Commercial Bank International P.S.C.

Review report and interim financial information for the three months period ended 31 March 2018

Commercial Bank International P.S.C.

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Review report on condensed consolidated interim financial information to the board of directors of Commercial Bank International P.S.C.

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Commercial Bank International P.S.C. ("the Bank") and its subsidiaries (together "the Group") as at 31 March 2018 and the related condensed consolidated income statement, statement of comprehensive income and statements of changes in equity and cash flows for the three month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers

26 April 2018

Jacques Fakhoury

Jacques E. Fakhoury
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Dubai, United Arab Emirates

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Condensed consolidated statement of financial position
as at 31 March 2018

	Note	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
ASSETS			
Cash and balances with the Central Bank of the U.A.E.	9	**1,714,871**	2,088,872
Deposits and balances due from banks		**559,176**	817,007
Loans and advances to customers	10	**12,756,308**	12,610,527
Islamic financing and investing assets		**244,361**	265,466
Receivables and other assets		**2,702,549**	3,029,543
Property inventory		**515,448**	561,594
Financial assets measured at fair value	11	**71,388**	72,169
Other financial assets measured at amortised cost	12	**1,004,468**	852,826
Investment in associates		**55,703**	53,477
Investment properties		**180,717**	182,630
Intangible assets		**75,079**	78,565
Property and equipment		**130,421**	130,458
Total assets		**20,010,489**	20,743,134
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	**1,737,383**	1,737,383
Tier 1 Capital Securities	14	**459,125**	459,125
Statutory reserve		**235,123**	235,123
General reserve		**17,459**	17,459
Properties revaluation reserve		**72,231**	72,950
Investments revaluation reserve		**(39,627)**	(39,706)
Accumulated losses		**(188,227)**	(14,984)
Equity attributable to owners of the Bank		**2,293,467**	2,467,350
Non-controlling interests		**306**	309
Net equity		**2,293,773**	2,467,659
LIABILITIES			
Deposits and balances due to banks		**1,204,189**	1,082,342
Customers' deposits	15	**12,921,105**	13,160,647
Islamic customers' deposits		**713,549**	893,092
Payables and other liabilities		**2,877,873**	3,139,394
Total liabilities		**17,716,716**	18,275,475
Total equity and liabilities		**20,010,489**	20,743,134

....
Mark Timothy Robinson
Chief Executive Officer

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Mohammad Sultan Al Qadi
Chairman

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated income statement (unaudited)
for the three months period ended 31 March

	Note	2018 AED '000	2017 AED '000
Interest income		**210,255**	195,576
Income from Islamic financing and investing assets		**2,837**	2,061
Total interest income and income from Islamic financing and investing assets		**213,092**	197,637
Interest expense		**(81,570)**	(68,953)
Distribution to Islamic depositors		**(4,342)**	(3,151)
Net interest income and income from Islamic financing and investing assets		**127,180**	125,533
Fee and commission income		**67,442**	63,173
Fee and commission expense		**(6,695)**	(6,498)
Net fee and commission income		**60,747**	56,675
Other operating income, net	18	**19,189**	20,596
Net operating income		**207,116**	202,804
Share of results of associates		**(749)**	-
General and administrative expenses		**(104,589)**	(110,989)
Impairment losses and provisions, net	19	**(61,851)**	(71,093)
Profit for the period		**39,927**	20,722
Attributable to:			
Owners of the Bank		**39,930**	20,726
Non-controlling interests		**(3)**	(4)
Profit for the period		**39,927**	20,722
Basic and diluted earnings per share (AED)	20	**0.023**	0.012

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of comprehensive income (unaudited)
for the three months period ended 31 March

	2018 AED '000	2017 AED '000
Profit for the period	**39,927**	20,722
Other comprehensive loss		
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets measured at fair value through other comprehensive income	**79**	(586)
Other comprehensive loss for the period	**79**	(586)
Total comprehensive income for the period	**40,006**	20,136
Total comprehensive income attributable to:		
Owners of the Bank	**40,009**	20,140
Non-controlling interests	**(3)**	(4)
	40,006	20,136

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity
for the three months period ended 31 March

	Share capital AED'000	Tier 1 Capital Securities AED'000	Statutory reserve AED'000	General reserve AED'000	Properties revaluation reserve AED'000	Investments revaluation reserve AED'000	Accumulated losses AED'000	Equity Attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
2018										
Balance at the beginning of the period - audited	**1,737,383**	**459,125**	**235,123**	**17,459**	**72,950**	**(39,706)**	**(14,984)**	**2,467,350**	**309**	**2,467,659**
Adjustments (note 2.2)	**-**	**-**	**-**	**-**	**-**	**-**	**(213,892)**	**(213,892)**	**-**	**(213,892)**
Balance at the beginning of the period - restated	**1,737,383**	**459,125**	**235,123**	**17,459**	**72,950**	**(39,706)**	**(228,876)**	**2,253,458**	**309**	**2,253,767**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**39,930**	**39,930**	**(3)**	**39,927**
Other comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**79**	**-**	**79**	**-**	**79**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**79**	**39,930**	**40,009**	**(3)**	**40,006**
Depreciation of investment revaluation reserve	**-**	**-**	**-**	**-**	**(719)**	**-**	**719**	**-**	**-**	**-**
Balance at the end of the period - unaudited	**1,737,383**	**459,125**	**235,123**	**17,459**	**72,231**	**(39,627)**	**(188,227)**	**2,293,467**	**306**	**2,293,773**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity (continued)
for the three months period ended 31 March

	Share capital AED'000	Tier 1 Capital Securities AED'000	Statutory reserve AED'000	General reserve AED'000	Properties revaluation reserve AED'000	Investments revaluation reserve AED'000	Accumulated losses AED'000	Equity Attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
2017										
Balance at the beginning of the period - audited	1,737,383	459,125	217,664	142,952	89,672	(22,333)	(275,985)	2,348,478	340	2,348,818
Profit for the period	-	-	-	-	-	-	20,726	20,726	(4)	20,722
Other comprehensive loss for the period	-	-	-	-	-	(586)	-	(586)	-	(586)
Total comprehensive income for the period	-	-	-	-	-	(586)	20,726	20,140	(4)	20,136
Depreciation of investment revaluation reserve	-	-	-	-	(2,047)	-	2,047	-	-	-
Transfer from general reserve to accumulated losses	-	-	-	(142,952)	-	-	142,952	-	-	-
Balance at the end of the period - unaudited	**1,737,383**	**459,125**	**217,664**	**-**	**87,625**	**(22,919)**	**(110,260)**	**2,368,618**	**336**	**2,368,954**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows (unaudited)
for the three months period ended 31 March

	2018 AED'000	2017 AED'000
Cash flows from operating activities		
Profit for the year	**39,927**	20,722
Adjustments for:		
Depreciation of property and equipment	**7,808**	7,738
Depreciation of investment property	**1,913**	1,253
Impairment of financial assets, net	**39,491**	71,093
Impairment of non-financial assets	**22,360**	-
Write-off of property and equipment	**3**	-
Gain on disposal of investment properties	**-**	(1,160)
Amortisation of financial assets measured at amortised cost	**1,318**	363
Gain on disposal of financial assets measured at amortised cost	**(843)**	(1,763)
(Gain)/loss on financial assets measured at FVTPL	**(852)**	140
Dividend income	**-**	-
Share of results of associates	**749**	-
Provision for end of service benefits	**1,838**	2,109
Changes in operating assets and liabilities:	**113,712**	100,495
Decrease/(increase) in balances with the Central Bank of the U.A.E.	**49,721**	(120,542)
Increase in deposits and balances due from banks	**(73,450)**	-
Increase in loans and advances to customers	**(349,667)**	(495,248)
Decrease in Islamic financing and investing assets	**18,331**	6,356
Decrease in property inventory	**24,786**	2,938
Decrease/(increase) in receivables and other assets	**326,846**	(199,133)
Increase/(decrease) in deposits and balances due to banks	**121,847**	(214,038)
(Decrease)/increase in customers' deposits	**(239,542)**	238,307
(Decrease)/increase in Islamic customers' deposits	**(179,543)**	313,572
(Decrease)/increase in payables and other liabilities	**(306,825)**	183,511
Cash used in operating activities	**(493,784)**	(183,782)
End of service benefits paid	**(2,018)**	(523)
Net cash used in operating activities	**(495,802)**	(184,305)
Cash flows from investing activities		
Purchase of property and equipment	**(4,288)**	(6,036)
Purchase of financial assets measured at amortised cost	**(190,162)**	(888)
Purchase of investment in associates	**(2,975)**	-
Proceeds from sale of investment properties	**-**	2,668
Proceeds from sale/redemption of financial assets measured at amortised cost	**37,642**	38,575
Proceeds from disposal of financial assets measured at FVTOCI	**860**	-
Net cash (used in)/generated from investing activities	**(158,923)**	34,319

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows (unaudited) (continued)
for the three months period ended 31 March

	2018 **AED'000**	2017 AED'000
Net decrease in cash and cash equivalents	**(654,725)**	(149,986)
Cash and cash equivalents at the beginning of the period	**1,987,589**	1,507,811
Cash and cash equivalents at the end of the period (note 21)	**1,332,864**	1,357,825
Operational cash flows from:		
Interest received	**213,486**	156,468
Income from Islamic financing and investing assets received	**1,645**	1,945
Interest paid	**(78,765)**	(57,698)
Distribution to Islamic depositors paid	**(3,750)**	(7,400)

The accompanying notes form an integral part of these condensed consolidated financial statements.

1. Status and activities

Commercial Bank International P.S.C. (the "Bank") is a public shareholding company with limited liability incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The registered office of the Bank is at P.O. Box 793, Ras Al-Khaimah. The Bank is listed on the Abu Dhabi Exchange (Ticker "CBI"). The Bank carries on commercial banking activities through its branches in the United Arab Emirates ("U.A.E.").

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as disclosed below (collectively referred to as the "Group").

Details of the Group's subsidiaries at the end of reporting period is as follows:

Name	*Principal activity*	*Place of incorporation*	*% of ownership 2018*	*2017*
International Financial Brokerage L.L.C. *	Brokerage	Dubai - U.A.E.	99.4	99.4
Takamul Real Estate L.L.C.	Real estate	Dubai - U.A.E.	100.0	100.0

** under liquidation*

2. Application of new and revised International Financial Reporting Standards (IFRS)

2.1 New and revised IFRS applied with no material effect on the condensed consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these condensed consolidated financial statements. The application of these revised IFRS, except for IFRS 9, has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRSs 2014 - 2016 Cycle – Amendments to IFRS 1 *First Time Adoption of International Financial Reporting Standards* and IAS 28 *Investment in Associates and Joint Ventures*.
- Amendments to IFRS 2 *Share Based Payments* regarding classification and measurement of share based payment transactions.
- Amendments to IFRS 4 *Insurance Contracts* relating to different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contract standard.
- IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.
- Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)]
- IFRIC 12 *Foreign Currency Transactions and Advance Consideration*
- Amendments to IAS 40 *Investment Property*

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 Impact of application of IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS in these condensed consolidated financial statements. IFRS 9 introduces new requirements for

1) the classification and measurement of financial assets and financial liabilities;
2) impairment for financial assets; and
3) general hedge accounting.

Details of these new requirements as well as their impact on the Group's condensed consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

2.2.1 Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

IFRS 9 (2014) introduces a new measurement category of fair value through other comprehensive income (FVTOCI) to be applied for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

The management of the Bank reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has not had any impact on the Group's financial assets as regards their classification and measurement.

2.2.2 Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 Impact of application of IFRS 9 Financial Instruments (continued)

2.2.2 Impairment of financial assets (continued)

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on i) debt investments subsequently measured at amortised cost or at FVTOCI, ii) lease receivables, iii) contract assets and iv) loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset (stage 2 and stage 3 allowance). On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 month ECL (stage 1 allowance). IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

As at 1 January 2018, the management of the Bank reviewed and assessed the Group's existing financial assets, loan commitments and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 1 January 2018. The result of the assessment is as follows:

	1 January 2018 AED '000
Stage 1 allowance (12 month ECL, interest recognised at gross carrying amount)	**121,141**
Stage 2 allowance (lifetime ECL, interest recognised at gross carrying amount)	**212,468**
Stage 3 allowance (lifetime ECL, interest recognised at amortised cost)	**112,039**
Incurred but not yet identified allowance under IAS 39 reversal	**(231,756)**
Cumulative additional loss allowance recognised	**213,892**

As allowed by IFRS 9.7.2.15, the Group decided not to restate comparatives. As a result,

- the additional credit loss allowance of AED 213.9 million (including AED 55.4 million for guarantees and loan commitments) as at 1 January 2018 has been recognised against accumulated losses on 1 January 2018, resulting in a net increase in accumulated losses as at 1 January 2018.

- the Group has disclosed accounting policies for both periods: one applying IFRS 9 (current period) and another for applying IFRS 9 (2010) for classification and measurement and IAS 39 for impairment (prior periods).

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 Impact of application of IFRS 9 Financial Instruments (continued)

2.2.3 General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

As at January 1 2018, the Group does not have any hedging instruments consequently the initial application of IFRS 9 has not had any impact on the results and financial position of the Group for the current and/or prior years.

2.3 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRS that have been issued but are not yet effective:

New and revised IFRS	**Effective for annual periods beginning on or after**
IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's condensed consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 16, may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

The application of the IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's condensed consolidated financial statements in respect of Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the Group performs a detailed review.

3. Significant accounting policies – current period

3.1 Basis of preparation

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are carried at fair value.

These condensed consolidated financial statements are prepared in accordance with International Accounting Standard No. 34 - Interim Financial Reporting issued by the International Accounting Standards Board.

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2017 except for as described in note 2.2.

These condensed consolidated financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2017. In addition, results for the three months period ended 31 March 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial assets, cash and cash equivalents and investment properties have been disclosed in the condensed consolidated financial statements.

3.2 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.3 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.
All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

3. Significant accounting policies – current period (continued)

3.3 Financial assets (continued)

3.3.1 Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see 3.3.1.3); and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see 3.3.1.4).

3.3.1.1 Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

3. Significant accounting policies – current period (continued)

3.3 Financial assets (continued)

3.3.1 Classification of financial assets (continued)

3.3.1.1 Amortised cost and effective interest method (continued)

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

3.3.1.2 Debt instruments classified as at FVTOCI

Fair value of debt instruments classified as at FVTOCI is determined in the manner described in note 23. The debt instruments classified as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments as a result of foreign exchange gains and losses (see 3.3.2), impairment gains or losses (see 3.3.3), and interest income calculated using the effective interest method (see 3.3.1.1) are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

3. Significant accounting policies – current period (continued)

3.3 Financial assets (continued)

3.3.1 Classification of financial assets (continued)

3.3.1.3 Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

A financial asset is held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

3.2.1.4 Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see 3.3.1.1 to 3.3.1.3) are measured at FVTPL. Specifically:
- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see 3.3.1.3).
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see 3.3.1.1 and 3.3.1.2) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

3. Significant accounting policies – current period (continued)

3.3 Financial assets (continued)

3.3.1 Classification of financial assets (continued)

3.2.1.4 Financial assets at FVTPL (continued)

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 23.

3.3.2 Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

3.3.3 Impairment of financial assets

The Group recognises a loss allowance for expected credit losses financial assets that are measured at amortised cost or debts instruments measured at FVTOCI, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

3. Significant accounting policies – current period (continued)

3.3 Financial assets (continued)

3.3.3 Impairment of financial assets (continued)

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

3.3.3.1 Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. Significant accounting policies – current period (continued)

3.3 Financial assets (continued)

3.3.3 Impairment of financial assets (continued)

3.3.3.1 Significant increase in credit risk (continued)

Despite the aforegoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3.3.3.2 Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. Significant accounting policies – current period (continued)

3.3 Financial assets (continued)

3.3.3 Impairment of financial assets (continued)

3.3.3.3 Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a. significant financial difficulty of the issuer or the borrower;
b. a breach of contract, such as a default or past due event (see 3.3.3.2);
c. the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e. the disappearance of an active market for that financial asset because of financial difficulties.

3.3.3.4 Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of retail loans, when the amounts are over 180 days past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

3.3.3.5 Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for loan commitments and financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

3. Significant accounting policies – current period (continued)

3.3 Financial assets (continued)

3.3.3 Impairment of financial assets (continued)

3.3.3.5 Measurement and recognition of expected credit losses (continued)

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the expected credit loss is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's exposure in retail loans is assessed as a separate group;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12 month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

3. Significant accounting policies – current period (continued)

3.3 Financial assets (continued)

3.3.4 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

3.4 Financial liabilities and equity instruments

3.4.1 Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.4.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

3.4.3 Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide a loan at below-market interest rate are measured in accordance with the specific accounting policies set out below.

3. Significant accounting policies – current period (continued)

3.4 Financial liabilities and equity instruments (continued)

3.4.3 Financial liabilities (continued)

3.4.3.1 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is 1) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities.

3.4.3.2 Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

3. Significant accounting policies – current period (continued)

3.4 Financial liabilities and equity instruments (continued)

3.4.3 Financial liabilities (continued)

3.4.3.3 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.
Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the revenue recognition policies.

3.4.3.4 Commitments to provide a loan at a below-market interest rate

Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the revenue recognition policies.

3.4.3.5 Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

3.4.3.6 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3. Significant accounting policies – current period (continued)

3.5 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated so as to write off the cost of investment properties using straight line method over their estimated useful lives of 25 years.

Investment properties are accounted for as acquisitions on the date when ownership passes to the Group under the contract for the purchase of the relevant property, pending which event payments in respect of investment property acquisitions are included in 'interest receivable and other assets'.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of asset is recognised in the condensed consolidated income statement in the period of derecognition.

4. Significant accounting policies – comparative period

4.1 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

4.1.1 Financial assets

Financial assets are classified into the following specified categories: 'financial assets measured at fair value through other comprehensive income', 'financial assets measured at fair value through profit or loss', and 'financial assets measured at amortised cost'. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

4. Significant accounting policies – comparative period

4.1 Financial instruments (continued)

4.1.1 Financial assets (continued)

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Fair value is determined in the manner described in note 23.

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue. Dividends earned are recognised in consolidated income statement and are included in the 'other operating income' line item.

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above).

Debt instrument financial assets that do not meet the amortised cost criteria described below, or that meet the criteria but the Group has irrevocably chosen to designate as at fair value through profit or loss at initial recognition, are measured at fair value through profit or loss. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

4. Significant accounting policies – comparative period (continued)

4.1 Financial instruments (continued)

4.1.1 Financial assets (continued)

Financial assets at fair value through profit or loss (FVTPL) (continued)

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in consolidated income statement and is included within 'other operating income' line tem. Fair value is determined in the manner described in note 23.

Interest income on debt instruments as at FVTPL is included in the 'other operating income' line item in the consolidated income statement.

Dividend income on investments in equity instruments at fair value through profit or loss is recognised in consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue and is included in the 'other operating income' described above.

Financial assets at amortised cost

Debt instruments are subsequently measured at amortised cost less impairment loss if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss - see above) and are subsequently measured at amortised cost using the effective interest method less any impairment (see below), with interest revenue recognised on an effective yield basis in interest income.

The Group may, at initial recognition, irrevocably designate a debt instrument that meets amortised cost criteria above as measured at fair value through profit or loss if doing so eliminates or significantly reduces accounting mismatch that would otherwise arise from measuring financial asset at amortised cost.

4. Significant accounting policies – comparative period (continued)

4.1 Financial instruments (continued)

4.1.1 Financial assets (continued)

Financial assets at amortised cost (continued)

Subsequent to initial recognition, the Group is required to reclassify debt instrument from amortised cost to fair value through profit or loss, if the objective of the instrument changes so that the amortised cost criteria is no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in profit or loss; and

- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the 'other operating income' line item in the consolidated income statement.

Reclassification of financial assets

The financial assets are required to be reclassified if the objective of the Group's business model for managing those financial assets changes. Such changes are expected to be very infrequent. The Group determines these changes by the Group's Board of Directors as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties.

If the Group reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. Any previously recognised gains, losses or interest are not required to be restated.

4. Significant accounting policies – comparative period (continued)

4.1 Financial instruments (continued)

4.1.1 Financial assets (continued)

Reclassification of financial assets (continued)

If the Group reclassifies a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in consolidated income statement.

If the Group reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

The reclassification day is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan and advances to customers, where the carrying amount is reduced through the use of an allowance account. When loan or advance to customers is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement.

4. Significant accounting policies – comparative period (continued)

4.1 Financial instruments (continued)

4.1.1 Financial assets (continued)

Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The Group assesses whether objective evidence of impairment exists for loans and advances that are individually significant, and collectively for loans and advances that are not individually significant as follows:

(i) Individually assessed loans

Represent mainly, corporate loans which are assessed individually by Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loans' carrying value and its present value calculated as above.

The calculation of the present value of the estimated cash flows of collateralised loans and advances reflect the cash flows that may result from foreclosure less costs for obtaining and selling the collateral whether or not foreclosure is probable.

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

a. Performing commercial and other loans
b. Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant.

4. Significant accounting policies – comparative period (continued)

4.1 Financial instruments (continued)

4.1.1 Financial assets (continued)

Impairment of financial assets (continued)

(a) Performing commercial and other loans

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until sometime in the future.

The estimated impairment is calculated by the Group's management for each identified portfolio and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions and taking into account the requirements of the Central Bank of the U.A.E.

(b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when is past due by more than 120 days. All loans that are past due by more than 180 days are fully provided for, net of collaterals held. This approach is in line with the requirements of the Central Bank of the U.A.E.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

4. Significant accounting policies – comparative period (continued)

4.1 Financial instruments (continued)

4.1.1 Financial assets (continued)

Impairment of financial assets (continued)

Derecognition of financial assets

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to consolidated income statement, but is reclassified to retained earnings.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, unrestricted balances held with central banks and amounts due from banks on demand or with an original maturity of 90 days or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Group in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4.1.2 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

4. Significant accounting policies – comparative period (continued)

4.1 Financial instruments (continued)

4.1.2 Financial liabilities and equity instruments (continued)

Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Derivative financial liabilities are classified as 'financial liabilities at FVTPL'. Financial liabilities at FVTPL are stated at fair value. Any gain or loss arising on re-measurement are recognised in consolidated income statement immediately.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the 'other operating income' line item in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in the consolidated income statement.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of income.

4. Significant accounting policies – comparative period (continued)

4.1 Financial instruments (continued)

4.1.2 Financial liabilities and equity instruments (continued)

Offsetting financial instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantee contracts issued by the Group are initially measured at their fair values and the initial fair value is amortised over the life of the guarantee. These are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

4.2 Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans remain in the same credit risk grade independent of satisfactory performance after restructuring. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

4. Significant accounting policies – comparative period (continued)

4.3 Incurred but not yet identified

Individually assessed financial assets carried at amortised cost for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loans and advances assets rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group may have incurred as a result of events occurring before the end of reporting period, which the Group is not able to identify on an individual basis, but that can be reliably estimated. As soon as information becomes available which identifies losses on individual financial assets within the group of the customer, those financial assets are removed from the group of the customer and assessed on an individual basis for impairment.

5. Estimates and judgments

The preparation of condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited consolidated financial statements as at and for the year ended 31 December 2017.

6. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the audited annual consolidated financial statements as at and for the year ended 31 December 2017.

7. Basis for consolidation

The condensed consolidated financial statements incorporate the condensed financial statements of the Bank and the entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has:

- power over an investee,
- exposures, or rights, to variable returns from its involvement with the investee, and
- has the ability to use its power to affect its returns.

The condensed financial statements of subsidiaries are prepared using similar policies as those used by the Bank.

All significant inter-group company balances, income and expense items are eliminated on consolidation.

8. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the three months periods ended 31 March 2018 and 2017.

9. Cash and balances with the Central Bank of the U.A.E.

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Cash on hand	**165,122**	213,055
Balances with the Central Bank of the U.A.E.:		
Current account	**281,180**	257,527
Statutory cash ratio requirements	**668,569**	718,290
Certificates of deposit	**600,000**	900,000
	1,714,871	2,088,872

Statutory cash ratio requirements with the Central Bank of the U.A.E. represents mandatory reserve deposits and are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest bearing. Certificates of deposit carry interest rates ranging between 1.5% to 1.78% (31 December 2017: 0.97% and 1.25%) per annum.

10. Loans and advances to customers

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Loans	**11,069,727**	10,867,794
Trust receipts	**552,044**	676,987
Overdrafts	**1,131,007**	1,135,542
Bills discounted	**330,282**	260,488
Credit cards	**167,466**	155,761
	13,250,526	13,096,572
Allowance for impairment	**(494,218)**	(486,045)
	12,756,308	12,610,527

10. Loans and advances to customers (continued)

Break up of allowance for impairment is as follows:

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Stage 1 ECL	**91,997**	-
Stage 2 ECL	**191,244**	-
Stage 3 ECL	**210,977**	-
Individual impairment	**-**	254,289
Incurred but not yet identified impairment	**-**	231,756
	494,218	486,045

The movements in the allowance for impairment of loans and advances to customers during the period/year were as follows:

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Balance at the beginning of the period/year	**486,045**	872,431
Impact of application of IFRS 9	**154,363**	-
Impairment allowance for the period/year	**91,997**	551,732
Amounts written off during the period/year	**(217,237)**	(748,352)
Impairment allowance reversal during the year	**(20,950)**	(189,766)
Balance at the end of the period/year	**494,218**	486,045

10. Loans and advances to customers (continued)

Analysis of gross loans and advances to customers by economic activities:

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Services	**3,484,685**	2,844,646
Wholesale and retail trade	**1,803,941**	2,023,924
Construction	**1,106,021**	1,187,446
Retail lending	**2,738,054**	2,859,180
Real estate	**2,498,373**	2,542,416
Manufacturing	**624,120**	661,261
Transport and communication	**890,924**	948,261
Financial institutions	**104,408**	29,438
	13,250,526	13,096,572

11. Financial assets measured at fair value

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Investment in quoted shares	**17,771**	17,692
Investment in unquoted shares	**50,921**	50,921
Investment in unquoted investment funds	**2,696**	3,556
	71,388	72,169

Financial assets measured at fair value by geographic concentration are as follows:

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Within the U.A.E.	**60,425**	61,206
Outside the U.A.E.	**10,963**	10,963
	71,388	72,169

12. Other financial assets measured at amortised cost

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Investments in debt instruments	**1,004,871**	852,826
Allowance for impairment	**(403)**	-
	1,004,468	852,826

Other financial assets measured at amortised cost by geographic concentration are as follows:

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Within the U.A.E.	**225,876**	209,143
Outside the U.A.E.	**778,995**	643,683
	1,004,871	852,826

13. Share capital

As of 31 March 2018, the authorised, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (31 December 2017: 1,737,383,050 shares of AED 1 each).

14. Tier 1 Capital Securities

On 23 December 2015, the Bank issued Tier 1 Capital Securities (the “Capital Securities”) through an SPV, CBI Tier 1 Private Ltd, (“the Issuer”) amounting to USD 125 million (AED 459.125 million). These Capital Securities are perpetual and carry an interest rate of 6.50 % (calculated based on the relevant Six- Years Mid Swap Rate plus 4.71 percent per annum) during the “initial period”. After the initial period, at every reset date, interest would be calculated for the next reset period at the relevant Six-Year Mid Swap Rate plus a margin of 4.71 percent per annum. Interest is payable semi-annually in arrears on these Capital Securities. The “Initial Period” is the period (from and including) the Issue Date to (but excluding) the First Call Date. The “Reset Date” is the First Call Date and every sixth anniversary thereafter. These Capital Securities are callable by the Bank beginning from 23 December 2021 “First Call date” and every interest payment date thereafter.

Tier 1 Capital Securities are perpetual, subordinated and unsecured. The Bank may elect not to pay a coupon at its own discretion. The holder of the Capital Securities does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default.

15. Customers' deposits

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Current accounts	**3,481,622**	3,360,153
Savings accounts	**584,330**	573,743
Time deposits	**8,552,429**	8,947,637
Other	**302,724**	279,114
	12,921,105	13,160,647

16. Contingencies and commitments

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Contingencies		
Guarantees	**2,950,611**	3,141,704
Letters of credit	**488,190**	454,500
	3,438,801	3,596,204
Commitments		
Loan commitments	**2,654,111**	2,784,333
Capital commitments	**8,694**	11,204
	2,662,805	2,795,537

17. Related party transactions

a. The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard (IAS) 24 Related Party Disclosures. Related parties comprise companies under common ownership and/or common management and control, their shareholders and key management personnel. Transactions with other related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties.

17. Related party transactions (continued)

b) Related party balances at the end of the reporting period/year are as follows:

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Key management personnel		
Loans and advances to customers	**7,666**	7,801
Customers' deposits	**10,369**	8,838
Other related parties		
Loans and advances to customers	**501,139**	462,543
Deposits and balances due from banks	**4,950**	6,647
Deposits and balances due to banks	**229,721**	211,058
Customers' deposits	**251,020**	251,058
Interest rate swaps (Notional amount)	**36,730**	36,730
Tier 1 capital securities	**459,125**	459,125

c) Net income for the period includes related party transactions as follows:

	Three months period ended	
	31 March 2018 AED'000 (unaudited)	31 March 2017 AED'000 (unaudited)
Key management personnel		
Interest income	**57**	79
Interest expense	**66**	61
Compensation of key management personnel	**4,067**	5,867
Other related parties		
Interest income	**4,388**	507
Interest expense	**1,736**	1,633

18. Other operating income, net

	Three months period ended	
	31 March 2018 AED'000 (unaudited)	31 March 2017 AED'000 (unaudited)
Foreign exchange gains	**13,469**	12,621
Loss on revaluation of financial assets measured at FVTPL	**852**	(140)
Gain on sale of other financial assets measured at amortised cost	**843**	1,763
Other	**4,025**	6,352
	19,189	20,596

19. Impairment losses and provisions, net

	Three months period ended	
	31 March 2018 AED'000 (unaudited)	31 March 2017 AED'000 (unaudited)
Impairment allowance on financial assets	**65,167**	103,814
Recoveries against impaired loans	**(16,256)**	(16,402)
Recoveries against written off loans	**(9,546)**	(17,288)
Impairment losses reversed on brokerage receivables	**-**	(17)
Bad debts written off	**126**	986
Impairment of non-financial asset	**22,360**	-
	61,851	71,093

20. Earnings per share

Earnings per share are calculated by dividing the profit for the period attributed to the owners of the Bank by the weighted average number of shares in issue throughout the period as follows:

	Three months period ended	
	31 March 2018 (unaudited)	31 March 2017 (unaudited)
Profit for the period (AED '000)	**39,930**	20,726
Weighted average number of shares in issue	**1,737,383,050**	1,737,383,050
Earnings per share (AED)	**0.023**	0.012

21. Cash and cash equivalents

Cash and cash equivalents included in the condensed consolidated statements of cash flows comprise the following:

	31 March 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)	31 March 2017 AED'000 (unaudited)
Cash and balances with the Central Bank of the U.A.E.	**1,714,871**	2,088,872	2,027,375
Deposits and balances due from banks	**560,012**	817,007	1,129,393
	2,274,883	2,905,879	3,156,768
Less: Deposits and balances due from bank with an original maturity of more than90 days	**(73,450)**	-	-
Less: CDs with original maturity of more than 90 days	**(200,000)**	(200,000)	(1,100,000)
Less: Statutory reserve with the Central Bank of the U.A.E.	**(668,569)**	(718,290)	(698,943)
	1,332,864	1,987,589	1,357,825

22. Segmental analysis

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For operating purposes the Group is organised into three major business segments as follows:

Banking activities include the wholesale banking group, retail banking group, Bank's treasury and others.

Brokerage activities represent brokerage related services in respect of equity shares.

Real estate represents brokerage and development related services in respect of the real estate.

22. Segmental analysis (continued)

The segmental information provided to Group's CEO for the reportable segments for the three months period ended 31 March 2018 and 31 March 2017 are as follows:

	Banking							
	Wholesale AED'000	Retail AED'000	Treasury AED'000	Others AED'000	Total AED'000	Brokerage AED'000	Real estate AED'000	Total AED'000
For the three months period ended 31 March 2018 (unaudited)								
Net interest income from external customers	62,800	58,464	2,466	3,450	127,180	-	-	127,180
Inter-segmental net interest income	2,019	-	-	-	2,019	231	(2,250)	-
Net fee and commission income	43,035	18,092	(85)	(322)	60,720	27	-	60,747
Other operating income, net	9,199	3,336	5,115	(799)	16,851	-	2,338	19,189
Share of results of associates	(749)	-	-	-	(749)	-	-	(749)
Impairment losses and provisions, net	(7,611)	(48,870)	-	-	(56,481)	-	(5,370)	(61,851)
General and administrative expenses excluding depreciation	(10,434)	(36,500)	(1,386)	(44,416)	(92,736)	(729)	(1,403)	(94,868)
Depreciation expense	(857)	(1,653)	(90)	(5,139)	(7,739)	(69)	(1,913)	(9,721)
Profit/(loss) for the period	97,402	(7,131)	6,020	(47,226)	49,065	(540)	(8,598)	39,927
As at 31 March 2018 (unaudited)								
Segment total assets	11,686,295	3,907,397	3,390,083	574,629	19,558,404	739	451,346	20,010,489
Segment total liabilities	10,532,143	5,456,731	1,204,189	462,366	17,655,429	7,156	54,131	17,716,716

22. Segmental analysis (continued)

	Banking							
	Wholesale AED'000	**Retail AED'000**	**Treasury AED'000**	**Others AED'000**	**Total AED'000**	**Brokerage AED'000**	**Real estate AED'000**	**Total AED'000**
For the three months period ended 31 March 2017 (unaudited)								
Net interest income from external customers	61,727	54,847	8,572	387	125,533	-	-	125,533
Inter-segmental net interest income	1,755	-	-	-	1,755	248	(2,003)	-
Net fee and commission income	37,569	18,856	(62)	84	56,447	228	-	56,675
Other operating income, net	8,934	2,276	3,720	3,862	18,792	-	1,804	20,596
Impairment losses and provisions, net	(31,341)	(36,804)	-	(2,965)	(71,110)	17	-	(71,093)
General and administrative expenses excluding depreciation	(10,740)	(42,839)	(1,359)	(45,775)	(100,713)	(1,035)	(250)	(101,998)
Depreciation expense	(443)	(2,761)	(37)	(4,456)	(7,697)	(41)	(1,253)	(8,991)
Profit/(loss) for the period	67,461	(6,425)	10,834	(48,863)	23,007	(583)	(1,702)	20,722
As at 31 December 2017 (audited)								
Segment total assets	11,793,866	4,160,818	3,867,528	432,558	20,254,770	2,317	486,047	20,743,134
Segment total liabilities	11,591,137	5,214,844	1,082,342	367,124	18,255,447	9,620	10,408	18,275,475

The Group conducted all of its operations in the United Arab Emirates, there are no operations outside the United Arab Emirates.

23. Fair value of financial instruments

Fair value is 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. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Fair value of financial instruments carried at amortised cost

Except as detailed below, the directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the condensed consolidated financial statements approximate their fair values:

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Carrying amount		
Investment in debt instruments	**1,004,468**	852,826
Fair value		
Investment in debt instruments	**965,644**	835,963

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited annual consolidated financial statements for the year ended 31 December 2017.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

23. Fair value of financial instruments (continued)

31 March 2018 (unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Financial assets at fair value through other comprehensive income				
- Equity shares	**17,771**	**-**	**50,921**	**68,692**
- Investment funds	**-**	**-**	**2,696**	**2,696**
Financial assets at fair value through profit or loss				
- Positive fair value of derivatives financial assets	**-**	**31,313**	**-**	**31,313**
Total	**17,771**	**31,313**	**53,617**	**102,701**
Financial liabilities at fair value through profit or loss				
- Negative fair value of derivatives financial assets	**-**	**29,733**	**-**	**29,733**

31 December 2017 (audited)	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Financial assets at fair value through other comprehensive income				
- Equity shares	17,692	-	50,921	68,613
- Investment funds	-	-	3,556	3,556
Financial assets at fair value through profit or loss				
- Positive fair value of derivatives financial assets	-	20,761	-	20,761
Total	17,692	20,761	54,477	92,930
Financial liabilities at fair value through profit or loss				
- Negative fair value of derivatives financial assets	-	20,619	-	20,619

For level 3 fair valuation, higher the unobservable input of price/book value multiple, the higher is fair value.

There were no transfers between Level 1 and 2 during the period/year.

23. Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurements of financial assets

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Balance at the beginning of the period/year	**54,477**	76,588
Total gains/(losses)		
- In other comprehensive income	**-**	(16,166)
- Disposals	**(860)**	(5,945)
Balance at the end of the period/year	**53,617**	54,477

The financial liabilities subsequently measured at fair value are measured on level 2 fair value measurement, there are no financial liabilities measured at fair value on level 3 measurement.

All gain and losses included in other comprehensive income relate to FVTOCI (quoted or unquoted) held at the end of the period/year and are reported as changes of 'Investment revaluation reserve'.

24. Capital management

The Group's capital management objectives and policies are consistent with those disclosed in the audited annual consolidated financial statements as at and for the year ended 31 December 2017.

Regulatory capital

The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The Group's regulatory capital position at the end of reporting period under Basel III is as follows:

24. Capital management (continued)

Capital adequacy

	31 March 2018 AED '000 (unaudited)	31 December 2017 AED '000 (audited)
Capital Base		
Share capital	**1,737,383**	1,737,383
Statutory reserve	**232,353**	221,770
General reserve	**17,459**	-
Accumulated other comprehensive income	**(34,283)**	(35,788)
Accumulated losses	**(14,942)**	2,024
Non-controlling interest	**306**	309
CET1 capital (prior to regulatory deductions)	**1,938,276**	1,925,698
Regulatory deductions		
Intangible assets	**(75,077)**	(78,565)
Transitional adjustments	**15,015**	15,714
Total CET1 capital after transitional adjustments	**1,878,214**	1,862,847
Additional Tier 1 (AT1) Capital	**459,125**	459,125
Transitional adjustments	**(7,508)**	(7,856)
Total AT1 capital after transitional adjustments	**451,617**	451,269
Total Tier 1 Capital	**2,329,831**	2,314,116
Eligible general provision	**191,411**	193,130
Transitional adjustments	**(7,508)**	(7,856)
Tier 2 (T2) Capital after transitional adjustments	**183,903**	185,274
Total capital base	**2,513,734**	2,499,390
Risk weighted assets		
Credit risk	**15,312,915**	15,450,398
Market risk	**20,551**	16,465
Operational risk	**1,410,174**	1,401,099
Total risk-weighted assets	**16,743,640**	16,867,962

	Minimum requirement	**Capital ratios 31 March 2018** (unaudited)	Capital ratios 31 December 2017 (audited)
CET1 capital ratio	**7.0%**	**11.2%**	**11.0%**
Tier 1 capital ratio	**8.5%**	**13.9%**	**13.7%**
Total capital ratio	**10.5%**	**15.0%**	**14.8%**
CET1 available for the buffer requirement	**1.875%**	**4.2%**	**4.0%**

25. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 26 April 2018.