EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED FINANCIAL STATEMENTS

Contents *Page*

BOARD OF DIRECTORS' REPORT

Distinguished Shareholders of Emirates Islamic Bank PJSC,

Peace and Mercy of Allah be upon you.

I am pleased to report the 2016 financial results of Emirates Islamic Bank PJSC (EIB). Our achievements in product and service innovation integrated with a customer-centric business model has allowed us to achieve positive results in 2016. This year, we concentrated on improving our liabilities mix leading to a significant increase in the Bank's current and saving accounts balances. Our commitment to delivering a customer-first experience has resulted in a 5% increase in deposits and a greater demand for our product offerings, with total assets increasing by 11% during 2016. The Bank recorded a net profit of AED 106 million in 2016, amidst challenging market conditions and reported a growth of 3% in total income (net of customers' share of profit and distribution to Sukuk holders) amounting to AED 2.5 billion, compared to AED 2.4 billion in 2015.

Keeping in mind the evolving needs of our individual, commercial and corporate customers, and with our focus on banking and technological innovation, we set new benchmarks in the Islamic banking industry. In 2016, we continued to play a leading role in the growth of Islamic banking in the UAE, through initiatives such as the ISLAMIC BANKING INDEX BY EMIRATES ISLAMIC™, the first-of-its-kind consumer focused survey on Islamic Banking in the UAE. We also invested in state-of-the-art technology to launch our new core banking system, aimed at providing our customers with superior customer service and the best banking experience.

The Bank successfully closed the issuance of a US$ 750 million 5-year Sukuk, followed by a US$ 250 million tap of the same issue, under its US$ 2.5 billion Certificate Issuance Program. The Sukuk, listed on NASDAQ Dubai and the Irish Stock Exchange, received overwhelming investor interest from across the globe, a testament to the Bank's success and investors' belief in its growth potential.

The Bank also successfully completed a Rights issue for AED 1.5 billion, further strengthening its Capital base.

Underlining investor confidence in the bank, Fitch affirmed Emirates Islamic's Long-Term Issuer Default Rating (LT IDR) of 'A+' with a Stable Outlook, Short-Term IDR (ST IDR) of 'F1', and a Viability Rating (VR) at 'bb-' for the second consecutive year.

The Bank won several industry accolades in 2016, including Fastest Growing Bank – UAE at the Banker Middle East Industry Awards and Innovator in Islamic Finance for EI trade by Global Finance magazine.

Basis of Preparation of Financial Statements

The bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the laws of the UAE, and as per Islamic Sharia guidance.

Full Year 2016 Financial Highlights:

1. Net profit for the year at AED 106 million.
2. Total Income for 2016 (net of customers' share of profit and distribution to Sukuk holders) grew by 3% to AED 2.5 billion during the year.
3. Total cost at AED 1.1 billion increased by 11% compared with the previous year. However, total costs declined significantly over last three quarters of 2016 as cost control measures were implemented during the year.
4. Total assets at AED 59.2 billion, up 11% from end 2015.
5. Financing and investing receivables at AED 36.3 billion, up 6% from end 2015.
6. Customer deposits at AED 41.1 billion, up 5% from end 2015.
7. Impaired Financing ratio stands at 9% and coverage ratio advanced to 96.9%.
8. Capital Adequacy Ratio improved to 16.05% at December 2016.
9. Earnings per share fell down at AED 0.027 in 2016.

BOARD OF DIRECTORS' REPORT (Continued)

Shareholders' Equity:

Total shareholders' equity as at the end of 2016 stands at AED 6.7 billion compared to AED 5.1 billion at the end of 2015. The increase is mainly attributable to increase in paid up capital by AED 1.5 billion.

Auditors:

Ernst and Young were appointed as auditors of Emirates Islamic Bank PJSC for 2016 financial year in the Annual General Meeting held on 15th Feb 2015.

Recommendations:

The Board of Directors raises the following recommendations to the Annual General Meeting:

1. To approve the consolidated Financial Statements for the year ended 31st December 2016
2. Transfer to reserves amounting to AED 21.1 million
3. Discharge of "Zakat" of AED 35.1 million due on shareholders' equity (excluding capital) as per clause of 72-G of Articles of Association

In the end, the Board of Directors extend their gratitude to the Shareholders for their boundless support and to all customers for their continuous trust and loyalty, as well as to the executive management of the bank and staff members for their dedication and commitment, praying to Almighty Allah for the best achievements in the New Year.

We pray to Almighty Allah to guide us all to the best.

Board of Directors

Hesham Abdulla Al Qassim
Chairman of Emirates Islamic

In the name of Allah, the Merciful, the Very Merciful

Report of the Shari’a Supervisory Board
Emirates Islamic for 2016

To the Shareholders of Emirates Islamic,
السلام عليكم ورحمة الله وبركاته

We submit as members of the Fatwa and Shari’a Supervisory Board (the "Shari'a Supervisory Board") of Emirates Islamic Bank PJSC (the "Bank"), the following Annual Report in relation to transactions executed in the year 2016.

The Shari’a Supervisory Board has reviewed the contracts relating to the transactions and applications introduced by the Bank during the period ended. We have also conducted due review to ensure that the Bank has complied with the Shari’a Principles and Rulings and also with the specific Fatwa, rulings and guidelines issued by the Shari’a Board during the year ended 2016.

To take into consideration that ensuring that the Bank functions in accordance with Shari’a Principles and Rulings is the duty of Bank’s Management. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

The Shari’a Supervisory Board of Emirates Islamic conducted, through Shari'a Audit of the Bank, review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank and on the basis of reports of Shari'a Audit and Coordination and queries raised by the internal Shari'a Department of the Bank throughout the year. The Shari’a Supervisory Board endeavored through reasonable assurance that the Bank has not violated Shari’a Principles & Rulings.

Based on these insights, the conclusive view is of that:

1. The contracts, transactions and dealings, which were reviewed by us, and executed by the Bank during the year 2016 were found in compliance with the Shari’a Principles and Rulings;

2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with the Shari’a Principles and Rulings;

3. All earnings that have been realized from sources or by means prohibited by the Shari’a Principles and Rulings have been set aside for disbursement to charitable causes as approved by the Shari’a Supervisory Board.

4. The mechanism of calculation Zakat is in compliance with the Shari’a Principles and Rulings and as per the Bank’s Article of Association, the Bank is authorized to pay it on behalf of the shareholders.

We pray to Allah the Almighty to grant all of us the ultimate success and straight-forwardness.
والسلام عليكم ورحمة الله وبركاته

On Behalf of the Shari’a Supervisory Board – Emirates Islamic

Dr. Yousef Abdullah Alshubaily

Chairman & Executive Member of Shari’a Supervisory Board

DUE ZAKAT ON EMIRATES ISLAMIC BANK SHAREHOLDERS FOR THE YEAR 2016

Article (72-G) of the Articles of Association stipulates that: "The shareholders shall independently provide Zakat (Alms) for their money (paid up capital) and the Company shall calculate for them the due Zakat per share and notify them thereof every year. As for the money held by the Company as reserves, retained earnings and others, on which Zakat is due, the Company shall pay their Zakat as decided by the Fatwa and Sharia Supervisory Board, and transfer such Zakat to the Zakat Fund stipulated in Article (75) of Chapter 10 of the Articles of Association."

Shares' Zakat maybe calculated using one of the following methods:

❖ First Method

Zakat on shares purchased for trading purposes (to sell them when the market value rises) is as follows:

Zakat pool per share = Share quoted value + Cash dividends per share for the year

Zakat per share = Zakat pool per share x 2.5775%

Net Zakat per share = Zakat per share – 0.006471 UAE Fils (Zakat on reserves and retained earnings per share, paid by the Bank)

Total Zakat payable on shares = Number of shares x Net Zakat per share

*** Note:** Zakat is calculated at 2.5775% for the Gregorian year, and at 2.5% for Hijri year, due to the eleven days difference between the two calendars.

❖ Second Method

Zakat on shares purchased for acquisition (to benefit from the annual return):
Shares' Zakat = Total shares' dividends for the year x 10%

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES ISLAMIC BANK PJSC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Emirates Islamic Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements and 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 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards

Basis of 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 ethical requirements that are relevant to our audit of the consolidated financial statements 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.

a) Impairment of finance receivable

Due to the inherently judgmental nature of the computation of impairment provisions for financing and investing receivables, there is a risk that the amount of impairment may be misstated. The impairment of financing and investing receivables is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of financing and investing receivables and related estimation uncertainty, this is considered a key audit risk. The corporate finance receivables portfolio generally comprise larger receivables that are monitored individually by management. The assessment of financing and investing receivables loss impairment is therefore based on management's knowledge of each individual borrower. However, retail finance receivables generally comprise much smaller value finance receivables to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of financing and investing receivables loss provision. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, are unsecured or are subject to potential collateral shortfalls.

The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all finance receivables in excess of a defined threshold and financing and investing receivables in excess of a lower threshold in the watch list category and impaired category together with a selection of other financing and investing receivables.

- For retail customers, the impairment process is based on projecting losses based on prior historical payment performance of each portfolio, adjusted for current market conditions. We have tested the accuracy of key data from the portfolio used in the models and reperformed key provision calculations.

- We compared the Group's assumptions for collective impairment allowances to externally available industry, financial and economic data. As part of this, we critically assessed the Group's estimates and assumptions, specifically in respect to the inputs to the impairment models and the consistency of judgement applied in the use of economic factors, loss emergence periods and the observation period for historical default rates. We have made use of specialists to assess the appropriateness of the collective impairment calculation methodology.

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2016 Annual Report after the date of our auditors' report.

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 obtained prior to the date of this auditor's 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 those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and of 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance 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.

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 Group'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 Group'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 Group 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 those charged with governance 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 those charged with governance 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 with those charged with governance, 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.

Report on other legal and regulatory requirements

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

- the Group has maintained proper books of account;
- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;
- the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;
- investments in shares and stocks during the year ended 31 December 2016 are disclosed in note 7 to the consolidated financial statements;
- note 31 reflects the disclosures relating to related party transactions and the terms under which they were conducted;
- 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 2016, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2016; and
- note 37 reflects the social contributions made during the year.

Ernst & Young

Signed by:
Joseph Murphy
Partner
Registration No. 492

15 January 2017

Dubai, United Arab Emirates

EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	2016 AED '000	2015 AED '000
ASSETS			
Cash and balances with U.A.E. Central Bank	5	11,662,802	7,255,674
Due from banks	6	7,755,193	7,372,715
Investments	7	1,479,214	2,287,105
Financing and investing receivables	8	36,342,568	34,180,420
Investment properties	9	474,830	805,937
Customer acceptances		776,050	563,379
Other assets	10	517,267	570,011
Property and equipment	11	220,265	166,937
TOTAL ASSETS		**59,228,189**	**53,202,178**
LIABILITIES			
Customers' accounts	12	41,131,007	39,301,172
Due to banks	13	1,807,918	3,061,714
Sukuk financing instruments	14	7,368,138	3,672,500
Customer acceptances		776,050	563,379
Payables and other liabilities	15	1,421,162	1,475,179
Zakat payable		35,139	33,483
TOTAL LIABILITIES		**52,539,414**	**48,107,427**
EQUITY			
Share capital	16	5,430,422	3,930,422
Statutory reserve	17	339,986	329,423
General reserve	17	245,765	235,202
Fair value reserve		19,404	(4,127)
Retained earnings		653,198	603,831
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		**6,688,775**	**5,094,751**
TOTAL LIABILITIES AND EQUITY		**59,228,189**	**53,202,178**
CONTINGENCIES AND COMMITMENTS	19	**9,742,403**	**8,613,314**

Chairman **Chief Executive Officer**

The attached notes 1 to 37 form an integral part of these Group consolidated financial statements.
The independent auditors’ report is set out on pages 5 to 8.

EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 AED '000	2015 AED '000
INCOME			
Income from financing and investing activities	20	2,041,287	1,766,705
Income from investment securities	21	74,596	97,721
Income from Group Holding Company	22	184,047	190,857
Commissions and fees income	23	480,603	483,154
Other income	24	228,863	211,816
TOTAL INCOME		**3,009,396**	**2,750,253**
EXPENSES			
Personnel expenses		(691,723)	(624,814)
General and administrative expenses	25	(371,322)	(326,105)
Depreciation of property and equipment		(27,841)	(30,730)
TOTAL EXPENSES		**(1,090,886)**	**(981,649)**
NET OPERATING PROFIT BEFORE ALLOWANCES FOR IMPAIRMENT AND DISTRIBUTIONS		**1,918,510**	**1,768,604**
Allowances for impairment on financial assets, net of recoveries	26	(1,333,048)	(813,923)
Allowances for impairment on non-financial assets, net of recoveries	26	34,685	3,818
Total allowance for impairment, net of recoveries		**(1,298,363)**	**(810,105)**
NET OPERATING PROFIT		**620,147**	**958,499**
Customers' share of profit and distribution to sukuk holders	27	(514,515)	(317,820)
NET PROFIT FOR THE YEAR		**105,632**	**640,679**
Earnings per share (AED)	29	**0.027**	**0.163**

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EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 AED '000	2015 AED '000
NET PROFIT FOR THE YEAR	**105,632**	**640,679**
Items that may be reclassified subsequently to Income statement:		
Other comprehensive income		
Cumulative changes in fair value of available-for-sale investments		
- Net change in fair value	37,858	(22,974)
- Net amount transferred to income statement	(14,327)	8,256
Total other comprehensive income for the year	**23,531**	**(14,718)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**129,163**	**625,961**

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EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP					
	Note	**Share capital AED '000**	**Statutory reserve AED '000**	**General reserve AED '000**	**Fair value reserve AED '000**	**Retained earnings AED '000**	**Total AED '000**
As at 1 January 2015		3,930,422	265,355	171,134	10,591	124,771	4,502,273
Net profit for the year		-	-	-	-	640,679	640,679
Other comprehensive income for the year		-	-	-	(14,718)	-	(14,718)
Total comprehensive income for the year		-	-	-	(14,718)	640,679	625,961
Transfer to reserves		-	64,068	64,068	-	(128,136)	-
Zakat for the year		-	-	-	-	(33,483)	(33,483)
As at 31 December 2015		**3,930,422**	**329,423**	**235,202**	**(4,127)**	**603,831**	**5,094,751**
As at 1 January 2016		3,930,422	329,423	235,202	(4,127)	603,831	5,094,751
Net profit for the year		-	-	-	-	105,632	105,632
Other comprehensive income for the year		-	-	-	23,531	-	23,531
Total comprehensive income for the year		-	-	-	23,531	105,632	129,163
Issue of right shares	16	1,500,000	-	-	-	-	1,500,000
Transfer to reserves		-	10,563	10,563	-	(21,126)	-
Zakat for the year		-	-	-	-	(35,139)	(35,139)
As at 31 December 2016		**5,430,422**	**339,986**	**245,765**	**19,404**	**653,198**	**6,688,775**

The attached notes 1 to 37 form an integral part of these Group consolidated financial statements.
The independent auditors' report is set out on pages 5 to 8.

EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 AED '000	2015 AED '000
OPERATING ACTIVITIES			
Net profit for the year		105,632	640,679
Adjustments:			
Allowances for impairment on financing and investing receivables		1,369,690	741,902
Allowances for impairment on investments	26	124,369	72,021
Reversal of allowance for impairment on investment properties	26	(34,685)	(3,818)
Dividend income	21	(12,147)	(12,354)
Gain on sale of available-for-sale investments	21	(14,370)	(29,294)
Gain on sale of investment properties	24	(91,546)	(142,889)
Depreciation on investment properties	9	23,415	27,458
Depreciation on property and equipment	11	27,841	30,730
Operating profit before changes in operating assets and liabilities		**1,498,199**	**1,324,435**
Changes in balances with UAE Central Bank		(2,468,626)	(1,693,191)
Changes in due from banks		118,908	(119,778)
Changes in financing and investing receivables		(3,531,838)	(8,820,359)
Changes in other assets		52,746	22,811
Changes in customers' accounts		1,829,835	7,854,550
Changes in due to banks		(39,407)	126,864
Changes in other liabilities		(54,017)	173,776
Zakat paid		(33,483)	(16,826)
Net cash used in operating activities		**(2,627,683)**	**(1,147,718)**
INVESTING ACTIVITIES			
Purchase of investment securities		(1,757,915)	(1,652,993)
Proceeds from sale of investment securities		2,479,338	2,514,054
Dividend income received		12,147	12,354
Additions in investment properties		(382)	(32,651)
Proceeds from sale of investment properties		434,304	537,960
Changes in property and equipment		(81,170)	(85,960)
Net cash generated from investing activities		**1,086,322**	**1,292,764**
FINANCING ACTIVITIES			
Changes in Sukuk financing		3,695,638	(500)
Issue of right shares		1,500,000	-
Net cash generated from / (used in) financing activities		**5,195,638**	**(500)**
Net change in cash and cash equivalents		**3,654,277**	**144,546**
Cash and cash equivalents at the beginning of the year		3,168,627	3,024,081
Cash and cash equivalents at the end of the year	30	**6,822,904**	**3,168,627**

The attached notes 1 to 37 form an integral part of these Group consolidated financial statements.
The independent auditors' report is set out on pages 5 to 8.

1 LEGAL STATUS AND ACTIVITIES

Emirates Islamic Bank PJSC (formerly Middle East Bank) (the "**Bank**") was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with a limited liability in the Emirate of Dubai on 3rd of October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995 and is regulated by the Central Bank of United Arab Emirates. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984. The Bank is currently assessing the impact of the new law and expects to be fully compliant on or before the end of grace period on 30 June 2017.

At an extraordinary general meeting held on 10th of March 2004, a resolution was passed to transform the Bank's activities to be in full compliance with the Sharia rules and principles. The entire process was completed on 9th of October 2004 (the "Transformation Date") when the Bank obtained the UAE Central Bank and other UAE authorities' approvals.

The Bank is a subsidiary of Emirates NBD PJSC, Dubai (the "Group Holding Company"). The ultimate parent company of the Group Holding Company is Investment Corporation of Dubai, a company in which the Government of Dubai is the major shareholder. The Bank is listed in the Dubai Financial Market.

In addition to its head office in Dubai, the Bank operates through 61 branches in the UAE. The financial statements combine the activities of the Bank's head office, its branches and the following subsidiaries (together referred to as "the Group").

	Date of incorporation & country	Principal activity	Ownership % 2016	Ownership % 2015
Emirates Islamic Financial Brokerage Co. LLC	26 April 2006, UAE	Financial brokerage services	100%	100%
EIB Sukuk Company Limited	6 June 2007, Cayman Islands	Special Purpose Entity	100%	100%
EI Funding Limited	15 May 2014, Cayman Islands	Special Purpose Entity	100%	100%

The Bank provides full commercial and banking services and offers a variety of products through Islamic financing and investing instruments in accordance with Islamic Sharia.

The Bank's registered office address is P.O. Box 6564, Dubai, United Arab Emirates.

2 BASIS OF PREPERATION

a) Statement of compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the laws of the UAE. The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The Group consolidated financial statements for the year ended 31 December 2016 have been approved for issuance by the Board of Directors on 15 January 2017.

b) Basis of measurement

The Group consolidated financial statements have been prepared under the historical cost basis except for the following, which are measured at fair value:

- Financial assets at fair value through profit or loss, and
- Financial assets available for sale.

2 BASIS OF PREPARATION (continued)

b) Basis of measurement (continued)

The Group consolidated financial statements are presented in United Arab Emirates Dirham (AED), which is the Group's functional currency. Except where indicated, financial information presented in AED has been rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 3 (a).

c) Principles of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses 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. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The list of Group's subsidiary companies is shown in Note 1.

Basis of consolidation

The Group consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the Group consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied to similar transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interest in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

2 BASIS OF PREPARATION (continued)

c) Principles of consolidation (continued)

i. Subsidiaries (continued)

Basis of consolidation (continued)

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

ii. Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific funding transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks 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 an SPE:

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

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment is made at each statement of financial position date.

Information about the Group's securitization activities is included in note 18.

2 BASIS OF PREPARATION (continued)

c) Principles of consolidation (continued)

iii. Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the Group consolidated statement of income and comprehensive income and within equity in the Group consolidated statement of financial position, separately from equity attributable to owners of the Bank.

Changes in the Group owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative profits in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES

a) Use of estimates and judgments

The preparation of the Group consolidated financial statements in conformity with IFRS requires the management to use certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired financing receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant items which require use of estimates and judgments are outlined below:

i. Allowances for impairment of financing and investing receivables

The Group reviews its financing and investing receivables to assess impairment on a regular basis. In assessing impairment, the Group evaluates whether an impairment loss should be recorded in the Group consolidated statement of income. The Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually impaired financing receivable, the Group also makes a collective impairment allowance to recognize, at any reporting date that there will be an amount of financing products which are impaired even though a specific trigger point for recognition of the loss has not yet occurred (known as the "emergence period").

ii. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Group consolidated statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Use of estimates and judgments (continued)

iii. Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non-market factors.

iv. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets including investment properties are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the Group consolidated statement of income. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

v. Held-to-maturity investment securities

The Group follows the guidance of IAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity.

b) Fair value measurement

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

If an asset or a liability measurement at fair value has a “bid” price and “ask” price then the Group measure 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Income from financing and investing receivables

Income from the following financing and investing receivables is recognised on the as follows:

Murabaha
The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istisna'a
Istisna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istisna'a cost) are accounted for on a time proportion basis.

Ijara
Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba
Income from Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala
Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

d) Fees and commission

Fees and commission that are integral part of financing arrangement are included in the measurement of the effective yield.

Other fees and commission income, including portfolio and management fees, front end fees, Sukuk management fees are recognised as the related services performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

e) Earnings prohibited by the Shari'a

Earnings prohibited by the Shari'a are set aside for charitable purposes or otherwise dealt with in accordance with the directions of the Shari'a Supervisory Board.

f) Income from financial assets at fair value through profit or loss

Income from financial assets at fair value through profit or loss comprises gains less losses related to financial assets designated through profit or loss and includes all realized and unrealised fair value changes, profits, dividends, and foreign exchange differences.

g) Dividend

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Groups shareholders in the Annual General Meeting.

h) Rental income

Rental income from investment properties is recognised in the Group consolidated statement of income on a straight line basis over the term of lease.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Customer loyalty programme

The Group operates a rewards programme which allows customers to accumulate points when they purchase products using the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being earned. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products sold and the points issued, with the proceeds allocated to the points being equal to their fair value. Fair value is determined by applying statistical techniques. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

For aspects where third party providers are used, the consideration allocated to the rewards credits collected on behalf of the third party are charged to the Group consolidated statement of income at the time of supplying the rewards.

j) Financial Instruments

i. Classification

Financial assets

The Group classifies its financial assets in one of the following categories:

- Financing and investing receivables;
- Held to maturity;
- Available-for-sale; and
- Fair value through profit or loss.

Financing and investing receivables

Financing and investing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These products are carried at amortised cost less impairment.

The following terms are used in financing and investing receivables:

- **Murabaha**: An agreement whereby the Group sells to a customer a commodity or a property which the Group has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.

- **Financing Ijarah**: An agreement whereby the Group (lesser) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.

- **Istisna'a**: An agreement between the Group and a customer, whereby the Group develops and sells a property to the customer according to the specifications agreed upon. The Group may develop the property on its own or through a subcontractor, and then hand it over to the customer on a pre-agreed date and against fixed price.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

- **Wakala:** An agreement whereby the Group provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

- **Mudaraba**: An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal, and the other provides efforts and expertise and is called Mudarib who is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of profit as Mudaraba fee. In case of normal loss; Rab-Ul-Mal would bear the loss of his funds while Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, the Mudarib would bear the losses. The Group may acts as Mudarib when accepting funds from the holders of investment, saving and wakala accounts and as Rub-Ul-Mal when investing such funds on Mudaraba basis.

- **Musharaka:** An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Investment securities

- **Held-to-maturity**

Held-to-maturity assets are non-derivative financial assets, with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt instruments.

Held-to-maturity (“HTM”) investments are carried at amortised cost (less impairment, if any).

Sale of HTM assets is allowed only under the following circumstances:

- The investment is close enough to maturity as to have no impact on fair value;
- The principal is substantially received;
- Isolated events beyond the Group’s control;
- Significant credit deterioration;
- Major business combination or disposal; or
- Increase in regulatory capital requirements.

- **Available-for-sale**

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, financing receivables, or held-to-maturity. Available-for-sale assets include certain sukuk and equity investments. These assets may be sold in response to needs for liquidity or changes in profit rates, exchange rates or equity prices.

Available-for-sale (AFS) financial assets may be freely sold. All AFS financial assets are measured at fair value.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

Available-for-sale (continued)

The differences between cost and fair value is taken to the Group consolidated Statement of Other Comprehensive Income and recognised as a separate component in the statement of financial position, except in the case of impairment where the cumulative loss is taken to the Group consolidated statement of income. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to the Statement of Other Comprehensive Income, is transferred to the Group consolidated statement of income statement.

- **Designated at fair value through profit or loss**

The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial liabilities:

The Group classifies its financial liabilities, other than financial guarantees and financing commitments, as measured at amortised cost or fair value through profit or loss.

Sukuk financing arrangement:

Financial instruments issued by the Group that are not held for trading or designated at FVPL, are classified as liabilities under sukuk financing arrangements, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

These are subsequently measured at amortised cost using the yield.

ii. Recognition

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

ii. Recognition (continued)

All sales and purchases of financial assets and liabilities and resultant gains and losses are recognised and derecognised on the trade date (the date that the Bank becomes a party to the contractual provisions of the instrument).

iii. Reclassification

Reclassification of financial assets is done at the election of management, and is determined on an instrument-by-instrument basis.

For financial assets reclassified out of the available-for-sale category, any previous gain or loss recognised in equity is amortised to profit or loss over the remaining life of the asset, using the effective yield. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective yield. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the consolidated income statement.

iv. Derecognition

Financial Assets:

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any profit in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities financing, repurchase transactions and asset-backed securitizations.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

Financial Liabilities:

The Group derecognizes financial liability when its contractual obligations are discharged, cancelled or settled.

v. Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

v. Measurement (continued)

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost less impairment allowances. All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

vi. Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

vii. Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Group consolidated statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the Group consolidated statement of other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in the Group consolidated statement of other comprehensive income is recognised in the Group consolidated statement of income.

viii. Impairment

Impairment of financing receivables

Losses for impaired financing receivables are recognised promptly when there is objective evidence that impairment of a finance or portfolio of financing receivables has occurred. Impairment allowances are calculated on individual financing receivables and on groups of financing receivables assessed collectively. Impairment losses are recorded as charges to the Group consolidated statement of income. The carrying amount of impaired financing receivables on the Group consolidated statement of financial position is reduced through the use of impairment allowance accounts.

Individually assessed financing receivables

For all financing receivables that are considered individually significant, the Group assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment. The criteria used by the Group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the obligor;
- past due contractual payments of either principal or profit;
- breach of covenants or conditions;
- decline in the realisable value of the security;
- the probability that the obligor will enter bankruptcy or other financial realization; and
- a significant downgrading in credit rating by an external credit rating agency.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

viii. Impairment (continued)

For those financing receivables where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the obligor to obtain, and make payments in, the currency of the finance if not denominated in local currency; and
- when available, the secondary market price of the debt.

Impairment losses are calculated by discounting the expected future cash flows of financing at its original effective profit rate and comparing the resultant present value with the financing's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed financing receivables

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on financing receivables subject to individual assessment; and
- for homogeneous groups of financing receivables that is not considered individually significant.

Incurred but not yet identified impairment (Corporate financing receivables)

Individually assessed financing receivables for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the reporting date, which the Group is not able to identify on an individual financing basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual financing receivable within the Group, those financing receivables are removed from the group and assessed on an individual basis for impairment.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

viii. Impairment (continued)

Incurred but not yet identified impairment (Corporate financing receivables) (continued)

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, finance grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual finance; and
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a losses occurring and its identification is estimated by management for each identified portfolio.

Homogeneous groups of financing receivables (Consumer financing receivable)

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of financing receivables that are not considered individually significant, because individual finance assessment is impracticable.

Losses in these groups of financing receivables are recorded on an individual basis when individual financing receivables are written off, at which point they are removed from the group. The allowance on collective basis is calculated as follows:

When appropriate empirical information is available, the Group utilizes roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of financing receivables that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual financing basis, and that can be reliably estimated. Under this methodology, financing receivables are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that financing receivables in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, when there have been changes in economic, regulatory or behavioral conditions which result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

Write-off of financing receivables

Financing receivables (and the related impairment allowance) are normally written off, in full, when there is no realistic prospect of recovery. Where financing receivables are secured, this is after receipt of any proceeds from the realization of security, if any.

Reversals / write backs of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the finance impairment allowance account accordingly.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

viii. Impairment (continued)

The write-back is recognised in the Group consolidated statement of income.

Impairment of available-for-sale financial assets

At each reporting date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognised in the Group consolidated statement of income, is removed from other comprehensive income and recognised in the Group consolidated statement of income.

The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the Group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganization, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

viii. Impairment (continued)

Reversal of impairment

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in Group consolidated statement of other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Group consolidated statement of income, the impairment loss is reversed through the Group consolidated statement of income to the extent of the increase in fair value; and

- for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in Group consolidated statement of other comprehensive income. Impairment losses recognised on the equity security are not reversed through the Group consolidated statement of income. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the Group consolidated statement of income, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Group consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

l) Cash and cash equivalent including reserve as per Central Bank of UAE

Central Bank of UAE requires certain percentage of customer account balances to be kept as cash reserve with the central Bank. Such reserve is not available for day to day operation and doesn't earn any profit.

Cash and cash equivalent consists of cash at bank, current account with the UAE Central Bank, due from banks and Group Holding Company (including short-term Murabaha) less due to banks and Group Holding Company. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with outstanding maturities up to three months from the date of original maturity.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Property, equipment and depreciation

i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised financing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

ii. Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation and amortization

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

• Leasehold improvements	7 years
• Furniture	5 years
• Equipment	5 years
• Motor vehicles	3 years
• Computer hardware	4 years
• Computer software	4 years
• Core Banking Software	5-7 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Capital work-in-progress is stated at cost. When commissioned, they are transferred to the appropriate category and depreciated in accordance with the Group's policies.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Investment properties

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost and subsequently at cost less depreciation and impairment, includes expenditure that is directly attributable to the acquisition of the investment property. Investment properties are depreciated over a period of 25 years on a straight line basis.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Group consolidated statement of income in ‘Other income’ in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is a change in use evidenced by ending of owner-occupation on commencement of an operating lease of a significant portion of the property to another party. Transfers are made from investment properties when and only when there is a change in use based on the business model.

o) Customer accounts and Sukuk issued

Customer accounts, Sukuk issued and Wakala investments are the Group’s sources of funding.

i. Customer accounts

The Bank accepts customer investment and savings accounts either on Mudaraba basis or on Wakala basis.

ii. Sukuk

When Group sells a group of financial assets and simultaneously enters into an agreement to repurchase similar group of financial assets at a fixed price on future date under securitization of such group of assets. Such arrangement is accounted for as a Sukuk liability and the underlying group of assets continues to be recognised in the Group consolidated financial statements.

iii. Wakala

Investment Wakala is an agreement whereby one party (the "Muwakkil" / "Principal") appoints an investment agent (the "Wakeel" / "Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital and is payable regardless the said Wakala generates profit or loss; while the share of the profit, if any, is an incentive for the Wakeel to achieve a return higher than expected. The Wakala profit, if any, goes to the Muwakkil, and he bears the loss. However, the Wakeel bears the loss in cases of default, negligence or violation of any of the terms of the Investment Wakala.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Provision

Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

q) Financial guarantees and financing commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The financial guarantee liability is initially measured at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and present value of any expected payments to settle the liability when a payment under the contract has become probable.

r) Provision for end of service benefits

Provision is made for end of service benefits to the group expatriate employees in accordance with the UAE labor law. The entitlement of these benefits is based upon the employees' basic salary and length of service, subject to a completion of a minimum service period. These benefits are accrued over the period of employment. Provision for employees' end of service benefits at the reporting date is included under "Other Liabilities".

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are recognised in the Group consolidated statement of income.

s) Dividend on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Groups' shareholders in the Annual General meeting. Approved dividends after the year are recognised as a liability in the subsequent period.

t) Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit or loss for the year by the weighted average number of shares outstanding during the year. The group has not issued any instrument which has a dilutive effect on earnings per shares.

u) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries,

- (i) controls, is controlled by, or is under common control with, the Group;
- (ii) has an interest in the Group that gives it significant influence over the Group; or
- (iii) has joint control over the Group;

(b) the party is an associate;
(c) the party is a jointly-controlled entity;
(d) the party is a member of the key management personnel of the Group;
(e) the party is a close member of the family of any individual referred to in (a) or (d); or
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Operating Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers' report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 32.

w) Profit distribution

Profit distribution between the unrestricted account holders (investment, saving and Wakala accounts) and the Shareholders, is according to the instructions of the Bank's Fatwa and Sharia supervisory board.

- Net income realised from Mudaraba Pool, at the end of each quarter, represents the net profit available for distribution.
- Net profit available for distribution between unrestricted account holders and shareholders is calculated after deducting the Mudarib fee as per the agreed and declared percentage.

Profit Distribution is on a pro rata-basis of the weighted average balances of unrestricted customers' accounts and Shareholders' funds. No priority is given to either party in the Mudaraba Pool.

x) Zakat

The Bank discharges Zakat (Alms) as per its Articles of Association. The Bank calculates Zakat based on the guidance of its Fatwa and Sharia Supervisory Board as follows:

- Zakat on shareholders' equity (except paid up capital) is discharged from the retained earnings.
- Zakat is disbursed to Sharia channels through a committee formed by management.
- Shareholders themselves are responsible to pay Zakat on their paid up capital.

Zakat on the general provision or on other reserves, if any, is calculated and discharged from the share of profit of the respective parties participating in the Mudaraba Pool.

y) Foreign currency transactions

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting gain / loss on monetary items is taken to the 'Other income' in the consolidated income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments are recognised in other comprehensive income (except for impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards and interpretations effective after 1 January 2016

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard	**Description**	**Effective date (early adoption permitted)**
Amendments to IAS 1 – Disclosure Initiative	The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of OCI arising from equity accounted investments. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements.	1 January 2016
Amendments to IFRS 11 – Accounting for acquisition of interests in Joint Operations	The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be re-measured.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception	The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization	The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	1 January 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards and interpretations effective after 1 January 2016 (continued)

IFRS 10 Consolidated Financial Statements and IAS 28 - Investments in Associates & Joint Ventures	The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: (a) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations). (b) require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.	1 January 2016

(b) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

IFRS 15, 'Revenue from contracts with Customers'.	This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New standards and interpretations not yet effective (continued)

IAS 12, "Income taxes"	The amendments clarify the following (a) Recognition of a deferred tax asset if the loss is unrealized is allowed, if certain conditions are met; and (b) The bottom line of the tax return is not the 'future taxable profit' for the recognition test. The IASB amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The current approach of using the expected bottom line on the tax return – i.e. future taxable income less tax-deductible expenses, will no longer be appropriate. You need to start with the taxable income before the deduction rather than with the bottom line, to avoid double counting.	1 January 2017
IAS 7, "Statement of cash flows"	The amendments issued by IASB: (a) introduce additional disclosure requirements intended to address investors' concerns as currently they are not able to understand the management of an entity's financing activities; (b) require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes; (c) do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities; and (d) are also applicable to financial assets that hedge liabilities arising from financing activities.	1 January 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New standards and interpretations not yet effective (continued)

IFRS 9, 'Financial instruments'	The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. **(a) Classification and measurement** IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: a) amortised cost, b) fair value through other comprehensive income (OCI); and c) fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. 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** There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. **(c) Hedging** IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New standards and interpretations not yet effective (continued)

IFRS 16, 'Leases'	IFRS 16 supersedes IAS 17 and its associated interpretative guidance. The main characteristics of IFRS 16 are as follows: (a) Defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration; (b) Significant changes to Lessee accounting are introduced; (c) Requires recognizing assets and liabilities in respect of all leases subject to limited exceptions of short team leases (i.e., leases with a lease term of 12 months or less) and leases of low value assets; (d) Distinction between operating and finance lease being removed; (e) Lessor accounting is substantially unchanged from today's accounting under IAS 17; (f) Expected to reduce operating cash outflows, with a corresponding increase in financing cash outflows; (g) Requires lessees and lessors to make more extensive disclosures than under IAS 17; and (h) Sale and lease back transactions need to be assessed if these fall under IFRS 15. **Transition** On transition to IFRS 16, companies can choose whether to apply the new definition of a lease to all of their contracts till date, or apply a practical expedient to 'grandfather' their previous assessment of which existing leases. Furthermore, the standard allows an option to entities to either restate prior period numbers or opening balances from 1st Jan 2019 onwards.	1 January 2019

The Group is in the process of analyzing the impact of IFRS 9. The Group has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date.

4 BUSINESS COMBINATION - ACQUISITION OF FINANCIAL ASSETS AND CUSTOMER DEPOSITS FROM DUBAI BANK PJSC

As part of an overall strategy to manage two sharia compliant banking businesses within the Emirates NBD Group, majority of assets and liabilities of Dubai Bank PJSC were transferred to Emirates Islamic Bank PJSC by virtue of a Sale Purchase Agreement dated November 30, 2012.

The objective of the combination was to manage two sharia compliant Islamic banking businesses under one roof in a cost effective manner.

5 CASH AND BALANCES WITH UAE CENTRAL BANK

	2016 AED '000	2015 AED '000
Cash in hand	263,571	330,963
Balances with UAE Central Bank :		
Current accounts	1,375,258	1,067,039
Reserve requirements	4,014,785	3,351,933
Murabaha	6,009,188	2,505,739
	11,662,802	**7,255,674**

The reserve requirements which are kept with the Central Bank of the UAE in AED and US Dollar are not available for use in the Group's day to day operations and cannot be withdrawn without the Central Bank of the UAE's approval. The level of reserves required changes every month in accordance with the Central Bank of the UAE's directives.

6 DUE FROM BANKS

	2016 AED '000	2015 AED '000
Due from local banks		
Current accounts	64	45
Interbank placements with other banks	1,491,491	-
Murabaha with Group Holding Company	3,751,041	5,477,265
Receivables from Dubai Bank (note 4 and note 31)	1,179,398	1,505,040
Wakala deposit with Group Holding Company	-	100,000
	6,421,994	**7,082,350**
Due from foreign banks		
Current accounts	1,333,199	290,365
	7,755,193	**7,372,715**

7 INVESTMENTS

	2016 AED '000	2015 AED '000
Available-for-sale		
Equity shares	686,038	692,616
Funds	660,718	702,246
Sukuks	718,694	1,351,027
	2,065,450	**2,745,889**
Held-to-maturity		
Sukuks	211,061	220,048
	2,276,511	2,965,937
Less: Allowance for impairment	(797,297)	(678,832)
	1,479,214	**2,287,105**
Investment securities comprise:		
Quoted	864,765	1,503,652
Unquoted	614,449	783,453
	1,479,214	**2,287,105**
Held-to-maturity investments located:		
Within UAE	91,813	91,813
Outside UAE	12,623	19,971
	104,436	**111,784**
Available-for-sale investments located:		
Within UAE	334,363	879,010
Outside UAE	1,040,415	1,296,311
	1,374,778	**2,175,321**
	1,479,214	**2,287,105**
Movements in allowances for impairment:		
Balance at the beginning of the year	678,832	645,451
Allowances for impairment made during the year (note 26)	128,140	77,553
Recoveries / write backs during the year (note 26)	(3,771)	(5,532)
Write off / transfer during the year	(5,904)	(38,640)
Balance at the end of the year	**797,297**	**678,832**

8 FINANCING AND INVESTING RECEIVABLES

	2016 AED '000	2015 AED '000
Murabaha	25,303,142	24,469,111
Ijarah	13,539,998	12,237,722
Istisna'a	1,934,104	1,205,460
Financing wakala	435,256	667,397
Mudarabah	91,150	166,749
Secured overdraft	189,240	216,802
Credit card receivables	1,101,315	788,025
	42,594,205	39,751,266
Less: Deferred income	(2,753,333)	(2,634,719)
Less: Allowances for impairment	(3,498,304)	(2,936,127)
	36,342,568	**34,180,420**
Total of impaired financing and investing receivables	**3,610,230**	**3,279,067**
By Segment :		
Retail banking	22,910,839	20,292,865
Corporate banking	13,431,729	13,887,555
	36,342,568	**34,180,420**
Movements in allowances for specific impairment:		
Balance at the beginning of the year	2,242,788	2,002,979
Allowances for impairment made during the year	1,808,826	987,440
Recoveries / write backs during the year	(591,073)	(277,713)
Transfer from Dubai Bank PJSC	26,116	78,446
Write off	(833,629)	(548,364)
Balance at the end of the year	**2,653,028**	**2,242,788**
Movements in allowances for collective impairment:		
Balance at the beginning of the year	693,339	661,164
Allowances for impairment made during the year	151,937	32,175
Balance at the end of the year	**845,276**	**693,339**
Total	**3,498,304**	**2,936,127**

9 INVESTMENT PROPERTIES

	Land AED '000	Building AED '000	Work-in-progress AED '000	Total AED '000
Cost				
Balance as at 1 January 2016	375,513	800,099	8,230	1,183,842
Additions	382	-	-	382
Disposals	-	(466,380)	-	(466,380)
Balance at 31 December 2016	**375,895**	**333,719**	**8,230**	**717,844**
Accumulated depreciation				
Balance as at 1 January 2016	-	(172,425)	-	(172,425)
Charge during the year	-	(23,415)	-	(23,415)
Relating to disposals	-	123,622	-	123,622
Total accumulated depreciation	-	**(72,218)**	-	**(72,218)**
Accumulated impairment				
Balance as at 1 January 2016	(27,849)	(177,632)	-	(205,481)
Reversal of impairment	-	34,685	-	34,685
Total accumulated impairment	**(27,849)**	**(142,947)**	**-**	**(170,796)**
Balance as at 31 December 2016	**(27,849)**	**(215,165)**	**-**	**(243,014)**
Net Book Value at 31 December 2016	**348,046**	**118,554**	**8,230**	**474,830**

	Land AED '000	Building AED '000	Work-in-progress AED '000	Total AED '000
Cost				
Balance as at 1 January 2015				
Additions	391,283	1,154,100	8,230	1,553,613
Disposals	-	32,651	-	32,651
Balance at 31 December 2015	(15,770)	(386,652)	-	(402,422)
	375,513	**800,099**	**8,230**	**1,183,842**
Accumulated depreciation and impairment				
Balance as at 1 January 2015	-	(152,317)	-	(152,317)
Charge during the year	-	(27,458)	-	(27,458)
Relating to disposals	-	7,350	-	7,350
Total accumulated depreciation	-	(172,425)	-	(172,425)
Accumulated impairment				
Balance as at 1 January 2016				
Reversal of impairment	(27,849)	(181,449)	-	(209,298)
Total accumulated impairment	-	3,818	-	3,818
Balance as at 31 December 2015	(27,849)	(177,631)	-	(205,480)
Net Book Value at 31 December 2015	**(27,849)**	**(350,056)**	**-**	**(377,905)**
	347,664	**450,043**	**8,230**	**805,937**

During the year, the Group sold certain properties to Group Holding Company having a net book value of AED 308,073,282 (Refer note 31) and recognised a gain of AED 91,546,009 (note 31).

All investment properties are located within the United Arab Emirates.

The fair value of investment properties as at 31 December 2016 is not materially different from their carrying value.

10 OTHER ASSETS

	2016 AED '000	2015 AED '000
Dividend and profit receivable	6,052	13,003
Overdraft accounts (profit free)	33,435	90,564
Bills under Letters of Credit	-	2,913
Prepaid expenses	55,324	53,815
Deferred sales commission	43,353	51,916
Goods available-for-sale	264,915	237,802
Others	114,188	119,998
	517,267	**570,011**

11 PROPERTY AND EQUIPMENT

	Freehold land AED '000	Leasehold improvements AED '000	Furniture AED '000	Equipment AED '000	Motor vehicles AED '000	Computer hardware & software AED '000	Capital work in progress AED '000	Total AED '000
Cost								
As at 1 January 2016	74,590	92,210	47,842	43,657	2,584	119,836	22,050	402,769
Additions	-	713	1,223	1,969	728	1,519	75,018	81,170
Transfers	-	1,646	876	675	-	66,336	(69,533)	-
Disposals	-	-	-	-	(397)	(143)	-	(540)
As at 31 December 2016	**74,590**	**94,569**	**49,941**	**46,301**	**2,915**	**187,548**	**27,535**	**483,399**
Accumulated depreciation								
As at 1 January 2016	-	(79,658)	(40,011)	(37,652)	(2,561)	(75,951)	-	(235,833)
Charge for the year	-	(4,435)	(1,021)	(2,355)	(166)	(19,864)	-	(27,841)
Relating to disposals	-	-	-	-	397	143	-	540
As at 31 December 2016	**-**	**(84,093)**	**(41,032)**	**(40,007)**	**(2,330)**	**(95,672)**	**-**	**(263,134)**
Net book value								
As at 31 December 2016	**74,590**	**10,476**	**8,909**	**6,294**	**585**	**91,876**	**27,535**	**220,265**

11 PROPERTY AND EQUIPMENT (continued)

	Freehold land AED'000	Leasehold improvements AED'000	Furniture AED'000	Equipment AED'000	Motor vehicles AED'000	Computer hardware & software AED'000	Capital work in progress AED'000	Total AED'000
Cost								
As at 1 January 2015	50,580	99,509	46,249	40,804	2,584	77,227	20,818	337,771
Additions	24,000	11,326	571	2,114	-	9,936	48,336	96,283
Transfers	11	12,393	1,028	969	-	32,703	(47,104)	-
Disposals	-	(31,018)	(6)	(230)	-	(30)	-	(31,284)
As at 31 December 2015	**74,591**	**92,210**	**47,842**	**43,657**	**2,584**	**119,836**	**22,050**	**402,770**
Accumulated depreciation								
As at 1 January 2015	-	(89,546)	(39,229)	(35,620)	(2,423)	(59,246)	-	(226,064)
Charge for the year	-	(10,807)	(788)	(2,262)	(138)	(16,735)	-	(30,730)
Relating to disposals	-	20,695	6	230	-	30	-	20,961
As at 31 December 2015	**-**	**(79,658)**	**(40,011)**	**(37,652)**	**(2,561)**	**(75,951)**	**-**	**(235,833)**
Net book value								
As at 31 December 2015	**74,591**	**12,552**	**7,831**	**6,005**	**23**	**43,885**	**22,050**	**166,937**

12 CUSTOMERS' ACCOUNTS

	2016 AED '000	2015 AED '000
Current accounts	16,803,227	16,105,255
Saving accounts	10,179,886	9,032,267
Investment accounts	4,252,457	5,301,657
Wakala accounts	9,441,448	8,524,228
Margins	453,989	337,765
	41,131,007	**39,301,172**
Customers' accounts are concentrated as follows:		
Resident customer accounts	40,703,736	38,836,547
Non-resident customer accounts	427,271	464,625
	41,131,007	**39,301,172**
By Segment:		
Retail banking	34,287,138	33,974,095
Corporate banking	6,843,869	5,327,077
	41,131,007	**39,301,172**

13 DUE TO BANKS

	2016 AED '000	2015 AED '000
Current Accounts	14,022	2,149
Overdrafts	1,605	-
Interbank obligations – Other banks	183,625	277,105
Wakala Deposits from Group Holding Company	151,959	806,992
Other balances from Group Holding Company & its subsidiaries	1,456,707	1,975,468
	1,807,918	**3,061,714**
Due to banks are concentrated as follows:		
Due to local banks	1,622,688	3,059,376
Due to foreign banks	185,230	2,338
	1,807,918	**3,061,714**

14 SUKUK FINANCING INSTRUMENTS

During the year, the Bank, through a Shari'a compliant sukuk financing arrangement raised a tranche of US Dollar denominated medium term financing amounting to USD 750,000,000 in June 2016 and USD 250,000,000 in September 2016. Following are the details of all the sukuk financing arrangement in issue:

Amount (USD)	Listing	Profit rate (%)	Payment basis	Maturity
500,000,000	London Stock Exchange	4.718	Semi annual	January 2017
500,000,000	London Stock Exchange	4.140	Semi annual	January 2018
750,000,000	Irish Stock Exchange & Nasdaq	3.542	Semi annual	May 2021
250,000,000	Irish Stock Exchange & Nasdaq	3.542	Semi annual	May 2021

The terms of the arrangement include transfer of certain identified assets (the "Co-Owned Assets") of the Bank to a Sukuk company, EIB Sukuk Company Limited (the "Issuer"), a special purpose entity formed for the issuance of the sukuks. In substance, the co-owned assets remain in control of the Bank. Accordingly these assets continue to be recognised by the Bank.

14 SUKUK FINANCING INSTRUMENTS (continued)

In case of any default, the Group Holding Company has provided an undertaking to make good all losses to the sukuk holders. The assets are in the control of the Bank and shall continue to be serviced by the Bank.

The Issuer will pay the semi-annual distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at the exercise price.

Following is the movement in Sukuk payable:

	2016 AED '000	2015 AED '000
Balance as at 1 January	3,672,500	3,672,500
New issues	3,695,638	-
Balance at end of the year	**7,368,138**	**3,672,500**

As at 31 December 2016, the outstanding Sukuk payable is falling due as below:

	2016 AED '000	2015 AED '000
2017	1,836,250	1,836,250
2018	1,836,250	1,836,250
2021	3,695,638	-
	7,368,138	**3,672,500**

15 PAYABLES AND OTHER LIABILITIES

	2016 AED '000	2015 AED '000
Investment, saving and wakala accounts' share of profit	175,284	134,272
Provision for employee benefits	150,762	152,534
Manager Cheques	205,317	366,805
Trade payables	199,668	214,713
Property related liabilities	180,528	202,997
Forfeited income	4,059	142
Others	505,544	403,716
	1,421,162	**1,475,179**

16 SHARE CAPITAL

	2016 AED '000	2015 AED '000
Authorized Share Capital		
10,000,000,000 (2015: 5,000,000,000) ordinary shares of AED 1 each (2015: AED 1 each)	**10,000,000**	**5,000,000**
Issued and fully paid up capital		
5,430,422,000 (2015: 3,930,422,000) ordinary shares of AED 1 each (2015: AED 1 each)	**5,430,422**	**3,930,422**

Shareholders of the Bank in the extra ordinary general meeting held on 5 October 2016 approved the increase in authorized share capital by AED 5,000,000,000 and paid up share capital by AED 1,500,000,000 through rights issue. Rights issue was completed in December 2016.

17 STATUTORY RESERVE & GENERAL RESERVE

In accordance with the Bank's Articles of Association, Article (82) of Union Law no. 10 of 1980 and Federal Commercial Companies Law, the Bank transfers 10% of Shareholders' net profit for the year, if any, to the statutory reserve until such reserve equals 50% of the paid-up share capital. This reserve is restricted and is not available for distribution.

A further 10% of shareholders' net profit for the year, if any, is transferred to the general reserve until it reaches 10% of the paid-up capital. This transfer may be suspended by an ordinary General Meeting, based on Board of Directors' recommendation. The Board of Directors proposes the use of the general reserve at its discretion.

18 ASSET SECURITISATION

On 15 May 2015, EI Funding Limited (the "SPE") was incorporated under Companies Law of Cayman Islands as a Special Purpose Entity. The principal activities of the company are to purchase portfolio of assets through issuance of notes. The securitization will result in a certificate pool that will be listed on the NASDAQ clearing system (off market) for private-purpose, over-the-counter dealing. The underlying Sharia structure has been approved by the Bank's Sharia Supervisory Board.

The group has transferred part of its investment portfolio to EI Funding Limited (incorporated under Cayman Islands laws). However, the Group retains control over the transferred assets and hence the Group continues to recognize these assets as financing and the investment assets.

19 CONTINGENCIES AND COMMITMENTS

a) The Bank provides letters of guarantee and letters of credit to meet the requirements of its customers. These commitments have fixed limits and expirations, and are not concentrated in any period, and are arising in the normal course of business, as follows:

	2016 AED '000	2015 AED '000
Letters of guarantee	5,783,696	5,221,185
Letters of credit	1,187,671	1,061,975
Liability on risk participation	96,181	217,794
Irrevocable financing commitments*	2,543,949	2,024,598
Capital expenditure commitments	128,716	86,402
Commitments in respect of operating lease	2,190	1,360
	9,742,403	**8,613,314**
Commitments in respect of operating lease		
Less than one year	2,190	1,360
Between one and five years	-	-
	2,190	**1,360**

Capital commitments are on account of certain IT related projects and branches.

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

b) Acceptances

Under IAS 39, acceptances are recognised in Group consolidated statement of financial position with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

20 INCOME FROM FINANCING AND INVESTING ACTIVITIES

	2016 AED '000	2015 AED '000
Commodities murabaha	631,807	620,947
Ijarah	583,184	506,135
Vehicles murabaha	267,908	271,758
Syndication murabaha	22,956	15,312
Real estate murabaha	9,184	970
Istisna'a	41,250	31,485
Financing wakala	18,195	17,581
Mudaraba	4,808	4,921
Commercial consumer finance	56,132	57,608
Business finance	134,346	124,319
Liquidity murabaha	211,454	93,480
Others	60,063	22,189
	2,041,287	**1,766,705**

21 INCOME FROM INVESTMENT SECURITIES

	2016 AED '000	2015 AED '000
Realised gain on sale of available for sale investments	14,370	29,294
Dividend Income	12,147	12,354
Investing profit - available-for-sale investments	42,202	53,930
Investing profit - held-to-maturity investments	5,877	2,143
	74,596	**97,721**

22 INCOME FROM GROUP HOLDING COMPANY

	2016 AED '000	2015 AED '000
Short term murabaha	210,742	195,844
Investment wakala	(26,695)	(4,987)
	184,047	**190,857**

23 COMMISSION AND FEES INCOME

	2016 AED '000	2015 AED '000
Commission and fees	534,695	491,914
Portfolio and management fees	2,734	1,841
Others	21,452	26,203
	558,881	**519,958**
Less: Commissions and fees paid	(78,278)	(36,804)
	480,603	**483,154**

24 OTHER INCOME

	2016 AED '000	2015 AED '000
Rental income	47,658	54,657
Gain on sale of investment properties (note 9)	91,546	142,889
Property related income	5,851	6,031
Depreciation of investment properties (note 9)	(23,415)	(27,458)
Foreign exchange gains and losses	132,189	96,363
Others	(24,966)	(60,666)
	228,863	**211,816**

25 GENERAL AND ADMINISTRATIVE EXPENSES

	2016 AED '000	2015 AED '000
Occupancy cost	(112,962)	(96,501)
Equipment & supplies	(27,692)	(24,405)
Computer running cost	(10,310)	(4,612)
Communication cost	(28,065)	(20,819)
Service, legal and professional fees	(13,000)	(8,812)
Marketing related expenses	(18,261)	(21,081)
Others	(161,032)	(149,875)
	(371,322)	**(326,105)**

26 ALLOWANCES FOR IMPAIRMENT, NET OF RECOVERIES

	2016 AED '000	2015 AED '000
Financing and investing receivables		
Allowances made during the year (note 8)	(1,960,763)	(1,019,615)
Provision written back/ recoveries (note 8)	591,073	277,713
Recoveries on bad debts	161,011	-
	(1,208,679)	(741,902)
Investments		
Allowances made during the year (note 7)	(128,140)	(77,553)
Reversal (Note 7)	3,771	5,532
	(124,369)	(72,021)
Investment properties		
Allowances made during the year	-	-
Reversal	34,685	3,818
	34,685	3,818
	(1,298,363)	**(810,105)**

27 CUSTOMERS' SHARE OF PROFIT AND DISTRIBUTION TO SUKUK HOLDERS

	2016 AED '000	2015 AED '000
Customer accounts	(286,491)	(153,372)
Sukuk issued	(228,024)	(164,448)
	(514,515)	**(317,820)**

The distribution of profit between unrestricted account holders (investment, saving and wakala accounts) and shareholders is made, quarterly, in accordance with the method approved by the Bank's Fatwa and Sharia Supervisory Board.

28 DIRECTORS' FEE

Sitting fees, amounting to AED 2,500,000 (2015: AED 2,355,000) was paid and charged to the Group consolidated statement of income.

29 EARNINGS PER SHARE

The calculation of earnings per share is based on profit of AED 105,632,000 (2015: profit of AED 640,679,000), for the year divided by the weighted average of the number of shares outstanding during the year: 3,938,641,178 shares (2015: 3,930,422,000 shares).

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

	2016 AED '000	2015 AED '000
Net profit for the year	105,632	640,679
Weighted average no of shares outstanding during the year	3,938,641,178	3,930,422,000
Share capital available throughout the year	3,938,641	3,930,422
Earnings per share (AED)	**0.027**	**0.163**

The diluted and basic earnings per share were the same as of 31st December 2016.

30 CASH AND CASH EQUIVALENTS

	2016 AED '000	2015 AED '000
Cash in hand (note 5)	263,571	330,963
Current account with U.A.E Central Bank (note 5)	1,375,258	1,067,039
Murabaha with U.A.E Central Bank	2,750,143	1,052,468
Due from banks	4,004,152	3,502,766
Due to banks	(1,570,220)	(2,784,609)
	6,822,904	**3,168,627**

31 RELATED PARTY TRANSACTIONS

The ultimate parent of the Group is Investment Corporation of Dubai (55.6%), a company in which the Government of Dubai is the major shareholder.

Customer accounts and financing to Government related entities other than those that have been individually disclosed amount to 5.77% and 2.00% (2015: 11.01% and 2.05%) of the total customers' accounts and financing receivables of the Group, respectively.

These entities are independently run business entities, and all the financial dealings with the Group are on normal commercial terms.

The Group has also entered into transactions with certain other related parties who are non-government related entities. Such transactions were also made on substantially the same terms, including profit rates and collaterals, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

31 RELATED PARTY TRANSACTIONS (continued)

Related party transactions are as follows:

	2016 AED '000	2015 AED '000
Group consolidated statement of income		
Income from Group Holding Company	184,047	190,857
Key management personnel compensations	(24,172)	(22,755)
Key management personnel compensations - retirements benefits	(385)	(265)

Balances with related parties are as follows:

	2016 AED '000	2015 AED '000
Group consolidated statement of financial position		
Due from Group Holding Company & subsidiaries	2,142,375	2,794,805
Financing receivables - Ultimate Parent Company	183,650	184,011
Investment in Ultimate Parent Company	15,191	44,206
Deposits from Ultimate Parent Company	835,628	1,322,261
Due from Dubai Bank PJSC (note 6)	1,179,398	1,505,040
Financing receivables - Directors & affiliates	149	1,212
Financing receivables - Key management personnel & affiliates	41,260	26,040
Current and Investment accounts - Directors	(760)	(830)
Current and Investment accounts - Key management personnel & affiliates	(38,300)	(23,314)
Investment in Government Related Entities	207,873	298,086

During the year, the Bank sold Corporate Ijarah financing receivables to the Group Holding Company at book value amounting to AED 1,601,179,369.

During the year, the Bank sold investment properties to the Group Holding Company at fair value. The net book value of these properties amounted to AED 308,073,282 while the net sale proceeds amounted to AED 434,304,176. This has resulted in a gain on sale of investment properties amounting to AED 91,546,009 and reversal of impairment provision amounting to AED 34,684,885. (Refer note 9)

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the year with key management personnel and their immediate relations at the year end. As explained in note 4, the Group has acquired certain assets and liabilities from Dubai Bank PJSC, a subsidiary of the Group Holding Company.

32 OPERATING SEGMENTS

The Group’s activities comprise the following main business segments:

Corporate and Investments
Within this business segment, the Bank provides to corporate customers a range of products and services and accepts their deposits. This segment invests in investment securities, sukuks, funds and Real Estate sector.

Retail
Retail segment provides a wide range of products and services to individuals and small and medium enterprises and accepts their deposits.

Treasury
This segment mainly includes deposits and placements on Murabaha and Wakala basis with banks including Group Holding Company and the Central Bank of UAE.

EMIRATES ISLAMIC BANK PJSC
NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

32 OPERATING SEGMENTS (continued)

	Corporate & Investments		Retail		Treasury		Support		Total	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Group consolidated statement of income										
Segment income	371,350	445,279	1,591,768	1,301,239	310,295	267,115	-	-	2,273,413	2,013,633
Commission, fees & other income	285,156	328,922	450,374	406,415	453	1,283	-	-	735,983	736,620
Total income	**656,506**	**774,201**	**2,042,142**	**1,707,654**	**310,748**	**268,398**	**-**	**-**	**3,009,396**	**2,750,253**
General and administrative expenses	(106,754)	(77,859)	(745,676)	(661,862)	(8,214)	(8,825)	(230,242)	(233,103)	(1,090,886)	(981,649)
Total expenses	**(106,754)**	**(77,859)**	**(745,676)**	**(661,862)**	**(8,214)**	**(8,825)**	**(230,242)**	**(233,103)**	**(1,090,886)**	**(981,649)**
Net operating income	**549,752**	**696,342**	**1,296,466**	**1,045,792**	**302,534**	**259,573**	**(230,242)**	**(233,103)**	**1,918,510**	**1,768,604**
Allowances for impairment, net of recoveries	(272,932)	(422,020)	(1,025,431)	(388,085)	-	-	-	-	(1,298,363)	(810,105)
	276,820	**274,322**	**271,035**	**657,707**	**302,534**	**259,573**	**(230,242)**	**(233,103)**	**620,147**	**958,499**
Customers' share of profit and distribution to sukuk holders	(64,638)	(20,852)	(217,052)	(127,012)	(232,825)	(169,956)	-	-	(514,515)	(317,820)
NET PROFIT/ (LOSS) FOR THE YEAR	**212,182**	**253,470**	**53,983**	**530,695**	**69,709**	**89,617**	**(230,242)**	**(233,103)**	**105,632**	**640,679**

32 OPERATING SEGMENTS (continued)

	Corporate & Investments		Retail		Treasury		Support		Total	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Group consolidated statement of financial position										
Assets										
Segment assets	16,976,033	18,115,488	26,848,946	23,687,445	15,403,210	11,276,456	-	122,789	59,228,189	53,202,178
Liabilities										
Segment liabilities	7,899,837	6,174,814	35,371,278	35,107,936	9,268,299	6,734,214	6,688,775	5,185,214	59,228,189	53,202,178

33 RISK MANAGEMENT

Risk management framework

The Group manages identification, measurement, aggregation and effective management of risk through a comprehensive risk management framework which incorporates organizational structure, risk measurement and monitoring processes.

The key features of the Group's risk management framework are:

- The Board of Directors ("the Board") has the overall responsibility for the establishment and oversight of the Group's risk management framework;
- The Group's risk appetite is determined by the Executive Committee (EXCO) and approved by the Board;
- Board committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework;
- Reporting any policy or major practice changes, unusual situations, significant exceptions and new strategies to the Board of Directors for review, approval and/or ratification through various Board Committees; and
- The Group's overall risk management process is managed by the Group risk management function operating under its Chief Risk Officer ("CRO") with oversight function exercised by the ENBD Group Risk's CRO. This function is independent of the business divisions.

Group Risk assists senior management in controlling and actively managing the Group's overall risk profile. This function also ensures that:

- Risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- The Group's overall business strategy is consistent with its risk appetite; and
- Appropriate risk management architecture and systems are developed and implemented.

Risk management process

Through the risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations, are escalated to the management for appropriate and timely action.

a) Credit Risk

Credit is the risk that a customer or counterparty will fail to meet a commitment, thereby resulting in financial loss to the Group. Credit risk also captures 'Credit Concentration risk' and 'Settlement risk', which is the risk of a counterparty failing to deliver on a financial markets transactions at settlement, and 'Residual risk', which arises from an insufficient ability to realize collaterals later.

Credit risk management and structure

The approach to credit risk management is based on the foundation of preserving the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures in the business segments.

The Group's credit policy managed by Group Risk focuses on the core credit principles and details specific policy guidelines, financing parameters, sharia guidelines, control and monitoring requirements, problem finance identification, management of high risk customers and provisioning.

The Board of Directors (BOD) has delegated authority to the Board Credit and Investment Committee ("BCIC") Management Credit and Investment Committee ("MCIC") and CEO to facilitate and effectively manage the business. However, the Board and the BCIC retain the ultimate authority to approve credits above MCIC authority.

33 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

The following general guidelines are followed for account classification into non-impaired and impaired credits:

Normal Credits

- Financings which bear normal banking risk, whereby information available to the bank assures repayment as agreed are classified as "Normal credits".

Watch list credits

- Financings which show some weaknesses in the obligor's financial condition and credit worthiness, requiring more than normal attention but not allocation of provisions are classified as "Watch-list credits".

Impaired credits

i. Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard credits". In general, these are credit exposures where agreed payments of principal and/or profit are more than 90 consecutive days in arrears.

ii. Those accounts where full recovery of profit and principal seems doubtful on the basis of information available, leading generally to a loss of part of these financings are classified as "Doubtful credits".

iii. Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss credits".

Management of corporate credit risk

The process of managing corporate credit risk is as follows:

- Corporate credit risk appetite is set as per the risk strategy approved at the Board Risk Committee;

- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers, amongst other things, the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customer's creditworthiness and standing within the industry;

- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations;

- Obligor risk grading - Internal rating models are used across various business segments to assess credit quality of the obligors and assign risk grades on the rating Master scale. All obligors are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorization on a scale of 1 to 5; and

- Management of Impaired Non Performing Financings (NPF) and Watch List (WL) accounts - The Group has a well-defined process for identification of NPF & WL accounts and dealing with them effectively. This includes identification of delinquent accounts and controls applicable for close monitoring. Policies on profit suspension and provisioning are strictly adhered to be in line with UAE Central Bank guidelines. The Group's Remedial Unit manages the problem commercial credit facilities. However, a specialized team in the Group Holding Company "Financial Restructuring and Remedial" team also supports the management and collection of some of the problem commercial credit facilities.

33 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Management of consumer credit risk

- Consumer credit risk appetite is set as per the risk strategy approved at the Board Risk Committee;

- The Risk unit approves retail credit policies within the risk appetite set and monitors compliance. All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk versus reward dynamics. Policies are reviewed and updated on a regular basis to ensure that current market trends and portfolio performance are considered on a timely basis;

- Retail financing is granted under approved credit policies for each product. Every application needs to meet the laid down criteria as per the credit policies. Exception, if any, are approved by staff having delegated authority after reviewing the mitigant proposed for these exceptions;

- Risk grading – The risk grade of an account reflects the associated risks measured by the delinquency history and application and behavior probability of defaults ("PDs"); and

- Management of delinquent accounts – Delinquent accounts are monitored closely to ensure the Bank's asset quality is protected. Differential collections strategies are drawn out and higher risk accounts are subject to an accelerated collections strategy.

Credit risk monitoring

Risks of the Group's credit portfolio is continuously assessed/ monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

The Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, assessment of collateral and market intelligence and early alerts.

Early Alerts

Early Alert accounts are identified based on oversight, vigilance and risk triggers. Account strategy and action plans on these accounts are regularly monitored and discussed in the Early Alert Committee meetings.

Risks of the Group's financing portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Group credit risk mitigation strategy

The Group operates within prudential exposure ceilings set by the Board in line with UAE Central Bank guidelines. There are well laid out processes for exception management.

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by setting customer, industry and geographical limits. The risk transfer in the form of syndicated loans with other banks, where appropriate, is entered into to limit the Group exposure.

33 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

Analysis by economic activity for assets

	2016		2015	
	Financing receivables AED '000	Others AED '000	Financing receivables AED '000	Others AED '000
Agriculture and related activities	32,605	-	17,389	-
Manufacturing	608,017	-	805,834	-
Construction	809,900	101,560	1,109,370	144,322
Trade	2,943,344	-	2,625,818	-
Transportation and communication	371,838	-	223,177	74,322
Services	3,442,875	58,269	3,528,173	51,000
Sovereign	241,308	145,767	298,086	418,310
Personal	24,661,438	-	23,512,863	-
Real estates	5,268,117	766,923	4,546,980	817,349
Financial institutions	1,343,677	8,944,670	1,126,229	8,684,949
Others	2,871,086	14,515	1,957,347	148,400
Total	42,594,205	10,031,704	39,751,266	10,338,652
Less: Deferred income	(2,753,333)	-	(2,634,719)	-
Less: Allowances for impairment	(3,498,304)	(797,297)	(2,936,127)	(678,832)
Net Carrying Value	**36,342,568**	**9,234,407**	**34,180,420**	**9,659,820**

Gross maximum exposure:

The table below shows the maximum exposure to credit risk for the components of the Group consolidated statement of income. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2016 AED '000	2015 AED '000
Balances with UAE Central Bank	11,399,231	6,924,711
Due from banks	7,755,193	7,372,715
Financing and investing receivables	36,342,568	34,180,240
Investments	1,479,214	2,287,105
Other assets	39,487	106,480
Total	**57,015,693**	**50,871,251**
Contingent liabilities	6,971,367	8,307,758
Total credit risk exposure	**63,987,060**	**59,179,009**

33 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Classification of investment securities as per their external ratings:

As at 31 December 2016

Ratings	Held-to-maturity investment securities AED '000	Available-for-sale investment securities AED '000	Total AED '000
AAA	-	14,514	14,514
A- to A+	91,813	382,879	474,692
Lower than A-	-	311,294	311,294
Unrated	12,623	666,091	678,714
	104,436	**1,374,778**	**1,479,214**

Of which issued by:

	Held-to-maturity investment securities AED '000	Available-for-sale investment securities AED '000	Total AED '000
Governments	-	138,701	138,701
Public sector enterprises	-	175,013	175,013
Private sector and others	104,436	1,061,064	1,165,500
	104,436	**1,374,778**	**1,479,214**

33 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

As at 31 December 2015

Ratings	Held-to-maturity investment securities AED '000	Available-for-sale investment securities AED '000	Total AED '000
AAA	-	14,584	14,584
AA- to AA+	-	56,687	56,687
A- to A+	91,813	924,631	1,016,444
Lower than A-	20,076	361,072	381,148
Unrated	(105)	818,347	818,242
	111,784	**2,175,321**	**2,287,105**

Of which issued by:

	Held-to-maturity investment securities AED '000	Available-for-sale investment securities AED '000	Total AED '000
Governments	-	462,608	462,608
Public sector enterprises	-	760,550	760,550
Private sector and others	111,784	952,163	1,063,947
	111,784	**2,175,321**	**2,287,105**

33 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Credit quality analysis:

The credit quality of financial assets is managed by the Group. The table below shows the credit quality by class of financial assets, based on the Groups credit rating policy.

2016		Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired		
	Carrying amount	Low/ Fair risk	Watch list	Re-negotiated terms	< 30 days	30-60 days	61-90 days	> 90 days	Carrying amount	Allowance for impairment	Gross amount
	AED '000										
Due from banks and Group Holding Company	7,755,193	7,755,193	-	-	-	-	-	-	-	-	-
Financing receivables:											
Retail	22,910,839	20,290,120	-	-	1,730,440	278,900	201,823	-	409,556	188,460	598,016
Corporate	13,431,729	10,074,987	196,543	807,048	737,485	567,131	149,482	351,407	547,646	2,464,568	3,012,214
	36,342,568	30,365,107	196,543	807,048	2,467,925	846,031	351,305	351,407	957,202	2,653,028	3,610,230
Investments:											
Sukuks	823,130	810,507	-	-	-	-	-	-	12,623	106,625	119,248

33 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Credit quality analysis (continued)

2015		Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired		
	Carrying amount	Low/ Fair risk	Watch list	Re-negotiated terms	< 30 days	30-60 days	61-90 days	> 90 days	Carrying amount	Allowance for impairment	Gross amount
	AED '000										
Due from banks and Group Holding Company	7,372,715	7,372,715	-	-	-	-	-	-	-	-	-
Financing receivables:											
Retail	20,292,866	18,639,776	-	-	769,623	350,991	212,612	-	319,864	182,493	502,357
Corporate	13,887,555	9,809,181	207,695	1,835,650	512,053	325,471	74,723	406,367	716,415	2,060,295	2,776,710
	34,180,421	28,448,957	207,695	1,835,650	1,281,676	676,462	287,335	406,367	1,036,279	2,242,788	3,279,067
Investments:											
Sukuks	1,462,810	1,442,839	-	-	-	-	-	-	19,972	108,263	128,235

33 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Classification of financing and investing receivables

Obligor risk grading - Internal rating models are used across various business segments to assess credit quality of the obligors and assign risk grades on the Master rating scale ("MRS") on an ongoing basis. All obligors are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorization on a scale of 1 to 5 mentioned below;

The following are general guidelines for account classification into non-impaired and impaired:

Normal finances (Grades 1a to 4d)

Financing and investing receivables which bear normal banking risk, whereby information available to the bank assures repayment as agreed are classified as "Normal finances";

Watch-list finances (Grades 4e to 5a)

Financing and investing receivables which show some weaknesses in the obligor's financial condition and credit worthiness, requiring more than normal attention but not allocation of provisions are classified as "Watch-list finances";

Impaired finances (Grades 5b to 5d)

Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard accounts". In general, these are credit exposures where agreed payments of principal and/or profit are more than 90 consecutive days in arrears;

Those accounts where full recovery of profit and principal seems doubtful on the basis of information available, leading generally to a loss of part of these finances are classified as "Doubtful accounts"; and

Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss accounts".

Islamic Financing Receivables

	2016 AED '000	2015 AED '000
Corporate – Performing	13,365,826	13,611,192
Retail – Performing	22,864,816	20,226,288
Impaired financing	3,610,230	3,279,067
Gross financing	39,840,872	37,116,547

Financing with renegotiated terms
Financing with renegotiated terms are those credits, where the repayment plan has been revised to align with the changed cash flows of the obligor with no other concessions by way of reduction in the amount or profit, but in some instances with improved security. These financings are treated as standard credits and continue to be reported as normal credits in the renegotiated financings category.

33 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Past due but not impaired
Exposures where contractual profit or principal payment are past due for more than 90 days but based upon individual assessment, that the impairment is not appropriate considering the obligor's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of the obligor's receivables and the stage of collection of the amounts owed to the Group. Amounts that were past due and settled in a short period after the balance sheet date have been excluded.

Definition of impaired financial assets

A counterparty is impaired if:

a) In case of corporate exposures, the Group considers the counterparty unlikely to pay due to one of the following conditions:

- A material credit obligation has been put on non-accrual status;
- Distressed restructuring of a credit obligation;
- Selling of a credit obligation at an economic loss; and
- The Group or a third party has filed for the counterparty's bankruptcy.

b) In case of retail, if the exposure is past due for more than 90 days, it is considered to be impaired.

Impairment assessment
The asset portfolio is reviewed on an ongoing basis for impairment. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per credit policy. Impaired assets are classified as such and reported at least on quarterly intervals to the Board sub committees.

Assessment of specific impairment

Corporate Exposure: The Group determines impairment appropriate for each financing by exercising mature judgment in line with Central Bank of the UAE and IFRS requirements. The Group classifies those accounts where recovery is considered doubtful and ensures impairment is made accordingly. The impairment losses are evaluated on an ongoing basis. Specific impairment is assessed when an exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days. Impaired accounts are classified as Substandard, Doubtful or Loss.

Retail Exposure: Criteria for provisions are based on products, namely, credit cards and other retail financings. All retail financings are classified as non-performing after 90 days and provisions are made in line with the Group's income and loss recognition policies.

Assessment of collective impairment

Provisions for collective impairment are made based on the IFRS and Central Bank of the UAE guidelines. Impairments that cannot be identified with an individual financing are estimated on a portfolio basis.

Collateral management:

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed.

Where credit facilities are secured by collateral, the Group seeks to ensure the enforceability of the same.

Collaterals are revalued regularly as per the policy as a general rule. However, periodic valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

33 RISK MANAGEMENT (continued)

Risk management process (continued)

b) Market risk

Market risk is the potential for adverse changes in the market value of portfolio and positions due to fluctuations in profit rates, exchange rates, equity prices, commodity prices, as well as in their correlation and implied volatility. Consistent with the Group's approach to strict compliance with Sharia rules and principles, the Group does not involve in speculative foreign exchange transactions.

The Group's market risk is managed through risk limits set by the ALCO and approved by the Group's Board of Directors. Risk limits are reviewed by the ALCO on an annual basis and are monitored independently by the Market Risk unit on a regular basis, and exceptions, if any, are reported to senior management.

i. 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 is not significantly exposed to currency risk since the majority of the assets and liabilities of the Group are denominated predominately in either AED or in USD-pegged currencies from other GCC countries.

ii. Price risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale) due to reasonably possible change in equity indices, with all other variables held constant, is as follows:

	31 December 2016			31 December 2015		
	% Change in market indices	Effect on net profit AED' 000	Effect on OCI AED' 000	% Change in market indices	Effect on net profit AED' 000	Effect on OCI AED' 000
Equity	10	-	5,423	10	-	6,081
Sukuk	10	-	71,869	10	-	135,103

c) Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes and systems, human error or external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks. The Group has standard policies and procedures for managing each of its divisions, departments and branches so as to minimize losses through a framework to ensure compliance with the Basel II requirements. All related policies are subject to review and approval by the Board of Directors.

The Group manages operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorization of transactions and regular, systematic reconciliation and monitoring of transactions. This control structure is complemented by independent and periodic reviews by the Bank's internal audit department.

The Group has set up the Group operational risk function within Group Risk to establish the framework and governance structure set out in the operational risk policy. This function develops and implements the methods for the identification, assessment and monitoring of operational risks throughout the Group and provides regular and comprehensive reporting on operational risks to senior management. The function supports business and other support units to monitor and manage their individual operational risks.

33 RISK MANAGEMENT (continued)

Risk management process (continued)

c) Operational risk (continued)

Furthermore, the Group operational risk function also provides analysis and reports on operational risks to senior management and conducts independent oversight and monitoring of risks and mitigating measures.

The governance structure of operational risk is regulated through the Group Operational Risk and Compliance Committee ("ORCC"). The ORCC reviews the Group's operational risks on a periodic basis, and the effectiveness of existing controls to mitigate these risks. The ORCC reports to EXCO and requires senior management involvement from every unit and major entity of the Group.

The Group has implemented the following processes to proactively monitor and manage operational risks:

- Assessment of any operational risk of a new or amended product or process prior to its implementation. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives;

- Identification of inherent and residual risks across all units and entities of the Group and assessment of control efficiencies and estimation of probabilities and potential impact of the operational risks. The identified risks are monitored and reassessed frequently by the line management;

- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analyzing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units;

- IT Security processes ensure confidentiality, integrity and availability of Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Holding Company's operational risk function ensures that security processes are integrated with strategic and operational planning processes at the Group;

- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy; and

- The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

d) Liquidity risk

The risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management

To guard against this risk, the Group has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Liquidity is managed by the Treasury department under guidance from the ALCO, and is monitored using short-term cash-flow reports and medium-term maturity mismatch reports. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. They do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

The maturity profile of the Group's assets and liabilities is monitored by ALCO to ensure adequate liquidity is maintained.

33 RISK MANAGEMENT (continued)

<u>Risk management process</u> (continued)

d) Liquidity risk (continued)

Liquidity risk monitoring

All funded liquidity risk positions are monitored and evaluated by Group risk to identify mismatches of future cash inflows and corresponding maturity of liabilities over the short term and by major currencies.

The Group ALCO reviews the funding capacity, and its sensitivity to any key event, based on the judgment of Group Treasury that is responsible for maintaining diversified funding sources within capital and money markets.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. The Group's approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times. The Group ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis;
- Varied funding programs; and
- Investor diversification.

Liquidity risk mitigation

The ALCO, in conjunction with Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The ALCO, in line with the best practices, recognises that users and providers of liquidity as a resource should be incentivized an equitable and transparent manner. This is achieved through the Funds Transfer Pricing (FTP) system which is aligned to charge/compensate for liquidity of the underlying assets or structural nature of underlying liabilities.

33 RISK MANAGEMENT (continued)

Risk management process (continued)

d) Liquidity risk (continued)

MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

2016	Within 3 months AED '000	Over 3 months to 1 year AED '000	Over 1 year to 3 years AED '000	Over 3 years to 5 years AED '000	Over 5 years AED '000	Total AED '000
FINANCIAL ASSETS:						
Cash and balances with UAE Central Bank	8,741,892	2,920,910	-	-	-	11,662,802
Due from banks	5,881,312	-	1,873,881	-	-	7,755,193
Financing and investing receivables	4,572,913	3,120,903	8,460,062	7,823,834	12,364,856	36,342,568
Investments	10,910	282,898	293,708	219,970	671,728	1,479,214
Other financial assets	39,487	-	-	-	-	39,487
TOTAL FINANCIAL ASSETS	**19,246,514**	**6,324,711**	**10,627,651**	**8,043,804**	**13,036,584**	**57,279,264**
FINANCIAL LIABILITIES:						
Customers' accounts	(7,937,907)	(15,093,445)	(18,099,655)	-	-	(41,131,007)
Due to banks	(1,807,918)	-	-	-	-	(1,807,918)
Sukuk financing instruments	(1,836,250)	-	(1,836,250)	(3,695,638)	-	(7,368,138)
Other financial liabilities	(586,151)	-	-	-	-	(586,151)
Zakat payable	(35,139)	-	-	-	-	(35,139)
TOTAL FINANCIAL LIABILITIES	**(12,203,365)**	**(15,093,445)**	**(19,935,905)**	**(3,695,638)**	**-**	**(50,928,353)**
Liquidity surplus/(deficit)	**7,043,149**	**(8,768,734)**	**(9,308,254)**	**4,348,166**	**13,036,584**	**6,350,911**
Cumulative liquidity surplus/(deficit)	**7,043,149**	**(1,725,585)**	**(11,033,839)**	**(6,685,673)**	**6,350,911**	

33 RISK MANAGEMENT (continued)

Risk management process (continued)

d) Liquidity risk (continued)

MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

2015	Within 3 months AED '000	Over 3 months to 1 year AED '000	Over 1 year to 3 years AED '000	Over 3 years to 5 years AED '000	Over 5 years AED '000	Total AED '000
FINANCIAL ASSETS:						
Cash and balances with UAE Central Bank	5,802,403	1,453,271	-	-	-	7,255,674
Due from banks	3,502,766	119,579	3,750,370	-	-	7,372,715
Financing and investing receivables	4,706,302	3,030,063	7,194,485	8,005,142	11,244,428	34,180,420
Investments	304,941	120,824	923,611	445,273	492,456	2,287,105
Other financial assets	103,567	-	-	-	-	103,567
TOTAL FINANCIAL ASSETS	**14,419,979**	**4,723,737**	**11,868,466**	**8,450,415**	**11,736,884**	**51,199,481**
FINANCIAL LIABILITIES:						
Customers' accounts	(4,375,257)	(18,368,709)	(16,557,206)	-	-	(39,301,172)
Due to banks	(2,784,609)	(277,105)	-	-	-	(3,061,714)
Sukuk financing instruments	-	-	(3,672,500)	-	-	(3,672,500)
Other financial liabilities	(715,932)	-	-	-	-	(715,932)
Zakat payable	(33,483)	-	-	-	-	(33,483)
TOTAL FINANCIAL LIABILITIES	**(7,909,281)**	**(18,645,814)**	**(20,229,706)**	**-**	**-**	**(46,784,801)**
Liquidity surplus/(deficit)	**6,510,698**	**(13,922,077)**	**(8,361,240)**	**8,450,415**	**11,736,884**	**4,414,680**
Cumulative liquidity surplus/(deficit)	**6,510,698**	**(7,411,379)**	**(15,772,619)**	**(7,322,204)**	**4,414,680**	

The Group is also exposed to financial commitments which are disclosed in note 19 to the financial statements.

33 RISK MANAGEMENT (continued)

Risk management process (continued)

d) Liquidity risk (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

As at 31 December 2016			Contractual outflows				
	Carrying amount AED '000	Gross nominal outflows AED '000	Within 3 months AED '000	3 months to 1 year AED '000	1 year to 3 years AED '000	3 years to 5 years AED '000	Over 5 years AED '000
Financial liabilities							
Customers' accounts	(41,131,007)	(41,844,776)	(7,957,752)	(15,244,379)	(18,642,645)	-	-
Due to banks	(1,807,918)	(1,807,918)	(1,807,918)	-	-	-	-
Sukuk financing instrument	(7,368,138)	(8,179,983)	(1,879,567)	(206,920)	(2,136,059)	(3,957,437)	-
	(50,307,063)	**(51,832,677)**	**(11,645,237)**	**(15,451,299)**	**(20,778,704)**	**(3,957,437)**	**-**

As at 31 December 2015			Contractual outflow				
	Carrying amount AED '000	Gross nominal outflows AED '000	Within 3 months AED '000	3 months to 1 year AED '000	1 year to 3 years AED '000	3 years to 5 years AED '000	Over 5 years AED '000
Financial liabilities							
Customers' accounts	(39,301,172)	(39,453,172)	(10,338,342)	(12,557,624)	(16,557,206)	-	-
Due to banks	(3,061,714)	(3,061,714)	(2,783,233)	(278,481)	-	-	-
Sukuk financing instrument	(3,672,500)	(3,925,265)	(40,669)	(122,008)	(3,762,588)	-	-
	(46,035,386)	**(46,440,151)**	**(13,162,244)**	**(12,958,113)**	**(20,319,794)**	**-**	**-**

33 RISK MANAGEMENT (continued)

Risk management process (continued)

e) Legal risk

The Group has full-time legal advisor and is actively supported at Group level Legal department who deal, with both routine and more complex legal cases. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate.

f) Reputational Risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution. It also arises due to non-compliance with Sharia Supervisory Board's resolution and fatwas while taking administrative decisions, products or executing financial products contracts.

Reputational risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. It is possibility of occurrence of damage The Group has controls to ensure a positive perception of the Group.

g) Regulatory & Compliance Risk

Regulatory / Compliance risk is the risk of sanctions and / or financial losses due to the failure to comply with applicable laws, regulations or guidelines.

The Group has independent compliance function, with necessary mandate and authority to enforce compliance on a Group wide basis. This includes active monitoring and reporting on Anti Money Laundering (AML) issues and sanctions. The Group follows the holding company ("ENBD") policy in relation to compliance with the Office of Foreign Assets Control (OFAC) regulations which are in line with international practices and guidelines. The Group maintains a "restricted customer" database which is checked when prospective customers of the Group are initially assessed. This database is linked to the OFAC list of sanctioned individuals as updated from time to time.

Regulatory Capital

As per current capital requirements, the UAE Central Bank (CBAUE) requires banks operating in the UAE to maintain a prescribed minimum ratio of total capital ratio (Pillar 1 CAR) of 12 per cent and Tier 1 Capital Ratio has to be 8 per cent.

While the calculation of Pillar 1 CAR in the UAE broadly follows the Basel II Pillar 1 standardized approach guidelines, claims on or guaranteed by GCC central governments and central banks are risk weighted at zero per cent and claims on GCC government non-commercial public sector entities are risk-weighted at 20 per cent.

When assessing the Pillar 1 or Pillar 2 CAR of an individual bank, the CBUAE can take a number of factors into consideration under the Supervisory Review and Evaluation Process (SREP), such as the extent and nature of credit concentration, policies and procedures and internal control systems and may set a higher total capital requirement for that particular bank if it deems it necessary.

Basel II

The Group has implemented the Basel II Pillar 1 standardized approach for credit risk and complies with the corresponding requirements as set out by Circular 27/2009 of the CBUAE ("Circular 27/2009").

Further, under the circular 27/2009, the main UAE banks are expected to migrate to the Basel II Pillar 1 Foundation Internal Ratings Based approach in the due course. As at the date of this base prospectus, the CBUAE has published draft guidelines and reporting standards (as of October 2010) on its website. The final guidelines and reporting standards are yet to be published.

33 RISK MANAGEMENT (continued)

Risk management process (continued)

The Group 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 in anticipation of Basel III.

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

The 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 Group employs an Integrated Stress Testing Framework to quarterly assess the potential implications of adverse financial conditions and the development of key ratios under stressful conditions. The outcomes of the Integrated Stress Testing Framework influence the setting of the Bank's risk appetite as part of the Bank's periodical Risk Strategy review.

h) Capital management policies and stress testing

Capital Adequacy Ratio

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

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

Tier I capital includes share capital, statutory and general reserves and retained earnings; and

Tier II capital includes qualifying subordinated financing, undisclosed reserve, and fair value reserve.

The Group is compliant with the Standardized Approach for Credit, Market and Operational Risk (Pillar I) with effect from 31st December 2007.

The Group's capital adequacy ratio is regularly monitored by ALCO and managed by the Group risk, following table shows the details of calculating capital adequacy ratio as at 31 December 2016 and 31 December 2015:

33 RISK MANAGEMENT (continued)

Risk management process (continued)

h) Capital management policies and stress testing (continued)

	2016 AED '000	2015 AED '000
TIER I CAPITAL		
Share capital	5,430,422	3,930,422
Statutory reserve	339,986	329,423
General reserve	245,765	235,202
Retained earnings	653,198	603,831
Total tier I capital	**6,669,371**	**5,098,878**
TIER II CAPITAL		
Portfolio impairment provisions - note 8	845,276	693,339
Fair value reserve	19,404	(4,127)
Total tier II capital	**864,680**	**689,212**
Tier II eligible capital	**533,133**	**482,222**
CAPITAL BASE	**7,202,504**	**5,581,100**
RISK WEIGHTED ASSETS		
Credit risk	**41,098,300**	**38,907,946**
Market risk	**14,884**	**25,264**
Operational risk	**3,756,966**	**3,272,587**
Total	**44,870,150**	**42,205,797**
CAPITAL ADEQUACY RATIO (BASEL II)	**16.05%**	**13.22%**

Internal Audit's role in overall risk management

Internal Audit's reporting lines are independent of management and it reports directly to the Board Audit Committee. It is responsible for providing an independent review of the control environment across the group including all aspects of risk management. The primary objective of Internal Audit is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls to mitigate current and emerging high risks thereby enhancing the control culture within the Group. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

34 GEOGRAPHICAL DISTRIBUTION OF ASSETS, LIABILITIES AND INCOME

2016	GCC AED '000	Other Middle East AED '000	Europe AED '000	North America AED '000	Asia AED '000	Far East AED '000	Others AED '000	Total AED '000
ASSETS								
Cash and balances with UAE Central Bank	11,662,802	-	-	-	-	-	-	11,662,802
Due from banks	6,654,112	2,766	712,197	385,108	-	698	312	7,755,193
Financing and investing receivables	36,335,944	29	3,443	-	929	-	2,223	36,342,568
Investments	1,117,913	8,330	-	-	338,457	-	14,514	1,479,214
Investment properties	474,830	-	-	-	-	-	-	474,830
Customer acceptances	776,050	-	-	-	-	-	-	776,050
Receivables and other assets	517,267	-	-	-	-	-	-	517,267
Property and equipment	220,265	-	-	-	-	-	-	220,265
TOTAL ASSETS	**57,759,183**	**11,125**	**715,640**	**385,108**	**339,386**	**698**	**17,049**	**59,228,189**
LIABILITIES								
Customers' accounts	40,703,736	117,696	153,953	20,661	97,065	537	37,359	41,131,007
Due to banks	1,622,688	1,568	183,625	37	-	-	-	1,807,918
Sukuk financing instruments	7,368,138	-	-	-	-	-	-	7,368,138
Customer acceptances	776,050	-	-	-	-	-	-	776,050
Payables and other liabilities	1,421,162	-	-	-	-	-	-	1,421,162
Zakat payable	35,139	-	-	-	-	-	-	35,139
TOTAL LIABILITIES	**51,926,913**	**119,264**	**337,578**	**20,698**	**97,065**	**537**	**37,359**	**52,539,414**
Shareholders' equity	6,688,775	-	-	-	-	-	-	6,688,775
TOTAL EQUITY AND LIABILITIES	**58,615,688**	**119,264**	**337,578**	**20,698**	**97,065**	**537**	**37,359**	**59,228,189**
TOTAL INCOME NET OF CUSTOMERS' SHARE OF PROFIT	2,488,442	40	1,512	-	4,845	-	42	2,494,881

34 GEOGRAPHICAL DISTRIBUTION OF ASSETS, LIABILITIES AND INCOME (continued)

2015	GCC AED '000	Other Middle East AED '000	Europe AED '000	North America AED '000	Asia AED '000	Far East AED '000	Others AED '000	Total AED '000
ASSETS								
Cash and balances with UAE Central Bank	7,255,674	-	-	-	-	-	-	7,255,674
Due from banks	7,115,616	1,514	184,435	68,123	1,277	125	1,625	7,372,715
Financing and investing receivables	33,905,458	-	77,063	-	143,527	-	54,372	34,180,420
Investments	1,595,998	8,330	91,097	-	481,384	-	110,296	2,287,105
Investment properties	805,937	-	-	-	-	-	-	805,937
Customer acceptances	563,379	-	-	-	-	-	-	563,379
Receivables and other assets	570,011	-	-	-	-	-	-	570,011
Property and equipment	166,937	-	-	-	-	-	-	166,937
TOTAL ASSETS	**51,979,010**	**9,844**	**352,595**	**68,123**	**626,188**	**125**	**166,293**	**53,202,178**
LIABILITIES								
Customers' accounts	38,959,043	118,642	115,022	19,351	42,818	10	46,286	39,301,172
Due to banks	3,061,572	92	-	11	39	-	-	3,061,714
Sukuk financing instruments	3,672,500	-	-	-	-	-	-	3,672,500
Customer acceptances	563,379	-	-	-	-	-	-	563,379
Payables and other liabilities	1,475,179	-	-	-	-	-	-	1,475,179
Zakat payable	33,483	-	-	-	-	-	-	33,483
TOTAL LIABILITIES	**47,765,156**	**118,734**	**115,022**	**19,362**	**42,857**	**10**	**46,286**	**48,107,427**
Shareholders' equity	5,094,751	-	-	-	-	-	-	5,094,751
TOTAL EQUITY AND LIABILITIES	**52,859,907**	**118,734**	**115,022**	**19,362**	**42,857**	**10**	**46,286**	**53,202,178**
TOTAL INCOME NET OF CUSTOMERS' SHARE OF PROFIT	2,419,684	(82)	1,390	8,092	3,531	-	(182)	2,432,433

35 FINANCIAL ASSETS AND LIABILITIES

Accounting classification and carrying values:

As at 31 December 2016	Designated at fair value through profit or loss AED '000	Held-to-maturity AED '000	Available-for sale AED '000	Financing and investing receivables AED '000	Other Amortised cost AED '000	Total carrying Value AED '000
Financial Assets						
Cash and balances with UAE Central Bank	-	-	-	-	11,662,802	11,662,802
Due from banks	-	-	-	-	7,755,193	7,755,193
Investments	-	-	-	36,342,568	-	36,342,568
Financing receivables	-	104,436	1,374,778	-	-	1,479,214
Other financial assets	-	-	-	-	39,487	39,487
	-	**104,436**	**1,374,778**	**36,342,568**	**19,457,482**	**57,279,264**
Financial liabilities						
Customers' accounts	-	-	-	-	41,131,007	41,131,007
Due to banks	-	-	-	-	1,807,918	1,807,918
Sukuk payable	-	-	-	-	7,368,138	7,368,138
Other financial liabilities	-	-	-	-	580,269	580,269
Zakat payable	-	-	-	-	35,139	35,139
	-	-	-	-	**50,922,471**	**50,922,471**

EMIRATES ISLAMIC BANK PJSC
NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

35 FINANCIAL ASSETS AND LIABILITIES (continued)

Accounting classification and carrying values:

As at 31 December 2015	Designated at fair value through profit or loss AED '000	Held-to-maturity AED '000	Available-for sale AED '000	Financing and investing receivables AED '000	Other Amortised cost AED '000	Total carrying Value AED '000
Financial Assets						
Cash and balances with UAE Central Bank	-	-	-	-	7,255,674	7,255,674
Due from banks	-	-	-	-	7,372,715	7,372,715
Investments	-	111,784	2,175,321	-	-	2,287,105
Financing receivables	-	-	-	34,180,420	-	34,180,420
Other financial assets	-	-	-	-	103,567	103,567
	-	111,784	2,175,321	34,180,420	14,731,956	51,199,481
Financial liabilities						
Customers' accounts	-	-	-	-	39,301,172	39,301,172
Due to banks	-	-	-	-	3,061,714	3,061,714
Sukuk payable	-	-	-	-	3,672,500	3,672,500
Other financial liabilities	-	-	-	-	715,932	715,932
Zakat payable	-	-	-	-	33,483	33,483
	-	-	-	-	46,784,801	46,784,801

The carrying value of the financial assets and liabilities that are not stated at fair value are not significantly different to their fair values.

35 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of assets and liabilities

The table below analyses assets and liabilities measured at fair value on a recurring basis. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Quoted prices in active markets for identified assets Level 1 AED '000	Significant other observable inputs Level 2 AED '000	Significant unobservable inputs Level 3 AED '000	Total AED '000
31 December 2016				
INVESTMENT SECURITIES				
Available-for-sale:				
Investment in funds	-	-	207,993	207,993
Investment in equities	54,234	-	393,858	448,092
Sukuks	718,693	-	-	718,693
TOTAL	**772,927**	**-**	**601,851**	**1,374,778**
31 December 2015				
INVESTMENT SECURITIES				
Available-for-sale:				
Investment in funds	-		274,884	274,884
Investment in equities	60,813	-	488,598	549,411
Sukuks	1,351,026	-	-	1,351,026
TOTAL	**1,411,839**	**-**	**763,482**	**2,175,321**

35 FINANCIAL ASSETS AND LIABILITIES (continued)

Reconciliation of financial assets, classified under level 3	Available for sale financial assets AED '000
Balance as at 1 January 2016	763,482
Settlements	(161,631)
FX Adjustment	-
Balance as at 31 December 2016	**601,851**

	AED '000
Balance as at 1 January 2015	844,045
Settlements	(80,460)
FX Adjustment	(103)
Balance as at 31 December 2015	**763,482**

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. Favorable and unfavorable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental.

During the financial year ended 31 December 2016 and 31 December 2015, no transfers were made between Level 1 and Level 2.

36 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2016 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

37 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 47,643,535 (2015: AED 17,863,837).