

Emirates Investment Bank P.J.S.C.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months period ended 30 September 2019

Emirates Investment Bank P.J.S.C.

**Review report and condensed consolidated interim financial information
for the nine month period ended 30 September 2019**

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Review report on condensed consolidated interim financial information to the shareholders of Emirates Investment Bank P.J.S.C

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Emirates Investment Bank P.J.S.C. (the “Bank”) and its subsidiary (together referred to as the “Group”) as at 30 September 2019 and the related condensed consolidated interim income statement and condensed consolidated interim statement of other comprehensive income for the three-month and nine-month periods then ended, and the condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended and other explanatory information. The directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity.” A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.

PricewaterhouseCoopers
6 November 2019

Douglas O'Mahony
Registered Auditor Number 834
Place: Dubai, United Arab Emirates

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Emirates Investment Bank P.J.S.C.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	<i>Notes</i>	30 September 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
ASSETS			
Cash and balances with UAE Central Bank		251,245	373,165
Due from banks, net	3	427,111	833,419
Loans and advances, net	4	994,332	1,330,201
Investments, net	5	1,474,384	1,437,582
Property and equipment		5,624	7,238
Other assets		63,328	35,276
TOTAL ASSETS		3,216,024	4,016,881
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	7	920,140	623,546
Customer deposits		1,717,488	2,881,278
Other liabilities		78,073	41,352
TOTAL LIABILITIES		2,715,701	3,546,176
EQUITY			
Share capital		70,000	70,000
Legal reserve		35,000	35,000
Special reserve		44,251	44,251
Credit impairment reserve		23,742	23,742
Cumulative changes in fair values		18,318	9,450
Retained earnings		308,784	288,034
Equity attributable to equity holders of the parent		500,095	470,477
Non-controlling interests		228	228
TOTAL EQUITY		500,323	470,705
TOTAL LIABILITIES AND EQUITY		3,216,024	4,016,881

The condensed consolidated interim financial information were approved by the Board of Directors on 6 November 2019 and signed on its behalf by:



Omar Abdulla Al Futtaim
(Chairman)



Abdullah Al Turifi
(Director)

The accompanying notes from pages 8 to 24 form an integral part of this condensed consolidated interim financial information.

Emirates Investment Bank P.J.S.C.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the three month and nine month period ended 30 September 2019 (Unaudited)

	Notes	<i>Three month period ended</i>		<i>Nine month period ended</i>	
		<i>30 September</i>		<i>30 September</i>	
		<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
		<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Interest income	8	15,510	24,141	53,062	62,900
Net income from investments	9	13,639	13,100	56,276	42,332
		<u>29,149</u>	<u>37,241</u>	<u>109,338</u>	<u>105,232</u>
Interest expense		(14,091)	(15,908)	(43,053)	(39,845)
INTEREST AND INVESTMENT INCOME, NET		15,058	21,333	66,285	65,387
Fee, commission and other income		7,204	8,548	30,347	40,198
Exchange gain, net		932	631	2,824	2,804
OPERATING INCOME		23,194	30,512	99,456	108,389
General and administrative expenses		(20,389)	(23,844)	(70,743)	(73,604)
Net impairment loss on financial assets		(2,526)	(753)	(7,211)	(2,016)
OPERATING EXPENSES		(22,915)	(24,597)	(77,954)	(75,620)
PROFIT FOR THE PERIOD		279	5,915	21,502	32,769
Attributable to:					
Equity holders of the parent		279	5,056	21,502	31,013
Non-controlling interests		-	859	-	1,756
PROFIT FOR THE PERIOD		279	5,915	21,502	32,769
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in AED)	10	0.40	7.22	30.72	44.30

The accompanying notes from pages 8 to 24 form an integral part of this condensed consolidated interim financial information.

Emirates Investment Bank P.J.S.C.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME

For the three month and nine month period ended 30 September 2019 (Unaudited)

	<i>Three month period ended</i>		<i>Nine month period ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
PROFIT FOR THE PERIOD	279	5,915	21,502	32,769
<i>Other comprehensive income</i>				
<i>Items that will not be reclassified subsequently to income statement</i>				
Changes in the fair value of equity investments at fair value through other comprehensive income	1,210	(1,538)	(50)	(70)
Gain on sale of investment	-	97	113	97
<i>Items that may be reclassified subsequently to income statement</i>				
Changes in the fair value of debt instruments at fair value through other comprehensive income	752	1,307	5,101	(3,561)
Expected credit losses on investment in debt instruments measured at fair value through other comprehensive income	(328)	(36)	3,704	414
Other comprehensive income/ (loss) for the period	1,634	(170)	8,868	(3,120)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,913	5,745	30,370	29,649
Attributable to:				
Equity holders of the parent	1,913	4,886	30,370	27,893
Non-controlling interests	-	859	-	1,756
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,913	5,745	30,370	29,649

The accompanying notes from pages 8 to 24 form an integral part of this condensed consolidated interim financial information.

Emirates Investment Bank P.J.S.C.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the nine month period ended 30 September 2019 (Unaudited)

	<i>Nine month period ended</i>	
	<u>30 September</u>	
	2019	2018
	AED'000	AED'000
OPERATING ACTIVITIES		
Profit for the period	21,502	32,769
Adjustments for:		
Depreciation on Property and equipment	1,779	1,979
Depreciation on leased assets	3,027	-
Net impairment loss on financial assets	7,211	2,016
	<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities	33,519	36,764
Change in UAE Central Bank statutory deposits	49,908	54,706
Change in due to bank with original maturity of over three months	(187,723)	172,860
Change in due from bank with original maturity of over three months	-	65,440
Change in loans and advances (net)	333,325	(554,615)
Change in investments (net)	(32,868)	547,557
Change in other assets	(31,831)	(26,613)
Change in customers' deposits	(1,163,790)	(307,730)
Change in other liabilities	36,721	(1,702)
	<hr/>	<hr/>
Net cash used in operating activities	(962,739)	(13,333)
	<hr/>	<hr/>
INVESTING ACTIVITY		
Purchase of property and equipment	(165)	(2,018)
	<hr/>	<hr/>
Net cash used in investing activity	(165)	(2,018)
	<hr/>	<hr/>
FINANCING ACTIVITY		
Funds used in non-controlling interests	-	(148,940)
	<hr/>	<hr/>
Net cash used in financing activity	-	(148,940)
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(962,904)	(164,291)
Cash and cash equivalents at 1 January	636,596	397,319
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 30 September	(326,308)	233,028
	<hr/> <hr/>	<hr/> <hr/>
Cash and cash equivalents comprise the following amounts in the condensed consolidated interim statement of financial position with original maturities of three months or less:		
Cash and balances with the UAE Central Bank (excluding statutory deposits)	116,231	159,318
Due from banks	427,601	870,730
Due to banks	(870,140)	(797,020)
	<hr/>	<hr/>
	(326,308)	233,028
	<hr/> <hr/>	<hr/> <hr/>
Operational cash flows from interest and dividends		
Interest paid	38,346	39,560
Interest received (including interest from investments)	85,942	91,718
Dividends received	9,615	9,941

The accompanying notes from pages 8 to 24 form an integral part of this condensed consolidated interim financial information.

Emirates Investment Bank P.J.S.C.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

	<i>Share Capital AED'000 (Unaudited)</i>	<i>Legal reserve AED'000 (Unaudited)</i>	<i>Special reserve AED'000 (Unaudited)</i>	<i>Credit impairment reserve* AED'000 (Unaudited)</i>	<i>Cumulative changes in fair value AED'000 (Unaudited)</i>	<i>Retained earnings AED'000 (Unaudited)</i>	<i>Total AED'000 (Unaudited)</i>	<i>Non- controlling interest AED'000 (Unaudited)</i>	<i>Total AED'000 (Unaudited)</i>
Balance at 1 January 2019	70,000	35,000	44,251	23,742	9,450	288,034	470,477	228	470,705
Changes on initial application of IFRS 16 (Note 2.4)	-	-	-	-	-	(752)	(752)	-	(752)
Restated balance at 1 January 2019	70,000	35,000	44,251	23,742	9,450	287,282	469,725	228	469,953
Profit for the period	-	-	-	-	-	21,502	21,502	-	21,502
Other comprehensive income for the period	-	-	-	-	8,868	-	8,868	-	8,868
Total comprehensive income for the period	-	-	-	-	8,868	21,502	30,370	-	30,370
Balance at 30 September 2019	70,000	35,000	44,251	23,742	18,318	308,784	500,095	228	500,323

* The Bank has created a special reserve titled as 'credit impairment reserve' in lieu of the general provision required to be created in accordance with the "Circular No 28/2010" issued by the UAE Central Bank.

The accompanying notes from pages 8 to 24 form an integral part of this condensed consolidated interim financial information.

Emirates Investment Bank P.J.S.C.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

	<i>Share Capital AED'000 (Unaudited)</i>	<i>Legal reserve AED'000 (Unaudited)</i>	<i>Special reserve AED'000 (Unaudited)</i>	<i>Credit impairment reserve* AED'000 (Unaudited)</i>	<i>Cumulative changes in fair value AED'000 (Unaudited)</i>	<i>Retained earnings AED'000 (Unaudited)</i>	<i>Total AED'000 (Unaudited)</i>	<i>Non- controlling interest AED'000 (Unaudited)</i>	<i>Total AED'000 (Unaudited)</i>
Balance at 1 January 2018	70,000	35,000	40,556	-	18,359	257,658	421,573	147,412	568,985
Changes on initial application of IFRS 9 (Note 6)	-	-	-	23,742	(4,799)	(2,883)	16,060	-	16,060
Restated balance at 1 January 2018	70,000	35,000	40,556	23,742	13,560	254,775	437,633	147,412	585,045
Profit for the period	-	-	-	-	-	31,013	31,013	1,756	32,769
Other comprehensive loss for the period	-	-	-	-	(3,120)	-	(3,120)	-	(3,120)
Total comprehensive income for the period	-	-	-	-	(3,120)	31,013	27,893	1,756	29,649
Movement in non-controlling interests	-	-	-	-	-	-	-	(148,940)	(148,940)
Balance at 30 September 2018	70,000	35,000	40,556	23,742	10,440	285,788	465,526	228	465,754

The accompanying notes from pages 8 to 24 form an integral part of this condensed consolidated interim financial information.

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine month period ended 30 September 2019 (Unaudited)

1 INCORPORATION AND ACTIVITIES

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

The Bank 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 condensed consolidated interim financial information for the period ended 30 September 2019 comprise the financial statements of the Bank and its subsidiary (together referred to as the “Group”).

The Bank is a subsidiary of Al Futtaim Private Company LLC, which holds 52.85% (2018: 52.85%) of the shares in the Bank.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The condensed consolidated interim financial information of the Group is prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting*, issued by the International Accounting Standard Board (‘IASB’) and also comply with the applicable requirement of the laws in the U.A.E.

The condensed consolidated interim financial information does not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2018.

In addition, results for the nine months ended 30 September 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

The accounting policies applied by the Group in the preparation of the condensed consolidated interim financial information are consistent with those applied by the Group in the annual audited consolidated financial statements for the year ended 31 December 2018, except for changes in accounting policies as disclosed in Note 2.4.

In preparing these condensed consolidated interim financial information, significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation were the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2018.

2.2 New and revised IFRS applied on the condensed consolidated interim financial information

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in this condensed consolidated interim financial information. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior years.

- **IFRS 16, ‘Leases’** - This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The impact of the IFRS 16 on the condensed consolidated interim financial information of the Group has been disclosed in note 2.4.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New and revised IFRS applied on the condensed consolidated interim financial information (continued)

- **Amendment to IFRS 9, ‘Financial instrument’** - The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. The amendment also confirms that modifications in financial liabilities will result in the immediate recognition of a gain or loss.
- **IFRIC 23 Uncertainty over Income Tax Treatments** – The interpretation address the determination of taxable profit (tax loss) tax bases, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers
 - Whether tax treatments should be considered collectively
 - Assumptions for taxation authorities
 - The determination of taxable profit (tax loss), tax bases, unused tax losses, and tax rates
 - The effect of changes in facts and circumstances

2.3 New and revised IFRS in issue but not yet effective and not early adopted

The Group has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRS	Effective for annual periods beginning on or after
<ul style="list-style-type: none">• IFRS 17, ‘Insurance contracts’ - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, ‘Insurance Contracts’. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. <p>The standard applies to annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15, ‘Revenue from contracts with customers’ and IFRS 9, ‘Financial instruments’ are also applied.</p> <p>IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (“CSM”) representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.</p>	1 January 2022
<ul style="list-style-type: none">• Amendments to IFRS 3 – This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.	1 January 2020

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **Amendments to IAS 1 and IAS 8** - These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. 1 January 2020

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

2.4 Significant accounting policies

Hedge accounting

The Group designates certain hedging instruments, which include derivatives as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated income statement immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated income statement.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidated income statement from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the consolidated statement of other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in consolidated income statement, is included in the other income line item.

Amounts previously recognised in the consolidated statement of other comprehensive income and accumulated in equity are reclassified to consolidated income statement in the periods when the hedged item affects in the recognition of a non-financial assets or a non-financial liability, the gains and losses previously recognised in consolidated statement of comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Significant accounting policies (continued)

Hedge accounting (continued)

Cash flow hedges (continued)

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in the consolidated statement of other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated income statement.

Leasing

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Changes in accounting policies

The Group has adopted IFRS 16 prospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.89%.

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Significant accounting policies (continued)

Changes in accounting policies (continued)

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. As at 30 September 2019, right of use asset of AED 7.56 million has been included in other assets.

The net impact on retained earnings on 1 January 2019 was a decrease of AED 752 thousand.

Policy applicable before 1 January 2019

Until the financial year ended 2018, leases of properties were classified as operating leases. Lease income from operating leases where the Group was a lessor was recognised in income on a straight-line basis over the lease term. The respective leased assets were included in the balance sheet based on their nature.

3 DUE FROM BANKS, NET

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
Domestic	29,381	77,146
Regional	15,349	5,666
International	382,871	751,364
	<u>427,601</u>	<u>834,176</u>
Less: allowance for impairment (note 6)	(490)	(757)
	<u>427,111</u>	<u>833,419</u>

Part of the balances with banks amounting to AED 197,417 thousand (2018: AED 312,589 thousand) is pledged as collateral with banks against credit facilities. Refer note 7.1 for the detail of credit facilities as at reporting date.

4 LOANS AND ADVANCES, NET

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
Gross loans and advances	999,251	1,331,176
Less: allowance for impairment (note 6)	(3,446)	(902)
Less: interest in suspense	(1,473)	(73)
	<u>994,332</u>	<u>1,330,201</u>

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

5 INVESTMENTS, NET

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
<i>Investment at fair value through profit or loss</i>		
<i>Debt instruments</i>		
Quoted	5	39,065
<i>Equity instruments</i>		
Quoted	21,058	88,539
Unquoted	122,937	246,279
	143,995	334,818
Total investments measured at fair value through profit or loss	144,000	373,883
<i>Investments at fair value through other comprehensive income</i>		
<i>Debt instruments</i>		
Quoted	610,898	223,068
Unquoted	8,299	8,299
	619,197	231,367
<i>Equity instruments</i>		
Quoted	52,186	52,236
Total investments measured at fair value through other comprehensive income	671,383	283,603
<i>Investments at amortised cost</i>		
<i>Debt instruments</i>		
Quoted	665,550	785,667
Total investments measured at amortised cost	665,550	785,667
Investment in bullion	707	605
Gross investments	1,481,640	1,443,758
Less: allowance for impairment (note 6)	(7,256)	(6,176)
Investments, net	1,474,384	1,437,582

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

5 INVESTMENTS, NET (continued)

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
<i>Debt instruments:</i>		
Domestic	76,642	125,296
Regional	257,143	108,953
International	950,967	821,850
	<u>1,284,752</u>	<u>1,056,099</u>
<i>Equity instruments:</i>		
Domestic	59,466	61,096
Regional	1,088	1,649
International	135,627	324,309
	<u>196,181</u>	<u>387,054</u>
Investment in bullion	<u>707</u>	<u>605</u>
Gross investments	1,481,640	1,443,758
Less: allowance for impairment (note 6)	(7,256)	(6,176)
Investments, net	<u>1,474,384</u>	<u>1,437,582</u>

Part of the proprietary investment portfolio of the Group having a carrying value of AED 841,442 thousand (2018: AED 430,723 thousand) is pledged as collateral with banks against credit facilities. Refer note 7.1 for the detail of credit facilities 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.

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

5 INVESTMENTS, NET (continued)

As at 30 September 2019, the Group held the following investments measured as follows:

	Investments carried at fair value				Investments carried at amortised cost AED'000 (Unaudited)
	30 September	Level 1	Level 2	Level 3	
	2019 AED'000 (Unaudited)	Level 1 AED'000 (Unaudited)	Level 2 AED'000 (Unaudited)	Level 3 AED'000 (Unaudited)	
Debt instruments:					
Domestic	76,642	33,006	-	8,299	35,337
Regional	257,143	242,359	-	-	14,784
International	950,967	335,538	-	-	615,429
Equity instruments:					
Domestic	59,466	33,215	5	26,246	-
Regional	1,088	1,088	-	-	-
International	135,627	20,047	115,580	-	-
Investment in bullion	707	707	-	-	-
Gross investments	1,481,640	665,960	115,585	34,545	665,550
Less: allowance for impairment (note 6)	(7,256)				
Investments, net	1,474,384				

As at 31 December 2018, the Group held the following investments measured as follows:

	Total 2018 AED'000 (Audited)	Investments carried at fair value			Investments carried at amortised cost AED'000 (Audited)
		Level 1	Level 2	Level 3	
		AED'000 (Audited)	AED'000 (Audited)	AED'000 (Audited)	
Debt instruments:					
Domestic	125,296	66,675	-	8,299	50,322
Regional	108,953	94,127	-	-	14,826
International	821,850	101,331	-	-	720,519
Equity instruments:					
Domestic	61,096	46,698	801	13,597	-
Regional	1,649	1,649	-	-	-
International	324,309	86,001	219,548	18,760	-
Investment in bullion	605	605	-	-	-
Gross investments	1,443,758	397,086	220,349	40,656	785,667
Less: allowance for impairment (note 6)	(6,176)				
Investments, net	1,437,582				

The fair value of debt instruments carried at amortised cost as at 30 September 2019, amounts to AED 669,235 thousand (31 December 2018: AED 770,348 thousand).

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

5 INVESTMENTS, NET (continued)

Investments amounting to AED 12,463 thousand (31 December 2018: Nil) was transferred from Level 1 to Level 3. The transfer from Level 1 to Level 3 was made as the market in respect of this security have not been active and the price of this security has not been updated on the exchange.

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

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
At the beginning of the period/year	40,656	50,907
Remeasurement of impairment under IFRS 9	-	(10,000)
Transfer from Level 1	12,463	-
Addition	162	-
Disposal	(18,760)	-
Net unrealised gain/ (loss) recognised in income statement	24	(251)
At the end of the period/year	<u>34,545</u>	<u>40,656</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 30 September 2019. Such an assessment is performed on a quarterly basis by reviewing the changes in unobservable inputs which might result in higher or lower fair value measurement.

The Dubai Court of Cassation rendered a judgment on 9 June 2019 rejecting the Group's appeal in respect of an outstanding commercial paper with a gross outstanding value of AED 19.8 million. As a result, the Group plans to file a case in Dubai court against the obligors and, upon securing final judgments against them, the Group will be entitled to file a claim for payment with the insurance company and the management believe that the amount is recoverable.

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

6 ALLOWANCE FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
Investments		
Movement in allowances for impairment losses		
Balance at 1 January	6,176	26,300
Impairment allowance adjusted against carrying value of investments	-	(10,000)
Initial application of IFRS 9	-	(12,298)
Impairment allowance for the period/year	1,080	2,174
	<u>7,256</u>	<u>6,176</u>
Loans and advances		
Movement in allowances for impairment losses		
Balance at 1 January	902	15,000
Initial application of IFRS 9	-	(14,543)
Impairment allowance for the period/year	2,544	445
	<u>3,446</u>	<u>902</u>
Due from banks		
Movement in allowances for impairment losses		
Balance at 1 January	757	-
Initial application of IFRS 9	-	3,099
Impairment allowance for the period/year	(267)	(2,342)
	<u>490</u>	<u>757</u>

Expected credit losses

The analysis of expected credit losses by stage for loans and advances, investment in debt instruments measured at amortised cost and due from banks is as follows:

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
Expected credit losses- Lifetime ECL (Stage 3)	7,849	3,000
Expected credit losses- 12-months ECL (Stage 1)	1,944	2,976
Expected credit losses- Lifetime ECL (Stage 2)	1,399	1,859
Expected credit losses	3,343	4,835
Total expected credit losses	<u>11,192</u>	<u>7,835</u>

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

7 DUE TO BANKS

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
Term deposits	443,118	485,665
Repurchase agreements	477,022	137,723
Demand and call deposits	-	158
	<u>920,140</u>	<u>623,546</u>

7.1 Information on collateral

	<i>Balance 30 September 2019 AED'000 (Unaudited)</i>	<i>Collateral value 30 September 2019 AED'000 (Unaudited)</i>	<i>Balance 31 December 2018 AED'000 (Audited)</i>	<i>Collateral value 31 December 2018 AED'000 (Audited)</i>
Term deposits:				
Collateralized by investments	180,442	328,176	104,335	283,456
Collateralized by due from banks	177,676	197,417	281,330	312,589
	<u>358,118</u>	<u>525,593</u>	<u>385,665</u>	<u>596,045</u>
Repurchase agreements:				
Collateralized by debt instruments	477,022	513,266	137,723	147,267
	<u>477,022</u>	<u>513,266</u>	<u>137,723</u>	<u>147,267</u>

The Group has unsecured term deposits amounting to AED 85,000 thousand (31 December 2018: AED 100,000 thousand) as at the reporting date.

8 INTEREST INCOME

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loans and advances	14,679	22,432	49,940	58,847
Bank placements	831	1,709	3,122	4,053
	<u>15,510</u>	<u>24,141</u>	<u>53,062</u>	<u>62,900</u>

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

9 NET INCOME FROM INVESTMENTS

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	2019 <i>AED'000</i> <i>(Unaudited)</i>	<i>2018</i> <i>AED'000</i> <i>(Unaudited)</i>	2019 <i>AED'000</i> <i>(Unaudited)</i>	<i>2018</i> <i>AED'000</i> <i>(Unaudited)</i>
Interest income on investments in debt instruments	11,527	10,710	33,709	37,052
Net expense from interest rate swaps	(223)	-	(236)	-
Net realised gain on disposal of investments measured at amortised cost	-	-	-	1,204
Net gain/(loss) from investment securities measured as fair value through profit or loss	565	(79)	14,289	(5,103)
Dividend income	1,909	2,742	9,615	9,941
Gain/ (loss) on redemption of investments	76	(98)	(440)	(83)
Portfolio management fees paid to other financial institutions	(215)	(175)	(661)	(679)
	13,639	13,100	56,276	42,332

10 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share of AED 30.72 (30 September 2018: AED 44.30) is calculated by dividing the profit attributable to the equity holders of the parent of AED 21,502 thousand for the nine month period ended 30 September 2019 (30 September 2018: AED 31,013 thousand) by the weighted average number of shares outstanding during the period of 700,000 of AED 100 each (30 September 2018: 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.

11 SEGMENTAL ANALYSIS

For operating purposes, the Group is organised into two major business segments: (a) Investments, which is principally involved in managing the Group's own investment portfolio and provides treasury services; and (b) Banking Services, which principally manages clients' investment portfolios, provides credit facilities, accepts deposits from corporate and individual customers and provides advisory services on corporate finance and capital market transactions. These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

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

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

11 SEGMENTAL ANALYSIS (continued)

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</i>	
	<i>Nine months ended</i>		<i>Nine months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>		<i>30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue *	57,053	46,468	78,245	99,750	135,298	146,218
Inter-segment adjustment	4,640	11,137	(4,640)	(11,137)	-	-
	61,693	57,605	73,605	88,613	135,298	146,218
Profit for the period	11,370	7,550	10,132	25,219	21,502	32,769

* Revenue comprises of interest income, net income from investments, fee commission and other income and exchange gain/ (loss) less net impairment loss on financial assets.

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</i>	
	<i>30 September</i>	<i>31 December</i>	<i>30 September</i>	<i>31 December</i>	<i>30 September</i>	<i>31 December</i>
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Segment assets	2,195,200	2,666,262	1,020,824	1,350,619	3,216,024	4,016,881
Segment liabilities and equity	982,538	642,102	2,233,486	3,374,779	3,216,024	4,016,881

12 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 contingent liabilities and commitments:

	<i>30 September</i>	<i>31 December</i>
	<i>2019</i>	<i>2018</i>
	<i>AED'000</i>	<i>AED'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Guarantees	67,475	46,908
Unutilised committed credit facilities*	33,506	148,338
	100,981	195,246

The Group has commitments of AED 32,809 thousand on account of investment in equity instruments (31 December 2018: AED 35,698 thousand).

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

12 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Credit-related commitments and contingent liabilities (continued)

* 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.

13 RELATED PARTY TRANSACTIONS

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

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

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	1,033	14,999
Investments	12,183	21,061
Customers' deposits	493,154	543,038
Commitments and contingencies	58,380	39,481
Other liabilities	11,777	1,936

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

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2019 AED'000 (Unaudited)</i>	<i>2018 AED'000 (Unaudited)</i>	<i>2019 AED'000 (Unaudited)</i>	<i>2018 AED'000 (Unaudited)</i>
<i>Directors, their related parties and key management personnel:</i>				
Interest income	5	1,788	97	5,088
Interest expense	(4,180)	(2,012)	(12,710)	(5,142)
Net realised gain on disposal of investments measured at amortised cost	-	-	-	2,563
Other income	698	599	2,141	1,788
General and administration expenses	(1,778)	(1,929)	(5,498)	(5,605)

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

13 RELATED PARTY TRANSACTIONS (continued)

Outstanding balances at the period end arise in the normal course of business. For the period ended 30 June 2019, the Group has not recorded any impairment on amounts owed by related parties (2018: Nil).

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Salaries and other benefits	<u>2,055</u>	<u>2,939</u>	<u>7,564</u>	<u>8,787</u>

14 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

30 September 2019

	<i>Positive</i>	<i>Negative</i>	<i>Notional</i>	<i>Notional amount by term to maturity</i>		
				<i>Less than</i>	<i>1 to 5</i>	<i>Over 5</i>
	<i>fair value</i>	<i>fair value</i>	<i>amount</i>	<i>1 year</i>	<i>years</i>	<i>years</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Derivatives:						
Forward foreign exchange contracts	326	567	90,851	90,851	-	-
Foreign exchange option contracts	83	83	42,620	42,620	-	-
Interest rate swaps	-	23,510	255,274	-	-	255,274
	<u>409</u>	<u>24,160</u>	<u>388,745</u>	<u>133,471</u>	<u>-</u>	<u>255,274</u>

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

31 December 2018

	Positive fair value	Negative fair value	Notional amount	Notional amount by term to maturity		
				Less than 1 year	1 to 5 years	Over 5 years
				AED'000 (Audited)	AED'000 (Audited)	AED'000 (Audited)
Derivatives:						
Forward foreign exchange contracts	304	284	97,842	97,842	-	-
Foreign exchange option contracts	737	737	161,582	161,582	-	-
	<u>1,041</u>	<u>1,021</u>	<u>259,424</u>	<u>259,424</u>	<u>-</u>	<u>-</u>

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 customized contracts transacted in over-the-counter markets.

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.

Swaps

Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal.

Fair value

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

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

Derivative related credit risk

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

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

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

Emirates Investment Bank P.J.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the nine month period ended 30 September 2019 (Unaudited)

15 FIDUCIARY ASSETS

	<i>30 September 2019 AED'000 (Unaudited)</i>	<i>31 December 2018 AED'000 (Audited)</i>
Balance of fiduciary assets	<u>4,344,120</u>	<u>5,676,901</u>

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