
Net cash from financing activities		40,924	103,670
NET DECREASE IN CASH AND CASH EQUIVALENTS		(173,633)	(888,107)
Cash and cash equivalents at 1 January		847,761	1,735,868
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		674,128	847,761
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 Central Bank		458,553	354,124
Due from banks		1,156,481	1,098,770
Due to banks		(940,906)	(605,133)
		<u>674,128</u>	<u>847,761</u>
Operational cash flows from interest and dividends			
Interest paid		46,417	23,822
Interest received (including from investments)		127,204	76,095
Dividend received		15,831	15,186

The attached notes 1 to 27 form part of these consolidated financial statements.

Emirates Investment Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Cumulative changes in fair value AED '000	Retained earnings AED '000	Total AED '000	Non-controlling interest AED '000	Total AED '000
At 1 January 2017	70,000	35,000	35,154	14,458	209,036	363,648	103,997	467,645
Profit for the year	-	-	-	-	54,024	54,024	2,491	56,515
Other comprehensive income for the year	-	-	-	3,901	-	3,901	-	3,901
Total comprehensive income for the year	-	-	-	3,901	54,024	57,925	2,491	60,416
Transfers	-	-	5,402	-	(5,402)	-	-	-
Movement in non-controlling interests	-	-	-	-	-	-	40,924	40,924
Balance at 31 December 2017	70,000	35,000	40,556	18,359	257,658	421,573	147,412	568,985

The attached notes 1 to 27 form part of these consolidated financial statements.

Emirates Investment Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Cumulative changes in fair value AED '000	Retained earnings AED '000	Total AED '000	Non-controlling interest AED '000	Total AED '000
At 1 January 2016	70,000	35,000	31,797	12,708	178,828	328,333	-	328,333
Profit for the year	-	-	-	-	33,565	33,565	327	33,892
Other comprehensive income for the year	-	-	-	1,750	-	1,750	-	1,750
Total comprehensive income for the year	-	-	-	1,750	33,565	35,315	327	35,642
Transfers	-	-	3,357	-	(3,357)	-	-	-
Movement in non-controlling interests	-	-	-	-	-	-	103,670	103,670
Balance at 31 December 2016	70,000	35,000	35,154	14,458	209,036	363,648	103,997	467,645

The attached notes 1 to 27 form part of these consolidated financial statements.

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 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 consolidated financial statements for the year ended 31 December 2017 comprise the financial statements of the Bank and its subsidiaries (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 BASIS OF PREPARATION

2.1 Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement of derivatives, available-for-sale investments and investments at fair value through profit or loss which are measured at fair value.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank and all values are rounded to the nearest thousand (AED '000) except where otherwise stated.

2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB), and applicable requirements of the United Arab Emirates laws.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2017. 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 CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

2 BASIS OF PREPARATION (continued)

2.3 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.

The following subsidiaries in which the Bank exercises control are consolidated in these financial statements based on the financial statements of the respective subsidiaries:

<i>Name of subsidiaries</i>			<i>Country</i>	<i>% Holding</i>		<i>Principal activities</i>
				2017	2016	
EIB Enhanced Liquidity Fund Limited*			Cayman Islands	56%	66%	Generate income and preserve capital through investment in short-term, high quality debt instruments and related securities.
EIB Investment Co. LLC^			U.A.E	24%	24%	Investment in commercial, industrial and agricultural enterprises and their respective management.

*** 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 Group and the SPE's risk and rewards, the Group concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates a 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 a SPE is carried out at inception and reassessed at each statement of financial position date.

EIB Enhanced Liquidity Fund Limited (the Company), a SPE 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 EIB Investment Co. 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.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

^ In May 2017, the Bank entered into a transaction with EIB Investment Co. LLC (the entity). The Bank has exercised significant control over the entity during the period as it has rights to variable returns from the transaction and has the ability to affect the returns. As the Bank now has control over the entity, it has been consolidated in these consolidated financial statements. The entity has following wholly owned subsidiaries namely EIB Corporate Services Limited, EIB Global Markets Cayman Limited and EIB Investment Management Cayman Ltd.

The entity has contributed AED 446 thousand of interest income and fee, commission and other income and no profit for the period. Total assets of the entity as at 31 December 2017 amounting to AED 31,615 thousand have been recognised in these consolidated financial statements.

2.4 Changes in accounting policies

New and amended standards and interpretations

The accounting policies are consistent with those used in the previous year except the Group applied, for the first time, certain standards and amendments which resulted in additional disclosures in the consolidated financial statements. The nature and the impact of each applicable new standard and amendment is described below:

Amendments to IAS 7: Statement of Cash Flows: Disclosure Initiative

The amendments to IAS 7 Statement of Cash flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The application of amendments will not result in any change in the disclosure information.

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 is not exposed to taxation. The 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 any 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.

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective

The relevant standards and interpretations that are issued, but not yet effective, up to the reporting date of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9: Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 addresses all aspects of financial instruments including classification and measurement, impairment and hedge accounting.

(a) Classification and measurement

The standard requires the Group to consider two criteria when determining the measurement basis for debt instruments (e.g. loans, debt securities) held as financial assets:

- i) Its business model for managing those financial assets; and
- ii) cash flow characteristics of the assets.

And based on these criteria, debt instruments are measured at amortized cost, fair value through OCI, or fair value through profit or loss.

Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss.

In addition, the Group may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

(b) Impairment

The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Stage 1

12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months.

Stage 2

Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3

Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

IFRS 9: Financial Instruments (continued)

(b) Impairment (continued)

Key considerations

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk

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

Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

- We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition.
- Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
- IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

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

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

Our base case scenario will be based on macroeconomic forecasts. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.

Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

IFRS 9: Financial Instruments (continued)

(b) Impairment (continued)

Key considerations (continued)

Expected Life

When measuring ECL, the Group must consider the maximum contractual period over which it is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governance

In addition to the existing risk management framework, we have amended the terms of reference of the Management Risk Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in consolidated financial statements.

(c) Hedging

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, does not have any hedges as at reporting date.

(d) Transition impact

In line with the IFRS 9 transition provisions, the Group has elected to record an adjustment to its opening retained earnings at 1 January 2018 to reflect the application of the new requirements of Impairment, Classification and Measurement at the adoption date without restating comparative information.

For classification and measurement, the combined application of the contractual cash flow characteristics and business model tests as at 1 January 2018 is expected to result in certain differences in the classification of financial assets when compared to our classification under IAS 39. Based on the assessment performed by the Group, the transition impact will reduce shareholders' equity by approximately 1.4 % on account of change in current classification of available-for-sale investments to amortized cost.

With regards to the impairment requirements of IFRS 9, these differences are not expected to have a material impact on the Group's financial assets.

The Group will continue to refine the impairment models and related processes leading up to 31 March 2018 reporting.

(e) Financial instruments: disclosures (IFRS 7)

The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The amendment is not expected to have impact on the Group.

IFRIC Interpretation 22: Foreign Currency Transactions and Advances Consideration

The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration. If there are multiple payments or receipts for one item, a date of transaction should be determined for each payment or receipt. Entities can choose to apply the interpretation:

- retrospectively for each period presented
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or
- prospectively from the beginning of a prior reporting period presented as comparative information.

The Group is currently assessing the impact on the future financial statements and intends to adopt the standard, if applicable, when it become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is currently assessing the potential effect of IFRS 16 on its consolidated financial statements.

The Group is currently assessing the impact of the standard on the future financial statements and intends to adopt the standard, if applicable, when it become effective.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

The Group is currently assessing the impact of these improvements on the future financial statements and intends to adopt these, if applicable, when they become effective.

2.6 Significant management judgments and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Impairment losses on loans and advances

The Group reviews its loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

2 BASIS OF PREPARATION (continued)

2.6 Significant management judgments and estimates (continued)

Classification of investments:

Management decides upon acquisition of an investment whether it should be classified as investments carried at fair value through profit or loss or available-for-sale.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers. All other investments are classified as available-for-sale.

The above classification requires management's judgement.

Impairment of investments

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. The Group evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Liquidity

The Group manages its liquidity by maintaining an adequate ratio of net liquid assets to liabilities which is set out in a table in the liquidity risk disclosure in note 22. The table requires judgment with regards to whether assets can be considered liquid.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transaction;
- current fair value of another investment that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimations. The Group calibrates the valuation techniques periodically and tests them for validity using either process from observable current market transactions in the same investment or from other available observable market data.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

For all financial instruments measured at amortised cost and other interest bearing financial instruments including financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission, custody and management on fiduciary assets and advisory fees. Other fee income and expenses are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents for the purpose of consolidated statement of cash flows comprise balances with maturities of three months or less from the date of acquisition including cash and balances with UAE Central Bank, due from banks and due to banks.

Due from banks

Due from banks are stated at amortised cost using the effective interest method less allowance for impairment, if any.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral, the counterparty liability is included in due to banks.

Recognition of financial assets and liabilities

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date, any gains or losses arising from changes in fair value of the assets and liabilities designated at fair value through profit and loss or available-for-sale assets are recognised. Loans and advances are recognised on the day they are transferred to or acquired by the Group.

Loans and advances

Loans and advances are stated at amortised cost net of interest suspended, provisions for impairment and any amounts written off. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the consolidated income statement and the losses arising on impairment of such loans and advances are separately recognised in the consolidated income statement.

Investments

Investments are classified as follows:

- Investments at fair value through profit or loss;
- Available-for-sale

Investments at Fair Value through Profit or Loss ("FVTPL")

This category has two sub-categories:

- Investment securities held for trading, and;
- Those designated at fair value through profit or loss at inception.

An investment security is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is an evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Investment securities are designated as at FVTPL in the following circumstances:

- Doing so eliminates or significantly reduces measurement or recognition inconsistencies that would arise from measuring assets or liabilities or recognising the gains and losses on them on different basis; or
- They are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Available-for-sale

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances. Available-for-sale investments include certain equity and debt investments including commercial papers. These investments may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Initial recognition

All investment securities are initially recognised at fair value plus, except for investments at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of such investment.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Subsequent measurement

After initial recognition, investments at fair value through profit or loss are remeasured at fair value. Fair value changes in respect of these investments are taken to the consolidated income statement. After initial recognition, available-for-sale investments are remeasured at fair value except unquoted equity investments whose fair value cannot be reliably determined and commercial paper issued for a short duration, accordingly, fair value is not much different from the carrying values in which case they are measured at cost less accumulated impairment. Fair value changes are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity is included in the consolidated income statement for the year.

Investments in associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of over 20% of the voting rights, not being a subsidiary or a joint venture.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Under the equity method, the investment in associate is measured in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is shown on the face of the consolidated income statement.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each consolidated statement of financial position date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

The financial statements of the associates are prepared as of the same reporting date as for the Group. Where necessary, adjustments are made in the Group's consolidated financial statements to align the accounting policies of the associates in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in consolidated income statement.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the Group's rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

Impairment and uncollectibility of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks and loans and advances to customers), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income is recorded as part of 'Interest and similar income' in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest income on investments in debt instruments" included in 'Net income from investments'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires considerable judgement. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognised directly in other comprehensive income.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of principal market, in the most advantageous market for the asset and liabilities.

If an asset or a liability measured at fair value has a 'Bid' price and an 'Ask' price, then the Group measures assets and long positions at a 'Bid' price and liabilities and short positions at an 'Ask' price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Fair value is applicable to both financial and non-financial instruments.

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices at the close of business on the statement of financial position date. Bid prices are used for assets and offer prices are used for liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm's length market transactions, or is based on expected discounted cash flows or derived using other accepted valuation models.

The fair value of forward foreign exchange contracts is calculated by reference to forward exchange rates for contracts with similar maturities.

Property and equipment

Property and equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

Furniture and computer equipment	over 4 years
Motor vehicles	over 4 years
Computer software	over 4 years
Artwork	is not depreciated

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Deposits

All money market and customer deposits are carried at cost less amounts repaid.

Employees' end of service benefits

With respect to its national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. The Group provides end of service benefits to its other expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantees (continued)

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement in 'Other income' on a straight line basis over the life of the guarantee.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported on the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross on the consolidated statement of financial position.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transaction. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at exchange rate ruling at the reporting date. Any resultant gains and losses are taken to the consolidated income statement.

Segment reporting

The Group's reporting is based on the following operating segments: Investment and Banking Services.

Derivatives

The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps, credit default swap and options in the foreign exchange, interest rate and capital markets. These are stated at fair value. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the consolidated income statement.

Derivative transactions, while providing effective economic hedges under the Group's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other income (expenses).

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)**Trade and settlement date accounting**

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is received from or delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not recognised in the consolidated statement of financial position.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4 INTEREST INCOME

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Loans and advances	63,151	37,911
Bank placements	4,947	3,714
	<u>68,098</u>	<u>41,625</u>

5 NET INCOME FROM INVESTMENTS

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Interest income on investments in debt instruments	60,259	41,410
Net realised gain on disposal of available-for-sale investments	5,026	9,865
Net un-realised gain from investment securities designated as fair value through profit or loss	2,131	674
Net realised (loss)/ gain on disposal of investment securities designated as fair value through profit or loss	(452)	132
Dividend income	15,831	15,186
Custody and transaction fee paid to other financial institutions	(863)	(1,680)
	<u>81,932</u>	<u>65,587</u>

6 FEE, COMMISSION AND OTHER INCOME

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Fee from fiduciary services	35,421	38,532
Fee from advisory services	9,386	15,206
Commission and other income	12,347	6,581
	<u>57,154</u>	<u>60,319</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

7 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Staff costs	75,673	64,837
Depreciation (note 14)	1,937	2,298
Rental costs – operating leases	5,077	3,804
Consultancy charges	2,668	1,120
Communication and subscriptions	3,955	3,710
Others	5,808	5,630
	<u>95,118</u>	<u>81,399</u>

8 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Collective impairment provision on investments	10,800	15,500
Specific impairment provision on investments	9,000	-
Impairment loss on available-for-sale investments	9	3,941
Impairment reversal on available-for-sale investments	(1,219)	-
Impairment reversal on investments in bullion	(72)	(43)
Impairment provision on loans and advances	2,000	8,295
	<u>20,518</u>	<u>27,693</u>

9 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share of AED 77.18 is calculated by dividing the profit attributable to the equity holders of the parent of AED 54,024 thousand (2016: AED 33,565 thousand) by the weighted average number of shares outstanding during the year of 700,000 of AED 100 each (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 CASH AND BALANCES WITH UAE CENTRAL BANK

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Cash in hand	362	463
Balances with UAE Central Bank:		
Current account	91,382	29,433
Placement	90,000	-
Reserve requirements	276,809	324,228
	<u>458,553</u>	<u>354,124</u>

The reserve requirements are kept with the UAE Central Bank in AED and USD and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with the UAE Central Bank directives and is based on the balance of outstanding customer deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

11 DUE FROM BANKS

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Domestic	318,713	485,355
Regional	32,486	161,579
International	870,722	658,283
	<u>1,221,921</u>	<u>1,305,217</u>

The average yield on bank placements was 1.50% per annum (2016: 1.20% per annum).

Part of the balances with banks amounting to AED 513,810 thousand (2016: nil) is pledged as collateral with banks against credit facilities amounting to AED 462,429 thousand (2016: nil) as at reporting date.

12 LOANS AND ADVANCES, NET

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Overdrafts/ loans (secured)	1,089,302	836,986
Gross loans and advances	1,089,302	836,986
Less: collective impairment provision	(15,000)	(13,000)
Loans and advances, net	<u>1,074,302</u>	<u>823,986</u>

At 31 December 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 (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 15,000 thousand (2016: AED 13,000 thousand) against risk of default incurred but not yet identified.

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

13 INVESTMENTS, NET

	2017 AED'000	2016 AED'000
<i>Designated at fair value through profit or loss</i>		
<i>Debt</i>		
Quoted	103,974	78,492
<i>Equity</i>		
Quoted	38,135	-
Unquoted	48,675	16,842
Total investments designated at fair value through profit or loss	190,784	95,334
<i>Available-for-sale investments</i>		
<i>Debt</i>		
Quoted	1,337,805	1,210,034
Unquoted	298,299	438,083
	1,636,104	1,648,117
<i>Equity</i>		
Quoted	135,281	272,865
Unquoted	174,509	153,349
	309,790	426,214
Total available-for-sale investments	1,945,894	2,074,331
Investment in bullion	616	544
Gross investments	2,137,294	2,170,209
Less: collective impairment provision	(26,300)	(15,500)
Investments, net	2,110,994	2,154,709

Investment in bullion represents an 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 72 thousand during the year (2016: AED 43 thousand).

In compliance with the directive of the Central Bank of UAE, the Group has determined a collective impairment provision of AED 26,300 thousand (2016: AED 15,500 thousand) against investments as at the reporting date.-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

13 INVESTMENTS, NET (continued)

	2017 <i>AED'000</i>	2016 <i>AED'000</i>
Debt investments:		
Domestic	536,914	835,705
Regional	86,649	76,407
International	1,116,515	814,497
	<u>1,740,078</u>	<u>1,726,609</u>
Equity investments:		
Domestic	59,839	67,253
Regional	2,120	25,058
International	334,641	350,745
	<u>396,600</u>	<u>443,056</u>
Investment in bullion	<u>616</u>	<u>544</u>
Gross investments	2,137,294	2,170,209
Less: collective impairment provision	(26,300)	(15,500)
Investments, net	<u>2,110,994</u>	<u>2,154,709</u>

Part of the proprietary investment portfolio of the Group having a carrying value of AED 773,815 thousand (2016: AED 698,546 thousand) is pledged as collateral with banks against credit facilities and repurchase agreements totalling to AED 551,046 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 CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

13 INVESTMENTS, NET (continued)

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

	31 December 2017 AED'000	<u>Investments carried at fair value</u>			<i>Investments carried at cost AED'000</i>
		<i>Level 1 AED'000</i>	<i>Level 2 AED'000</i>	<i>Level 3 AED'000</i>	
Debt investments:					
Domestic	536,914	238,615	-	8,299	290,000
Regional	86,649	86,649	-	-	-
International	1,116,515	1,116,515	-	-	-
Equity investments:					
Domestic	59,839	45,991	-	13,848	-
Regional	2,120	2,120	-	-	-
International	334,641	118,879	187,002	28,760	-
Investment in bullion	616	616	-	-	-
Gross investments	2,137,294	1,609,385	187,002	50,907	290,000
Less: collective impairment provision	(26,300)				
	<u>2,110,994</u>				

	31 December 2016 AED'000	<u>Investments carried at fair value</u>			<i>Investments carried at cost AED'000</i>
		<i>Level 1 AED'000</i>	<i>Level 2 AED'000</i>	<i>Level 3 AED'000</i>	
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: collective 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 during the year. 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 became 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.

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

13 INVESTMENTS, NET (continued)

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

	2017 AED'000	2016 AED'000
At 1 January	58,691	47,307
Transfer to Level 2	(217)	-
Transfer from investments carried at cost	-	17,299
Net realised gain transferred to income statement on disposal	-	3,282
Net unrealised gain recognised in other comprehensive income	452	264
Disposals	-	(9,461)
Addition on consolidation of an entity	981	-
	<u>59,907</u>	<u>58,691</u>
At 31 December	<u>59,907</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 December 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.

14 PROPERTY AND EQUIPMENT

	<i>Furniture, computer equipment and artwork</i> AED'000	<i>Motor vehicles</i> AED'000	<i>Computer software</i> AED'000	<i>Work-in- progress</i> AED'000	<i>Total</i> AED'000
Cost:					
At 1 January 2017	11,085	83	4,543	285	15,996
Additions	858	-	589	2,473	3,920
Transfers	876	-	-	(876)	-
Disposals	-	-	-	(257)	(257)
	<u>12,819</u>	<u>83</u>	<u>5,132</u>	<u>1,625</u>	<u>19,659</u>
At 31 December 2017	<u>12,819</u>	<u>83</u>	<u>5,132</u>	<u>1,625</u>	<u>19,659</u>
Accumulated depreciation:					
At 1 January 2017	7,797	82	2,219	-	10,098
Charge for the year	866	1	1,070	-	1,937
	<u>8,663</u>	<u>83</u>	<u>3,289</u>	<u>-</u>	<u>12,035</u>
At 31 December 2017	<u>8,663</u>	<u>83</u>	<u>3,289</u>	<u>-</u>	<u>12,035</u>
Net carrying values:					
At 31 December 2017	<u>4,156</u>	<u>-</u>	<u>1,843</u>	<u>1,625</u>	<u>7,624</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

14 PROPERTY AND EQUIPMENT (continued)

	<i>Furniture, computer equipment and artwork AED '000</i>	<i>Motor vehicles AED '000</i>	<i>Computer software AED '000</i>	<i>Work-in- progress AED '000</i>	<i>Total AED '000</i>
Cost:					
At 1 January 2016	9,733	83	3,057	-	12,873
Additions	1,352	-	1,486	285	3,123
At 31 December 2016	<u>11,085</u>	<u>83</u>	<u>4,543</u>	<u>285</u>	<u>15,996</u>
Accumulated depreciation:					
At 1 January 2016	6,427	61	1,312	-	7,800
Charge for the year	1,370	21	907	-	2,298
At 31 December 2016	<u>7,797</u>	<u>82</u>	<u>2,219</u>	<u>-</u>	<u>10,098</u>
Net carrying values:					
At 31 December 2016	<u>3,288</u>	<u>1</u>	<u>2,324</u>	<u>285</u>	<u>5,898</u>

15 OTHER ASSETS

	<i>2017 AED '000</i>	<i>2016 AED '000</i>
Interest receivable	16,112	14,959
Other receivables and prepayments	13,858	12,129
Derivative financial assets (note 19)	1,401	2,102
	<u>31,371</u>	<u>29,190</u>

16 DUE TO BANKS

	<i>2017 AED '000</i>	<i>2016 AED '000</i>
Term placements	811,140	593,106
Repurchase agreements	352,335	107,661
Balances from correspondent banks	-	4,366
	<u>1,163,475</u>	<u>705,133</u>

Interest rates paid on the above averaged 1.50% per annum for the year ended 31 December 2017 (2016: 1.70% per annum).

The Group has borrowed an amount of AED 352,335 thousand (2016: AED 107,661 thousand) under repurchase agreements, whereby the Group's investments in certain bonds with a carrying value of AED 382,113 thousand (2016: AED 117,168 thousand) as at 31 December 2017 are pledged as collateral under these agreements.

The Group has also borrowed an amount of AED 198,711 thousand (2016: AED 448,106 thousand) under term placements, whereby the Group's investments in certain securities with a carrying value of AED 391,702 thousand (2016: AED 581,378 thousand) as at 31 December 2017 are pledged as collateral under these placements.

The Group has also borrowed an amount of AED 462,429 thousand (2016: nil) under term placements where by the Group's balances with banks amounting to AED 513,810 thousand (2016: nil) as at 31 December 2017 are pledged as collateral under these placements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

17 OTHER LIABILITIES

	2017 AED'000	2016 AED'000
Interest payable	10,622	19,615
Employees' end of service benefits	7,741	5,814
Fees payable	1,693	2,318
Derivative financial liability (note 19)	862	1,964
Others	19,547	40,351
	<u>40,465</u>	<u>70,062</u>

In accordance with the UAE Labour Law, the Group provides for end of service benefits for its expatriate employees. Movements in the liability recognised in the consolidated statement of financial position in respect of end of service benefits are as follows:

	2017 AED'000	2016 AED'000
At 1 January	5,814	4,222
Expense recognised in the consolidated income statement	2,597	1,959
Amount paid	(670)	(367)
At 31 December	<u>7,741</u>	<u>5,814</u>

18 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2016: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 700,000 ordinary shares of AED 100 each (2016: 700,000 ordinary shares of AED 100 each).

b) Legal reserve

In accordance with the UAE Federal Law No. (2) of 2015 and the Bank's Articles of Association, 10% of the profit for the year is transferred to legal reserve till the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

c) Special reserve

As required under Article 82 of Union Law No. 10 of 1980 and the Bank's Articles of Association, 10% of the profit for the year has been transferred to a special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

19 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 year end and are neither indicative of the market risk nor credit risk.

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At 31 December 2017

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	<i>Positive fair value 2017 AED'000</i>	<i>Negative fair value 2017 AED'000</i>	<i>Notional amount 2017 AED'000</i>	<i>Positive fair value 2016 AED'000</i>	<i>Negative fair value 2016 AED'000</i>	<i>Notional amount 2016 AED'000</i>
Derivative:						
Forward foreign exchange contracts	1,093	554	115,842	1,949	1,811	122,139
Foreign exchange option contracts	308	308	98,448	153	153	152,088
	<u>1,401</u>	<u>862</u>	<u>214,290</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 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 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. Disclosures concerning the fair value of derivatives are provided in note 25.

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 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 financial instruments recognised at fair value.

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20 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments and contingent liabilities

Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Letters of credit, guarantees and acceptances commit the Group to make payments on behalf of customers, contingent upon the failure of the customers to perform under the terms of the contract.

The Group has the following credit related commitments:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Guarantees	36,032	39,042
Unutilised committed credit facilities*	214,044	81,091
	<u>250,076</u>	<u>120,133</u>

The Group has commitments of AED 15,717 thousand (2016: AED 16,874 thousand) on account of available-for-sale investments as at the reporting date.

* 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 since 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 no commitments as at 31 December 2017 for leasehold improvements (2016: nil).

Operating lease commitments:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Future minimum lease payments		
Within one year	3,899	3,518
After one year but not more than five years	12,365	16,149
Total operating lease expenditure contracted for at the end of the reporting period	<u>16,264</u>	<u>19,667</u>

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21 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 loan losses. Pricing policies and terms of related parties' transactions are approved by the Group's management.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	<u>8,537</u>	<u>4,716</u>
Investments	<u>290,000</u>	<u>420,784</u>
Customers' deposits	<u>342,144</u>	<u>467,007</u>
Commitments and contingencies	<u>24,655</u>	<u>26,274</u>
Other liabilities	<u>2,273</u>	<u>13,029</u>

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

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
<i>Directors, their related parties and key management personnel:</i>		
Interest income	8,496	6,680
Interest expense	(12,265)	(15,979)
Other income	3,379	3,338
General and administrative expenses	(6,832)	(5,555)
Net income from investments	-	(876)

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

Compensation of key management personnel:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Salaries and other benefits	<u>11,185</u>	<u>10,944</u>

22 RISK MANAGEMENT

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Board of Directors hold the ultimate responsibility vis a vis the risk exposures. The Group has adopted a risk governance suggesting a "three line of defence approach" to risk management, which involves top management and business lines, strong risk management function, and capable independent internal audit.

22 RISK MANAGEMENT (continued)

The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The Board of Directors has the responsibility to monitor the overall risk process within the Group. They also have the overall responsibility for the development of the related strategy and implementing principles, framework, process and limits. The Board is responsible for the fraud and other risk related matters and manages and monitors relevant risk decisions.

Board Risk Committee

Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancement of the Group's risk management framework to best practice standards, monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc.) and compliance with the regulatory requirements.

Board Audit Committee

The primary role of the Board Audit Committee (BAC) is to have an oversight and review of financial audit and internal control issues as well as to oversee the independence and performance of Group's external and internal auditors.

Bank Treasury

Bank Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit

Risk management processes throughout the Group are subject to an internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the BAC.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the BRC and management committees, which includes aggregate credit exposure, liquidity ratios and risk profile changes.

Periodic briefing is given to the relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Group also constantly monitor their portfolio and diversify it in order to mitigate risk in relation to concentration of exposure towards a particular business or geographical segment.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

22 RISK MANAGEMENT (continued)**Risk management structure (continued)**

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Group. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Group has an internal credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position (excluding cash in hand and investments in equity instruments and bullion) including guarantees. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, if any.

	<i>Notes</i>	<i>Gross maximum exposure 2017 AED'000</i>	<i>Gross maximum exposure 2016 AED'000</i>
Balances with UAE Central Bank	10	458,191	353,661
Due from banks	11	1,221,921	1,305,217
Loans and advances	12	1,089,302	836,986
Investments in debt instruments	13	1,740,078	1,726,609
Other assets		29,181	25,541
		<u>4,538,673</u>	<u>4,248,014</u>
Guarantees	20	36,032	39,042
Total credit risk exposure		<u>4,574,705</u>	<u>4,287,056</u>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2017 was AED 307,851 thousand (2016: AED 495,505 thousand) before taking account of collateral or other credit enhancements.

The Group's financial assets (excluding cash in hand and investments in equity securities) including guarantees, before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions:

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At 31 December 2017

22 RISK MANAGEMENT (continued)

Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

	2017		2016	
	Assets AED'000	Guarantees AED'000	Assets AED'000	Guarantees AED'000
United Arab Emirates	2,383,184	36,032	2,385,028	39,042
North America	289,514	-	234,649	-
Europe	941,349	-	828,445	-
GCC & other ME	419,915	-	533,245	-
Others	504,711	-	266,647	-
	4,538,673	36,032	4,248,014	39,042

An industry sector analysis of the Group's financial assets (excluding cash in hand and investments in equity instruments and bullion) including guarantees, before taking into account collateral held or other credit enhancements, is as follows:

	2017 AED'000	2016 AED'000
Commercial and business	1,060,377	1,624,814
Banks and financial institutions	2,427,476	2,472,891
Government entities	244,857	187,738
Others	841,995	1,613
	4,574,705	4,287,056

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and product parameters. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are generally cash, investment securities and real estate properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality of the Group's financial assets (excluding cash in hand and investments in equity instruments and bullion), based on the Group's internal credit rating system.

	<i>Neither past due nor impaired</i>				<i>Total</i> AED'000
	<i>Prime and high grade</i> AED'000	<i>Standard grade</i> AED'000	<i>Sub-standard grade</i> AED'000	<i>Past due</i> AED'000	
2017					
Balances with UAE Central Bank	458,191	-	-	-	458,191
Due from banks	548,937	670,142	2,842	-	1,221,921
Loans and advances	-	1,087,729	-	1,573	1,089,302
Investments in debt instruments	538,169	859,523	334,087	8,299	1,740,078
Other assets	-	26,708	-	2,473	29,181
	1,545,297	2,644,102	336,929	12,345	4,538,673

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At 31 December 2017

22 RISK MANAGEMENT (continued)**Credit risk (continued)***Credit quality per class of financial assets (continued)*

	<i>Neither past due nor impaired</i>			<i>Total AED'000</i>
	<i>Prime and high grade AED'000</i>	<i>Standard grade AED'000</i>	<i>Sub- standard grade AED'000</i>	
<i>2016</i>				
Balances with UAE Central Bank	353,661	-	-	353,661
Due from banks	942,029	363,188	-	1,305,217
Loans and advances	-	836,986	-	836,986
Investments in debt instruments	600,736	893,092	232,781	1,726,609
Other assets	-	25,541	-	25,541
	<u>1,896,426</u>	<u>2,118,807</u>	<u>232,781</u>	<u>4,284,014</u>

As at the year end, the Group has AED 1,573 thousand (2016: Nil) of loans and advances which were past due or individually impaired.

Credit risk exposure of the Group's financial assets (excluding cash in hand and investments in equity instruments and bullion) for each internal risk rating.

	<i>Moody's equivalent grades</i>	<i>Total 2017 AED'000</i>	<i>Total 2016 AED'000</i>
Prime and high grade	Aaa-Aa3	1,545,297	1,896,426
Standard grade	Baa-Baa3	2,644,102	2,118,807
Sub-standard grade	Ba-B3	336,929	232,781
Past due		12,345	-
		<u>4,538,673</u>	<u>4,284,014</u>

It is the Group's policy to maintain accurate and consistent risk ratings across the credit and investment portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class as a number of them are based on the Group's internal rating.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Bank of UAE equal to 14% of demand deposits and 1% of saving deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

Maturities of assets and liabilities at the date of statement of financial position are set out in the table below based on the remaining period to the contractual maturity date not taking account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds is as follows:

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2017	Less than 3 months AED '000	From 3 months to 6 months AED '000	From 6 months to 12 months AED '000	Sub total less than 12 months AED '000	1-5 years AED '000	Over 5 years AED '000	Sub total over 12 months AED '000	Undated AED '000	Total AED '000
ASSETS									
Cash and balances with UAE Central Bank	458,553	-	-	458,553	-	-	-	-	458,553
Due from banks	1,105,327	37,594	79,000	1,221,921	-	-	-	-	1,221,921
Loans and advances, net	1,028,878	1,926	40,826	1,071,630	2,672	-	2,672	-	1,074,302
Investments	450,336	40,445	82,646	573,427	1,140,155	35,496	1,175,651	361,916	2,110,994
Investment in an associate	-	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-	7,624	7,624
Other assets	20,376	-	420	20,796	3,396	227	3,623	6,952	31,371
Total assets	3,063,470	79,965	202,892	3,346,327	1,146,223	35,723	1,181,946	376,492	4,904,765
LIABILITIES AND EQUITY									
Due to banks	1,163,475	-	-	1,163,475	-	-	-	-	1,163,475
Customer deposits	2,892,860	111,263	104,217	3,108,340	23,500	-	23,500	-	3,131,840
Other liabilities	20,709	8,709	83	29,501	3,196	-	3,196	7,768	40,465
Equity	-	-	-	-	-	-	-	568,985	568,985
Total liabilities and equity	4,077,044	119,972	104,300	4,301,316	26,696	-	26,696	576,753	4,904,765
Net liquidity gap	(1,013,574)	(40,007)	98,592	(954,989)	1,119,527	35,723	1,155,250	(200,261)	

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2016	Less than 3 months AED '000	From 3 months to 6 months AED '000	From 6 months to 12 months AED '000	Sub total less than 12 months AED '000	1-5 years AED '000	Over 5 years AED '000	Sub total over 12 months AED '000	Undated AED '000	Total AED '000
ASSETS									
Cash and balances with UAE Central Bank	354,124	-	-	354,124	-	-	-	-	354,124
Due from banks	1,118,759	48,265	138,193	1,305,217	-	-	-	-	1,305,217
Loans and advances, net	670,693	149,149	415	820,257	3,729	-	3,729	-	823,986
Investments	463,335	68,796	82,408	614,539	880,982	231,088	1,112,070	428,100	2,154,709
Investment in an associate	-	-	-	-	-	-	-	72	72
Property and equipment	-	-	-	-	-	-	-	5,898	5,898
Other assets	13,239	1,407	3,054	17,700	-	-	-	11,490	29,190
Total assets	2,620,150	267,617	224,070	3,111,837	884,711	231,088	1,115,799	445,560	4,673,196

LIABILITIES AND EQUITY

Due to banks	705,133	-	-	705,133	-	-	-	-	705,133
Customer deposits	3,050,127	79,174	186,214	3,315,515	114,841	-	114,841	-	3,430,356
Other liabilities	23,924	34,179	105	58,208	6,051	-	6,051	5,803	70,062
Equity	-	-	-	-	-	-	-	467,645	467,645
Total liabilities and equity	3,779,184	113,353	186,319	4,078,856	120,892	-	120,892	473,448	4,673,196
Net liquidity gap	(1,159,034)	154,264	37,751	(967,019)	763,819	231,088	994,907	(27,888)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at the year-end based on remaining contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and, accordingly, the table below does not reflect the expected cash flows based on Group's deposit retention history.

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Total AED'000</i>
2017					
Due to banks	-	1,165,404	-	-	1,165,404
Customer deposits	1,936,946	957,016	218,589	25,038	3,137,589
Other liabilities	-	20,709	8,792	10,964	40,465
Total undiscounted financial liabilities	1,936,946	2,143,129	227,381	36,002	4,343,458
	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Total AED'000</i>
2016					
Due to banks	4,367	701,755	-	-	706,122
Customer deposits	2,136,375	914,831	270,663	123,961	3,445,830
Other liabilities	-	23,924	34,284	11,854	70,062
Total undiscounted financial liabilities	2,140,742	1,640,510	304,947	135,815	4,222,014

Derivatives financial instruments in the above table are indicated under other liabilities at the gross undiscounted cash flows. However, these amounts may be settled gross or net.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities:

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
2017						
Contingent liabilities	214,044	14,852	18,532	508	2,140	250,076
2016						
Contingent liabilities	81,091	20,517	11,107	4,938	2,480	120,133

The Group expects that not all of the contingent liabilities will be drawn before expiry of the commitments.

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22 RISK MANAGEMENT (continued)**Market risk**

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Assets and Liability Committee.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period.

The Board has established levels of interest rate risk by setting interest rate sensitivity limits.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate financial assets and financial liabilities held at the year end. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at year-end for the effect of assumed changes in interest rates. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement and equity.

<i>Increase in basis points</i>	<i>Impact on net profit 2017 AED'000</i>	<i>Impact on equity 2017 AED'000</i>	<i>Impact on net profit 2016 AED'000</i>	<i>Impact on equity 2016 AED'000</i>
100	(10,147)	(30,576)	(6,219)	(28,614)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. Positions are monitored on a daily basis and strategies used to ensure positions are maintained within established limits.

Major currency wise open positions of the Group are as follows:

	<i>2017 Long/ (Short) AED'000</i>	<i>2016 Long/ (Short) AED'000</i>
Currency		
Euro	410	737
Pound Sterling	(3)	(8)
Chinese Remnibi	-	12
Swiss Francs	77	(142)

Since the UAE Dirham is on a fixed parity to the US Dollar, management believes that presently the Group is not exposed to any significant foreign currency risk in respect of US Dollar.

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22 RISK MANAGEMENT (continued)**Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's equity investment portfolio.

The effect on quoted equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>Change in equity price 2017 %</i>	<i>Effect on equity 2017 AED'000</i>	<i>Change in equity price 2016 %</i>	<i>Effect on equity 2016 AED'000</i>
New York Stock Exchange	+/-10	6,068	+/-10	10,773
Abu Dhabi Securities Market	+/-10	543	+/-10	548
Dubai Financial Market	+/-10	4,698	+/-10	5,536
Others	+/-10	6,032	+/-10	10,429

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

23 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.

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</i>	
	<i>2017 AED'000</i>	<i>2016 AED'000</i>	<i>2017 AED'000</i>	<i>2016 AED'000</i>	<i>2017 AED'000</i>	<i>2016 AED'000</i>
Revenue *	86,757	70,920	115,100	99,379	201,857	170,299
Inter-segment adjustment	15,155	(14,903)	(15,155)	14,903	-	-
	101,912	56,017	99,945	114,282	201,857	170,299
Profit for the year	34,291	11,891	22,224	22,001	56,515	33,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

23 SEGMENTAL ANALYSIS (continued)

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</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>
Segment assets	<u>3,806,748</u>	<u>3,815,602</u>	<u>1,098,017</u>	<u>857,594</u>	<u>4,904,765</u>	<u>4,673,196</u>
Segment liabilities and equity	<u>1,368,149</u>	<u>818,329</u>	<u>3,536,616</u>	<u>3,854,867</u>	<u>4,904,765</u>	<u>4,673,196</u>

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

24 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of EIB Enhanced Liquidity Fund Limited, which has material non-controlling interests, is provided below:

	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>
(a) <i>Proportion of equity interest held by non-controlling interests</i>	44%	34%
(b) <i>Accumulated balances of material non-controlling interest</i>	147,184	103,997
(c) <i>Profit allocated to material non-controlling interest</i>	2,491	327

The summarised financial information of the EIB Enhanced Liquidity Fund Limited is provided below. This information is based on amounts before inter-company eliminations:

(d) *Summarised statement of profit or loss.*

	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>
Net interest income and net income from investments	<u>9,427</u>	<u>6,732</u>
Operating income	<u>9,165</u>	<u>6,588</u>
Profit for the year	<u>6,496</u>	<u>5,130</u>

(e) *Summarised statement of financial position.*

	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>
Total assets	<u>356,082</u>	<u>340,088</u>
Total liabilities	<u>135</u>	<u>31,333</u>
Equity	<u>355,948</u>	<u>308,755</u>

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24 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

(f) Summarised statement of cash flows

	2017 AED'000	2016 AED'000
Operating activities	(53,305)	(191,715)
Financing activities	41,387	203,670
	<u>(11,918)</u>	<u>11,955</u>
(Decrease)/increase in cash and cash equivalents	<u>(11,918)</u>	<u>11,955</u>

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates.

Determination of fair value and fair value hierarchy:

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;

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

The following table shows an analysis of derivatives recorded at fair value by level of the fair value hierarchy.

31 December 2017

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets				
Foreign exchange contracts (note 19)	-	1,401	-	1,401
	<u>-</u>	<u>1,401</u>	<u>-</u>	<u>1,401</u>
Financial liabilities				
Foreign exchange contracts (note 19)	-	862	-	862
	<u>-</u>	<u>862</u>	<u>-</u>	<u>862</u>

31 December 2016

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets				
Foreign exchange contracts (note 19)	-	2,102	-	2,102
	<u>-</u>	<u>2,102</u>	<u>-</u>	<u>2,102</u>
Financial liabilities				
Foreign exchange contracts (note 19)	-	1,964	-	1,964
	<u>-</u>	<u>1,964</u>	<u>-</u>	<u>1,964</u>

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At 31 December 2017

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

Fair value hierarchy of investments is disclosed under note 13.

The table below sets out the Group's classification of each class of financial assets and liabilities, and their carrying values before provision, if any.

<i>31 December 2017</i>	<i>At fair value through profit or loss AED'000</i>	<i>Available for sale AED'000</i>	<i>Loans and receivables AED'000</i>	<i>Amortised cost AED'000</i>	<i>Total AED'000</i>
<i>Financial assets</i>					
Cash and balances with UAE Central Bank	-	-	-	458,553	458,553
Due from banks	-	-	-	1,221,921	1,221,921
Loans and advances	-	-	1,089,302	-	1,089,302
Investments excluding bullion	190,784	1,945,894	-	-	2,136,678
Others	1,401	-	-	27,839	29,240
	<u>192,185</u>	<u>1,945,894</u>	<u>1,089,302</u>	<u>1,708,313</u>	<u>4,935,694</u>
<i>Financial liabilities</i>					
Due to banks	-	-	-	1,163,475	1,163,475
Customer deposits	-	-	-	3,131,840	3,131,840
Others	862	-	-	31,863	32,725
	<u>862</u>	<u>-</u>	<u>-</u>	<u>4,327,178</u>	<u>4,328,040</u>
<i>31 December 2016</i>					
	<i>At fair value through profit or loss AED'000</i>	<i>Available for sale AED'000</i>	<i>Loans and receivables AED'000</i>	<i>Amortised cost AED'000</i>	<i>Total AED'000</i>
<i>Financial assets</i>					
Cash and balances with UAE Central Bank	-	-	-	354,124	354,124
Due from banks	-	-	-	1,305,217	1,305,217
Loans and advances	-	-	836,986	-	836,986
Investments excluding bullion	95,334	2,074,331	-	-	2,169,665
Others	2,102	-	-	23,439	25,541
	<u>97,436</u>	<u>2,074,331</u>	<u>836,986</u>	<u>1,682,780</u>	<u>4,691,533</u>
<i>Financial liabilities</i>					
Due to banks	-	-	-	705,133	705,133
Customer deposits	-	-	-	3,430,356	3,430,356
Others	1,964	-	-	62,284	64,248
	<u>1,964</u>	<u>-</u>	<u>-</u>	<u>4,197,773</u>	<u>4,199,737</u>

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26 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ ratios") and adopted by the Central Bank of UAE in supervising the Bank.

The Central Bank of UAE supervises the Bank, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Bank. The capital is computed at the Bank level using the Basel II and Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the Central Bank of UAE, within national discretion.

The Basel framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Minimum Capital Requirements

Per current capital requirements, the Central Bank of UAE requires the Bank to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%) in line with Basel II.

The tiered components of Bank's regulatory capital comprise of:

- Tier I capital includes share capital, legal reserve, special reserve, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Tier II capital includes undisclosed reserve and fair value reserve.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The capital adequacy ratio as per Basel II framework is given below:

	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>
Tier I Capital		
Issued capital	70,000	70,000
Legal reserve	35,000	35,000
Special reserve	40,556	35,154
Retained earnings	257,658	209,036
Total tier I capital	<u>403,214</u>	<u>349,190</u>
Tier II Capital		
Undisclosed reserves/ general provisions	31,505	28,500
Fair value reserve	8,262	6,207
Total tier II capital	<u>39,767</u>	<u>34,707</u>
Total regulatory capital	<u>442,981</u>	<u>383,897</u>
Risk Weighted Exposure		
	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>
Credit risk	2,520,387	2,513,273
Market risk	241,551	8,575
Operational risk	228,146	187,887
Total	<u>2,990,084</u>	<u>2,709,735</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

26 CAPITAL ADEQUACY (continued)

	<i>2017</i>	<i>2016</i>
Capital Ratio		
Total regulatory capital as a percentage of total risk weighted assets	14.81%	14.17%
Total Tier I regulatory capital as a percentage of total risk weighted assets	13.49%	12.89%

Capital management policies, stress testing and capital management

The Bank has a robust capital adequacy assessment, monitoring and reporting process and is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel II and Basel III.

The forward-looking internal capital adequacy assessment process (ICAAP) is based on the Bank's financial budget projections. Various stress scenarios are considered to assess the strength of the Bank's capital adequacy over a three year period.

The implemented ICAAP is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the form of cushion against unexpected losses. The Bank's quantification models have been subject to external scrutiny and validation.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

27 FIDUCIARY ASSETS

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Balance as at 31 December	5,628,379	6,958,020

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 consolidated financial statements as assets of the Group.