ABU DHABI BRANCH
FINANCIAL STATEMENTS

For the year ended 31st December 2017

GIB

FINANCIAL STATEMENTS

For the year ended 31st December 2017

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Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF GULF INTERNATIONAL BANK B.S.C.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Abu Dhabi Branch ("the Branch") of Gulf International Bank B.S.C. ("the Bank"), which comprise the statement of financial position as at 31 December 2017, and the statements of comprehensive income, changes in Head Office account and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Responsibilities of the Branch's Management for the financial statements

The Branch's Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the Branch's Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Branch's Management is responsible for assessing the Branch'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 the Bank's Board of Directors either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF

GULF INTERNATIONAL BANK B.S.C. continued

Report on the Audit of the Financial Statements continued

Auditors' responsibilities for the audit of the financial statements continued
As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the 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 Branch's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Branch's Management.

- conclude on the appropriateness of the Branch's Management 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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Ernst + Young

Signed by:
Mohammad Mobin Khan
Partner
Ernst &Young
Registration No 532

14 March 2018
Abu Dhabi

Statement of financial position

	Note	**AED 000s**	AED 000s
ASSETS			
Cash and other liquid assets	*4*	**56,516**	17,465
Placements	*5*	**175,000**	184,500
Loans and advances	*6*	**8,559**	-
Equipment	*7*	**1,954**	861
Due from Head Office and Branches	*8*	**57,717**	-
Other assets	*9*	**1,813**	1,734
Total assets		**301,559**	204,560
LIABILITIES			
Deposits from customers	*10*	**46,503**	12,076
Due to Head Office	*11*	**68,957**	14,133
Other liabilities	*12*	**1,099**	3,387
Total liabilities		**116,559**	29,596
HEAD OFFICE ACCOUNT			
Capital funds	*21*	**185,000**	185,000
Retained earnings		**-**	(10,036)
Total Head Office account		**185,000**	174,964
Total liabilities and Head Office account		**301,559**	204,560

The financial statements along with the related notes from 1 to 22 have been approved by:-

Waleed Hasan
Branch Manager
14th March 2018

The notes on pages 7 to 21 form part of these financial statements.

Statement of comprehensive income

	Note	Year ended 31.12.17 AED 000s	Year ended 31.12.16 AED 000s
Net interest income	*13*	2,454	1,420
Fee and commission income	*14*	436	141
Foreign exchange income	*15*	209	772
Total income		3,099	2,333
Staff expenses		(6,723)	(7,461)
Premises expenses		(2,424)	(866)
Other operating expenses		(1,220)	(1,204)
Total operating expenses		(10,367)	(9,531)
Net loss before provisions		(7,268)	(7,198)
Net provision charge		(31,610)	(294)
Net loss		(38,878)	(7,492)
Other comprehensive income		-	-
Total comprehensive loss		(38,878)	(7,492)

The notes on pages 7 to 21 form part of these financial statements.

Statement of changes in Head Office account

	Capital funds AED 000s	Retained earnings AED 000s	Total AED 000s
At 1st January 2017	**185,000**	**(10,036)**	**174,964**
Total comprehensive income:-			
Net loss for the year	-	(38,878)	(38,878)
Total comprehensive income	-	(38,878)	(38,878)
Transactions with head office:-			
Transfer of accumulated losses to Head Office	-	48,914	48,914
Total transactions with head office	-	48,914	48,914
At 31st December 2017	**185,000**	**-**	**185,000**
At 1st January 2016	**185,000**	**(2,544)**	**182,456**
Total comprehensive income:-			
Net loss for the year	-	(7,492)	(7,492)
Total comprehensive income	-	(7,492)	(7,492)
At 31st December 2016	**185,000**	**(10,036)**	**174,964**

The notes on pages 7 to 21 form part of these financial statements.

Statement of cash flows

	Note	Year ended 31.12.17 AED 000s	Year ended 31.12.16 AED 000s
OPERATING ACTIVITIES			
Net loss		(38,878)	(7,492)
Adjustments to reconcile net income to net cash inflow / (outflow) from operating activities:-			
Provision charge		31,610	294
Depreciation		398	240
Net increase in statutory deposit with the central bank		(1,979)	(3,370)
Net decrease / (increase) in placements		9,500	(184,500)
Net increase in loans and advances		(38,854)	-
Increase in amounts due from Head Office and Branches		(57,717)	-
Increase in amounts due to Head Office		54,824	9,276
Net (increase) / decrease in other assets		(5,173)	1,999
Net increase in deposits from customers		34,427	12,076
Net cash outflow from operating activities		(11,842)	(171,477)
FINANCING ACTIVITIES			
Transfer of accumulated losses to Head Office		48,914	-
Net inflow from financing activities		48,914	-
Increase / (decrease) in cash and cash equivalents		37,072	(171,477)
Cash and cash equivalents at 1st January		14,095	185,572
Cash and cash equivalents at 31st December	*4*	51,167	14,095

The notes on pages 7 to 21 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

1. Incorporation and registration

Gulf International Bank B.S.C. - Abu Dhabi (the "Branch") is a branch of a Bahraini Shareholding Company, Gulf International Bank B.S.C. (the "Head Office"). The Abu Dhabi branch is registered as a wholesale bank branch with the Central Bank of the UAE under license number 13/797/2015 and commenced its operations on 28th September 2015. The registered office of the Branch is Abu Dhabi Plaza Tower, Hamdan Street, Abu Dhabi, United Arab Emirates.

The Branch is principally engaged in the provision of wholesale commercial banking services, and carries out its operations in the UAE through its branch in Abu Dhabi.

2. Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:-

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) and in conformity with the Union Law No. (10) of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking, and Regulations of Wholesale Commercial Banking. The financial statements have been prepared under the historical cost convention.

2.2 Foreign currencies

Items included in the financial statements of the Branch are measured based on the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in UAE Dirhams (AED), representing the Branch's functional and presentation currency.

Foreign currency transactions are translated into AED using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to AED at the foreign exchange rate ruling at the dates. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

2.3 Financial assets and liabilities

Financial assets and liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding equipment.

a) Initial recognition and measurement

Financial assets are classified at inception into one of the following four categories:-

- held-for-trading
- held-to-maturity
- loans and receivables
- available-for-sale financial assets

Financial assets, other than those classified as held-for-trading, are initially recognised at fair value, including transaction costs, if any that are directly attributable to the acquisition of the financial asset.

Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs, if any, that are directly attributable to the financial liability.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

2. **Accounting policies** (continued)

2.3 **Financial assets and liabilities** (continued)

a) **Initial recognition and measurement** (continued)

All regular way purchases and sales of financial assets and liabilities held-for-trading are recognised on the trade date, i.e. the date on which the Branch commits to purchase or sell the financial asset or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

b) **Subsequent measurement**

Subsequent to initial measurement, financial assets and liabilities are measured at either fair value or amortised cost, depending on their classification:-

Held-for-trading

Held-for-trading financial assets and liabilities are assets or liabilities acquired or incurred for the purpose of generating a profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists.

Held-for-trading financial assets and liabilities are measured at fair value. The fair value of financial assets and liabilities traded in active markets is based on quoted prices, including quotations obtained from lead managers, brokers and dealers. The bid price is used to measure financial assets and the offer price is used to measure financial liabilities. Mid-market prices are used to measure fair value only to the extent that the Branch has financial assets and liabilities with offsetting risk positions.

Realised and unrealised gains and losses, interest earned or incurred, and dividends received on held-for-trading financial assets and liabilities are included in trading income.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that have been acquired with the intention of being held until maturity.

Financial assets classified as held-to-maturity are stated at amortised cost using the effective interest rate method, less provision for impairment, with interest revenue recognised in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as held-for-trading.

Financial assets classified as loans and receivables are stated at amortised cost using the effective interest rate method less provision for impairment, with interest revenue recognised in the statement of comprehensive income.

Available-for-sale financial assets

Available-for-sale financial assets are assets which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates, or concerns with respect to credit deterioration. Available-for-sale financial assets are measured at fair value. The fair value of available-for-sale financial assets in active markets is based on quoted prices, including quotations obtained from lead managers, brokers and dealers. The fair value of available-for-sale financial assets in inactive markets is determined using appropriate valuation techniques. Valuation techniques include comparison to similar instruments for which there are observable prices, and discounted cash flow techniques. Unquoted and illiquid equity investments for which fair values cannot be reliably measured are stated at cost less provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

2. Accounting policies (continued)

2.3 Financial assets and liabilities (continued)

b) Subsequent measurement (continued)

Unrealised gains and losses arising from changes in the fair values of available-for-sale financial assets are recognised in other comprehensive income. The cumulative fair value adjustments on available-for-sale financial assets which are sold or otherwise disposed or become impaired, and which had previously been recognised in other comprehensive income are accounted for under net income for the year.

Non-trading financial liabilities

All financial liabilities, other than those designated as held-for-trading, are classified as non-trading financial liabilities and are measured at amortised cost using the effective interest rate method.

c) Derecognition of financial assets and liabilities

Financial assets are derecognised and removed from the statement of financial position when the right to receive cash flows from the assets has expired; the Branch has transferred its contractual right to receive the cash flows from the assets, and substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised and removed from the statement of financial position when the obligation is discharged, cancelled, or expires.

2.4 Impairment of financial assets

A provision for impairment is established where there is objective evidence that the Branch will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the credit facility. Objective evidence that a financial asset is impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. For equity securities classified as available-for-sale, a significant or prolonged decline in fair value below cost is considered in determining whether a security is impaired. Where such evidence exists, the cumulative net loss that has been previously recognised in other comprehensive income is transferred to the statement of comprehensive income. The amount of the cumulative loss that is removed from other comprehensive income and recognised in the statement of comprehensive income is the difference between the acquisition cost and current fair value, less any impairment loss on that security previously recognised in the statement of comprehensive income.

With the exception of provisions for the impairment of available-for-sale financial assets, provisions for impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments remeasured to fair value, at the current market rate of interest for a similar financial asset. Provisions for the impairment of available-for-sale financial assets are determined based on the difference between the acquisition cost, net of principal repayments and amortisation adjustments, and the fair value of the financial asset, less any impairment loss previously recognised in the statement of comprehensive income.

Provisions for impairment are also measured and recognised on a collective basis in respect of impairments that exist at the balance sheet date but which will only be individually identified in the future. Future cash flows for financial assets that are collectively assessed for impairment are estimated based on contractual cash flows and historical loss experiences for assets with similar credit risk characteristics. Historical loss experience is adjusted, based on current observable data, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based.

Provisions for impairment are recognised in the statement of comprehensive income and are reflected in an allowance account against loans and advances.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

2. Accounting policies (continued)

2.4 Impairment of financial assets (continued)

Financial assets are written off after all restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote. Subsequent recoveries are included in other income.

With the exception of provisions for the impairment of available-for-sale equity investments, provisions for impairment are released and transferred to the statement of comprehensive income where a subsequent increase in the recoverable amount is related objectively to an event occurring after the provision for impairment was established. Impairment provisions for available-for-sale equity investments are only released and transferred to the statement of comprehensive income on the redemption or sale of the investment.

Financial assets which have been renegotiated are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due.

2.5 Offsetting financial assets and liabilities

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

2.6 Revenue recognition

a) Interest income and interest expense

Interest income and interest expense for all interest-bearing financial assets and liabilities except those classified as FVTPL are recognised using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial asset or liability but excluding future credit losses. Fees, including loan origination fees and early redemption fees, are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

Interest income is suspended when either interest or principal on a credit facility is overdue by more than 90 days whereupon all unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities are restored to accrual status only after all delinquent interest and principal payments have been brought current and future payments are reasonably assured.

b) Fees and commissions

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

2. Accounting policies (continued)

2.6 Revenue recognition (continued)

c) Foreign exchange income

Foreign exchange income arise from earnings generated from customer business and market making, and from changes in fair value resulting from movements in interest and exchange rates, equity prices and other market variables. Changes in fair value and gains and losses arising on the purchase and sale of trading instruments are included in trading income, together with the related interest income, interest expense and dividend income.

2.7 Equipment

Equipment includes technology and IT related costs, office furniture and fittings, and vehicles.

Equipment is stated at cost less accumulated depreciation. The residual values and useful lives of equipment are reviewed at each balance sheet date, and adjusted where appropriate. Depreciation is calculated using the straight-line method over four to five years. Where the carrying amount of equipment is greater than the estimated recoverable amount, the carrying amount is reduced to the recoverable amount.

Generally, costs associated with the maintenance of existing computer software are recognised as an expense when incurred. However, expenditure that enhances and extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and capitalised as part of the original cost of the software.

2.8 Statutory reserve

As per Union Law No. (10) of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking, and Regulations of Wholesale Commercial Banking, branches of foreign banks shall allocate at least 10 per cent of their annual net profits for the establishment of a special reserve until the reserve equals fifty per cent of the amount allocated as capital.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash and other liquid assets and have insignificant risk of changes in value.

2.10 Due from and due to Head Office and Branches

Amounts due from and due to Head Office and Branches are stated at amortised cost.

2.11 Employees end of service

The Branch's employees are eligible for post-retirement benefits under defined contribution pension plans which are provided through separate trustee-administered funds or insurance plans. The Branch also pays contributions to Government defined contribution pension plans in accordance with the legal requirements. The Branch's contributions to defined contribution pension plans are expensed in the period to which they relate.

2.12 Taxation

Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and includes any adjustments to tax payable in respect of previous years.

2.13 Future accounting developments

The International Accounting Standards Board (IASB) have issued a number of new standards, amendments to standards, and interpretations that are not yet effective and have not been applied in the preparation of the financial statements for the year ended 31st December 2017. The relevant new standards, amendments to standards, and interpretations, are as follows:-

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

2. Accounting policies (continued)

2.13 Future accounting development (continued)

- IFRS 15 – Revenue from contracts with customers:-

  IFRS 15 introduces a new five-step model framework for determining whether, how much and when revenue is recognised. IFRS 15 is effective for annual periods beginning on or after 1st January 2018. There will be no material impact on the financial statements resulting from the application of this standard.

- IFRS 9 (2014) – Financial Instruments:-

  IFRS 9 (2014) was issued as a complete standard including the requirements previously issued and adopted, and additional amendments to introduce a new expected loss impairment model, hedge accounting and revised guidance on the classification and measurement requirements of financial instruments. The adoption of IFRS 9 (2014) effective 1st January 2018 will not have a material impact on the financial results..

- IFRS 16 – Leases:-

  IFRS 16 requires lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of use assets. IFRS 16 is effective for annual periods beginning on or after 1st January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Branch is assessing the potential impact on its financial statements resulting from the application of this standard.

3. Accounting estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses at the reporting date. The significant estimates used in the preparation of the financial statements are principally the determination of provisions for impairment where judgement is required in the estimation of the amount and timing of future cash flows, the determination of the equipment's useful life, and the recognition of a deferred tax asset.

4. Cash and other liquid assets

	31.12.17 AED 000s	31.12.16 AED 000s
Cash and balances with central banks	9,701	3,436
Cash and balances with banks	6,466	659
Government bills	35,000	10,000
Cash and cash equivalents	51,167	14,095
Statutory deposit with the central bank	5,349	3,370
Cash and other liquid assets	56,516	17,465

The statutory deposit with the central bank is subject to local regulations which provide for restrictions on the deployment of these funds.

The government bills at 31st December 2017 and 31st December 2016 had original maturities of one month or less.

5. Placements

Placements at 31st December 2017 and 31st December 2016 entirely comprised inter-bank placements in AED, all with an original maturity of one month.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

6. Loans and advances

6.1 Composition

	31.12.17 AED 000s	31.12.16 AED 000s
Gross loans and advances	38,854	-
Specific provisions for impairment	(30,165)	-
Carrying amount of loans and advances	**8,689**	-
Non-specific provisions for impairment	(130)	-
Net loans and advances	**8,559**	-

6.2 Industrial classification

Loans and advances as at 31st December 2017 comprised loans to borrowers in the trading and construction sectors.

6.3 Provisions for impairment

The movements in provisions for the impairment of loans and advances were as follows:-

	2017			2016
	Specific AED 000s	Non-specific AED 000s	Total AED 000s	Total AED 000s
At 1st January	-	-	-	-
Exchange rate movements	5	-	5	-
Charge for the year	30,160	130	30,290	-
At 31st December	**30,165**	**130**	**30,295**	-

Total provisions have been calculated in accordance with the regulations of the Central Bank of UAE.

6.4 Past due loans

The gross and carrying amounts of loans for which either principal or interest was over 90 days past due were as follows:-

	31.12.17		31.12.16	
	Gross AED 000s	Carrying Amount AED 000s	Gross AED 000s	Carrying Amount AED 000s
Corporates	38,854	8,689	-	-
	38,854	8,689	-	-

6.5 Restructured loans

During the year ended 31st December 2017, the Branch did not restructure any loan or make any concessions that would not ordinarily have been accepted due to a deterioration in the customer's financial position.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

6. Loans and advances (continued)

6.6 Collateral

The Branch did not take possession of any collateral during the year ended 31st December 2017.

7. Equipment

	2017 AED 000s	2016 AED 000s
Cost		
Opening balance	1,141	981
Additions during the year	2,036	160
Disposals during the year	(818)	-
Balance at 31st December	2,359	1,141
Accumulated depreciation		
Opening balance	280	40
Charge for the year	398	240
Disposals during the year	(273)	-
Balance at 31st December	405	280
Net book value at 31st December	1,954	861

Furniture, equipment and vehicles mainly include infrastructure, technology and IT related costs transferred from Head Office at net book value.

8. Due from Head Office and Branches

Amount due from Branches and Head Office are predominantly interest free and are receivable on demand.

9. Other assets

	31.12.17 AED 000s	31.12.16 AED 000s
Prepayments	348	1,120
Accrued interest, fees and commission	144	49
Collective provision	(1,641)	(321)
Other, including accounts receivable	2,962	886
	1,813	1,734

The collective provision in relation to credit-related financial instruments has been calculated in accordance with the regulations of the Central Bank of UAE.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

10. Deposits from customers

Deposits at 31st December 2017 and 31st December 2016 were entirely from entities in the Gulf Cooperation Council (GCC) states.

11. Due to Head Office

At 31st December 2017, the balance due to Head Office included time deposits amounting to AED 47,562 thousand (2016: AED 19 thousand). The remaining balance is predominantly interest free and is repayable on demand.

12. Other liabilities

	31.12.17 AED 000s	31.12.16 AED 000s
Deferred items	135	21
Other, including accounts payable and accrued expenses	964	3,366
	1,099	3,387

13. Net interest income

	Year ended 31.12.17 AED 000s	Year ended 31.12.16 AED 000s
Interest income		
Placements and other liquid assets	2,171	1,414
Loans and advances	715	6
Total interest income	2,886	1,420
Interest expense		
Deposits from customers	432	-
Total interest expense	432	-
Net interest income	2,454	1,420

Interest income on loans and advances include loan origination fees that form an integral part of the effective interest rate of the loan.

Accrued interest on impaired and past due loans included in interest income for the year ended 31st December 2017 amounted to nil (2016: nil). There was no accrued but uncollected interest included in interest income on past due loans for either the year ended 31st December 2017 or year ended 31st December 2016.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2017

14. Fee and commission income

	Year ended 31.12.17 AED 000s	Year ended 31.12.16 AED 000s
Fee and commission income		
Commissions on letters of credit and guarantee	457	144
Other fee and commission income	4	3
Total fee and commission income	461	147
Fee and commission expense	(25)	(6)
Net fee and commission income	436	141

15. Foreign exchange income

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts.

Foreign exchange contracts include spot and forward foreign exchange contracts, and currency futures and options.

16. Deferred tax asset

The Branch is subject to an income tax of 20 per cent on the taxable profit, however, the Branch has not created a deferred tax asset as it is probable that taxable profits will not be available in the immediate future against which the tax losses carried forward can be utilised.

17. Credit-related financial instruments

Credit-related financial instruments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The notional principal amounts of outstanding credit-related contingent items were as follows:-

	31.12.17 AED 000s	31.12.16 AED 000s
Direct credit substitutes	21,355	383
Transaction-related contingent items	69,432	49,982
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	-	45,913
	90,787	96,278

Commitments may be drawndown on demand.

Direct credit substitutes at 31st December 2017 and 31st December 2016 comprise financial guarantees which may be called on demand.

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18. Related party transactions

The Branch's transactions with its Head Office, subsidiaries and other branches of its Head Office are conducted in the ordinary course of the Branch's business on arm's length basis. The balances at 31st December resulting from such transactions included in the financial statements are as follows:-

	2017 AED 000s	2016 AED 000s
Gulf International Bank B.S.C. (Head Office)		
Due from Head Office	57,677	-
Due to Head Office	68,957	14,133
Gulf International Bank B.S.C. - Saudi Arabia		
Due from Branches	40	-
Gulf International Bank (UK) Limited		
Other assets	2,061	1,101

The compensation of key management personnel was as follows:-

	2017 AED 000s	2016 AED 000s
Short-term employee benefits	2,703	2,751
Post-employment benefits	192	164
	2,895	2,915

The transaction with GIBUK represented support services provided to GIBUK. During the year ended 31st December 2017, the Branch recharged GIBUK an amount of AED 960 thousand (2016: 1,101) for identified allocated costs which mainly represented salaries, employee related expenses and travel expenses.

During the year, the Head office transferred loans and advances to the Branch. The following table summarises the recognised amount of loans and advances and provisions:-

	2017 AED 000s
Gross loans and advances	38,854
Specific provisions for impairment	(30,165)
Carrying amount of loans and advances	8,689

19. Risk management

Financial assets of the Branch comprise cash and cash equivalents, placements, loans and advances, and amounts due from Head Office and Branches. The Branch's financial liabilities comprise deposits from customers and an amount due to Head Office.

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For the year ended 31st December 2017

19. **Risk management** (continued)

Credit risk

Credit risk is the risk that counterparties will not be able to meet their obligations to the Branch. Cash and cash equivalents are placed with the central bank which is subject to minimum risk or with banks with external ratings of BBB+/Baa1 or higher. Placements are placed with multiple banks with external ratings of BBB+/Baa1 or higher. Loans and advances are actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. A detailed credit risk assessment is carried out which includes an analysis of obligor's financial condition among other factors.

Disciplined processes are in place that are intended to ensure that risks are accurately assessed and properly approved and monitored. The gross maximum exposure to credit risk is the carrying value of financial assets.

The Branch measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. As at 31st December 2017, the Branch does not have any past due but not impaired financial assets.

Market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates and market conditions, such as liquidity. The principal market risks to which the Branch is exposed are interest rate risk and foreign exchange risk associated with its asset and liability management activities.

The Branch's exposure to market risk is minimal as the placements and amounts due from and due to Head Office are designated in AED and are short term.

Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Branch's financial obligations on a punctual basis as they fall due.

The Branch's exposure to liquidity risk is minimal and relates to the Branch's customer deposits and the amount due to Head Office.

In accordance with Circular No. 21/99 dated 22nd November 1999, the Branch is required to maintain a minimum balance with the Central Bank of UAE equal to 14 per cent of current, bank savings, call and similar accounts and 1 per cent of fixed deposits (time deposits).

Interest rate risk

Interest rate risk results from exposure to changes in the level and volatility of interest rates and credit spreads.

The Branch's exposure to interest rate risk is minimal as placements and amounts due from and due to Head Office are designated in AED and are short term, and deposits are short term.

Currency risk

At the reporting date, there were no open currency positions.

Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, system failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. A framework and methodology has been developed to identify and control the various operational risks. Whilst operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Branch.

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For the year ended 31st December 2017

20. Fair value of financials assets and liabilities

The Branch's financial assets and liabilities are accounted for under the historical cost method. The fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Differences therefore can arise between book values under the historical cost method and fair value estimates.

The fair values of the financials assets and financial liabilities as at the reporting date approximate their carrying value.

21. Capital funds

As per Union Law No. (10) of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking, and Regulations of Wholesale Commercial Banking, branches of foreign banks must ensure that no less than AED 40,000 thousand has been allocated as capital funds for their operation in UAE.

The Branch manages its capital structure and makes adjustments taking into account changes in economic conditions and strategic business plans. The capital adequacy ratio and tier 1 ratio as at 31st December 2017 were 151.41 per cent and 150.21 per cent (2016: 189.13 per cent and 188.78 per cent). The Branch's capital funds at 31st December 2017 were AED 185,000 thousand (2016: AED 185,000 thousand).

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For the year ended 31st December 2017

22. Capital management

The Branch's lead regulator, the Central Bank of the UAE, sets and monitors capital requirements for the Branch. The Branch is required to comply with the provisions of the Central Bank of the UAE in respect of regulatory capital.

The Branch's capital adequacy ratio as per effective regulatory framework, Basel II, at the minimum level is analysed into two tiers as follows:-

	2017 AED 000s	2016 AED 000s
Tier 1 capital:		
Capital funds	185,000	185,000
Retained earnings	-	(10,036)
	185,000	174,964
Deductions from Tier 1 capital	-	-
Total Tier 1 capital	185,000	174,964
Tier 2 capital:		
Collective impairment provision for financing assets	1,476	321
	1,476	321
Deductions from Tier 2 capital	-	-
Total Tier 2 capital	1,476	321
Total capital base	186,476	175,285
Risk weighted assets		
Credit risk	118,055	88,298
Market risk	11	6
Operational risk	5,093	4,376
Total risk weighted assets	123,159	92,680
Tier 1 risk asset ratio	151.4%	189.1%
Total risk asset ratio	150.2%	188.8%

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For the year ended 31st December 2017

22. Capital management (continued)

22.1 Basel III capital ratio

The Central Bank of UAE issued Basel III capital regulations, effective 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 (‘CET1’), Tier 1 and Total Capital.

The minimum capital ratio requirements include a capital conservation buffer for 2017 of 1.25% (over and above the minimum CET1 ratio of 7%) increasing to 2.5% by 2019. The countercyclical capital buffer has not yet been introduced, but may be introduced by the Central Bank of UAE within a range of 0% to 2.5%.

The table below summarises the Branch’s capital ratios along with the minimum capital requirements:-

	2017	Minimum capital requirement 2017	Minimum capital requirement 2016
	%	%	%
CET1	**150.2**	8.25	9.50
Tier 1 ratio	**150.2**	9.75	11.00
Total capital ratio	**151.4**	11.75	13.00