Commercial Bank International P.S.C.

Review report and interim financial information for the three months period ended 31 March 2017

Commercial Bank International P.S.C.

Table of contents

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Review report on condensed consolidated interim financial information to the Shareholders 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 referred to as "the Group") as at 31 March 2017 and the related condensed consolidated interim statements of income, comprehensive income, 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 the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent auditor of the entity." A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 and condensed interim consolidated financial statements for the three month period ended 31 March 2016 were audited and reviewed, respectively, by another auditor, whose reports dated 14 February 2017 and 28 April 2016, expressed an unqualified audit opinion and review conclusion, respectively.

PricewaterhouseCoopers
20 April 2017

Jacques E. Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 4, Level 8, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

Condensed consolidated statement of financial position as at 31 March 2017

	Notes	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
ASSETS			
Cash and balances with the Central Bank of the U.A.E.	4	**2,027,375**	2,561,366
Deposits and balances due from banks		**1,129,393**	624,846
Loans and advances to customers	5	**13,446,862**	13,024,470
Islamic financing and investing assets		**242,476**	248,832
Financial assets measured at fair value	6	**94,901**	95,487
Other financial assets measured at amortised cost	7	**897,278**	933,565
Property inventory		**459,001**	460,193
Receivables and other assets		**2,230,934**	2,031,924
Investment properties		**114,847**	117,608
Property and equipment		**217,830**	219,532
Total assets		**20,860,897**	20,317,823
EQUITY AND LIABILITIES			
Share capital	8	**1,737,383**	1,737,383
Tier 1 Capital Securities	9	**459,125**	459,125
Statutory reserve		**217,664**	217,664
General reserve		**-**	142,952
Properties revaluation reserve		**87,625**	89,672
Investments revaluation reserve		**(22,919)**	(22,333)
Accumulated losses		**(110,260)**	(275,985)
Equity attributable to owners of the Bank		**2,368,618**	2,348,478
Non-controlling interests		**336**	340
Total equity		**2,368,954**	2,348,818
Deposits and balances due to banks		**1,528,806**	1,742,844
Customers' deposits	10	**13,900,772**	13,662,465
Islamic customers' deposits		**603,049**	289,477
Payables and other liabilities		**2,459,316**	2,274,219
Total liabilities		**18,491,943**	17,969,005
Total equity and liabilities		**20,860,897**	20,317,823

Mark Timothy Robinson Chief Executive Officer	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 2017

	Notes	Three months period ended 31 March 2017 AED'000	31 March 2016 AED'000
Interest income		**195,576**	163,472
Income from Islamic financing and investing assets		**2,061**	762
Total interest income and income from Islamic financing and investing assets		**197,637**	164,234
Interest expense		**(68,953)**	(50,162)
Distribution to Islamic depositors		**(3,151)**	-
Net interest income and income from Islamic financing and investing assets		**125,533**	114,072
Fee and commission income		**63,173**	69,115
Fee and commission expense		**(6,498)**	(4,985)
Net fee and commission income		**56,675**	64,130
Other operating income, net	15	**20,596**	8,590
Net operating income		**202,804**	186,792
General and administrative expenses		**(110,989)**	(105,400)
Impairment losses and provisions, net	16	**(71,093)**	(44,852)
Profit for the period		**20,722**	36,540
Attributable to:			
Owners of the Bank		**20,726**	36,542
Non-controlling interests		**(4)**	(2)
Profit for the period		**20,722**	36,540
Basic and diluted earnings per share (AED)	17	**0.012**	0.021

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 2017

	Three months period ended 31 March 2017 AED'000	31 March 2016 AED'000
Profit for the period	**20,722**	36,540
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Changes in the fair value of financial assets measured at FVTOCI	**(586)**	(1,954)
Other comprehensive loss for the period	**(586)**	(1,954)
Total comprehensive income for the period	**20,136**	34,586
Attributable to :		
Owners of the Bank	**20,140**	34,588
Non-controlling interests	**(4)**	(2)
	20,136	34,586

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 2017

	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	Attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 31 December 2015 - audited	1,737,383	457,656	205,157	130,445	106,462	(19,435)	(352,842)	2,264,826	443	2,265,269
Profit for the period	-	-	-	-	-	-	36,542	36,542	(2)	36,540
Other comprehensive loss for the period	-	-	-	-	-	(1,954)	-	(1,954)	-	(1,954)
Total comprehensive income for the period	-	-	-	-	-	(1,954)	36,542	34,588	(2)	34,586
Depreciation of properties revaluation reserve	-	-	-	-	(2,048)	-	2,048	-	-	-
Transaction costs paid on issuance of Tier 1 Capital Securities	-	(811)	-	-	-	-	-	(811)	-	(811)
Acquisition of non-controlling interest	-	-	-	-	-	-	97	97	(97)	-
Balance at 31 March 2016 - unaudited	1,737,383	456,845	205,157	130,445	104,414	(21,389)	(314,155)	2,298,700	344	2,299,044

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 2017

	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	Attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 31 December 2016 - 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 properties revaluation reserve	-	-	-	-	(2,047)	-	2,047	-	-	-
Transfer of general reserve to accumulated losses	-	-	-	(142,952)	-	-	142,952	-	-	-
Balance at 31 March 2017 - 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 2017

	Three months period ended 31 March 2017 AED'000	31 March 2016 AED'000
Cash flows from operating activities		
Profit for the period	**20,722**	36,540
Adjustments for:		
Depreciation of property and equipment	**7,738**	7,227
Depreciation of investment properties	**1,253**	1,467
Gain on disposal of financial assets measured at amortised cost	**(1,763)**	-
Gain on disposal of investment properties	**(1,160)**	-
Amortisation of financial assets measured at amortised cost	**363**	(29)
Loss on revaluation of financial assets measured at FVTPL	**140**	-
Impairment losses and provisions	**71,093**	44,852
Provision for end of service benefits	**2,109**	2,342
	100,495	92,399
Changes in operating assets and liabilities:		
Increase in balances with the Central Bank of the U.A.E.	**(120,542)**	(8,083)
Increase in loans and advances to customers	**(495,248)**	(673,295)
Decrease/(increase) in Islamic financing and investing assets	**6,356**	(74,395)
Decrease in property inventory	**2,938**	-
(Increase)/decrease in receivable and other assets	**(199,133)**	2,695
(Decrease)/increase in deposits and balances due to banks	**(214,038)**	116,798
Increase in customers' deposits	**238,307**	674,442
Increase in Islamic customers' deposits	**313,572**	2,405
Decrease in payable and other liabilities	**183,511**	(17,789)
Cash (used in)/generated from operating activities	**(183,782)**	115,177
End of service benefits paid	**(523)**	(2,605)
Net cash (used in)/generated from operating activities	**(184,305)**	112,572
Cash flows from investing activities		
Purchase of property and equipment	**(6,036)**	(7,679)
Proceeds from disposal of investment properties	**2,668**	-
Proceeds from redemption of financial assets measured at amortised cost		3,498
Proceeds from sale of financial assets measured at amortised cost	**38,575**	-
Purchase of financial assets measured at amortised cost	**(888)**	-
Net cash generated from/(used in) investing activities	**34,319**	(4,181)
Cash flows from financing activity		
Transaction costs on issuance of Tier 1 Capital Securities paid	-	(811)
Net cash used in financing activity	-	(811)
Net (decrease)/increase in cash and cash equivalents	**(149,986)**	107,580
Cash and cash equivalents, beginning of period	**1,507,811**	1,560,045
Cash and cash equivalents, end of period (Note 12)	**1,357,825**	1,667,625
Operational cash flows from interest:		
Interest and income from Islamic financing and investing assets received	**158,413**	163,023
Interest and distribution to Islamic depositors paid	**(65,098)**	(29,703)

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

Notes to the condensed consolidated financial statements
for the three months period ended 31 March 2017

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 2017*	*% of ownership 2016*
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%

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 2017, have been adopted in these condensed consolidated financial statements. The application of these revised IFRS 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.

- Amendments to IAS 7 Statement of cash flow clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to IAS 12 relating to recognition of deferred tax assets for unrealised losses.
- Annual Improvements to IFRSs 2014 - 2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities*.

2.2 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:

<u>New and revised IFRS</u>	**Effective for annual periods <u>beginning on or after</u>**
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*.	1 January 2018
Amendments to IFRS 2 *Share Based Payments* regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 *Insurance Contracts* relating to different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contract standard.	1 January 2018
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.	1 January 2018

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRS	Effective for annual periods beginning on or after
Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets. A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.	1 January 2018
IFRIC 12 *Foreign Currency Transactions and Advance Consideration*: The interpretation addresses foreign currency transactions or parts of transactions where: ➢ there is a consideration that is denominated or priced in a foreign currency; ➢ the entity recognises a prepayment asset or deferred income liabilityin respect of that consideration, in advance of the recognition of related asset , expense or income; and ➢ the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence on change in use. A change in use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
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 9, may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

The application of the finalised version of IFRS 9 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

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 2016.

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 2016. In addition, results for the three months period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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 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.

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 19.

Dividends on these investments in equity instruments are recognised in condensed 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 condensed consolidated income statement and are included in the 'other operating income' line item.

3. Significant accounting policies (continued)

3.2 Financial assets (continued)

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.

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.

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 condensed consolidated income statement is included within 'other operating income' line tem. Fair value is determined in the manner described in Note 19.

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

Dividend income on investments in equity instruments at fair value through profit or loss is recognised in condensed 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, 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.

3. Significant accounting policies (continued)

3.2 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.

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.

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 condensed 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.

Notes to the condensed consolidated financial statements
for the three months period ended 31 March 2017 (continued)

3. Significant accounting policies (continued)

3.2 Financial assets (continued)

Impairment of financial assets (continued)

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 condensed consolidated income statement.

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 condensed 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 loan's carrying value and its present value calculated as above.

The calculation of the present value of the estimated cash flows of a 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.

(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.

3. Significant accounting policies (continued)

3.2 Financial assets (continued)

Impairment of financial assets (continued)

(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 based on days past due. This approach is also compliant 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. 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 the condensed 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 condensed 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/to banks and certificate of deposits 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 condensed consolidated statement of financial position.

3. Significant accounting policies (continued)

3.3 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.

3.4 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 2016.

3.5 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 2016.

3.6 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.

Notes to the condensed consolidated financial statements for the three months period ended 31 March 2017 (continued)

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

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Cash on hand	**144,150**	155,359
Balances with the Central Bank of the U.A.E.:		
Current account	**84,282**	127,606
Statutory cash ratio requirements	**698,943**	678,401
Certificates of deposit	**1,100,000**	1,600,000
	2,027,375	2,561,366

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 0.72% to 0.97% (31 December 2016: 0.50% and 1.00%) per annum.

5. Loans and advances to customers

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Loans	**10,755,035**	10,425,733
Trust receipts	**1,724,097**	1,726,577
Overdrafts	**1,208,060**	1,031,606
Bills discounted	**303,378**	451,356
Credit cards	**114,517**	99,258
Other	**269,287**	162,371
	14,374,374	13,896,901
Less: Allowance for impairment	**(927,512)**	(872,431)
	13,446,862	13,024,470

Break up of allowance for impairment:		
Individual impairment and interest in suspense	**688,158**	635,477
Collective impairment	**239,354**	236,954
	927,512	872,431

5. Loans and advances to customers (continued)

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

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Balance at the beginning of the period/year	**872,431**	800,067
Impairment allowance for the period/year	**103,814**	454,499
Interest suspended for the period/year	**18,582**	57,459
Amounts written off during the period/year	**(50,913)**	(341,754)
Recoveries during the period/year	**(16,402)**	(97,840)
Balance at the end of the period/year	**927,512**	872,431

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

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Services	**2,789,164**	2,543,779
Wholesale and retail trade	**2,432,570**	2,373,154
Construction	**1,121,038**	1,155,328
Retail lending	**2,972,760**	2,915,810
Real estate	**3,061,868**	2,981,651
Manufacturing	**713,188**	655,185
Government	**-**	184,111
Transport and communication	**1,164,361**	1,059,573
Financial institutions	**119,425**	28,310
	14,374,374	13,896,901

6. Financial assets measured at fair value

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Financial assets measured at FVTOCI		
Investment in quoted shares	**19,223**	18,899
Investment in unquoted shares	**70,696**	70,696
Investment in unquoted funds	**4,982**	5,892
	94,901	95,487

6. Financial assets measured at fair value (continued)

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

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Within the U.A.E.	**69,126**	69,712
Outside the U.A.E.	**25,775**	25,775
	94,901	95,487

7. Other financial assets measured at amortised cost

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Investments in debt instruments	**897,278**	933,565

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

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Within the U.A.E.	**362,313**	380,139
Outside the U.A.E.	**534,965**	553,426
	897,278	933,565

8. Share capital

As of 31 March 2017, the authorised, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (31 December 2016: 1,737,383,050 shares of AED 1 each).

9. 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.

10. Customers' deposits

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Current accounts	**3,594,217**	3,553,033
Savings accounts	**552,527**	620,833
Time deposits	**9,429,375**	9,157,482
Other	**324,653**	331,117
	13,900,772	13,662,465

11. Contingencies and commitments

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Contingencies		
Guarantees	**2,952,484**	2,994,002
Letters of credit	**567,585**	493,991
	3,520,069	3,487,993
Commitments		
Loan commitments	**3,114,087**	2,944,664
Capital commitments	**25,658**	25,689
	3,139,745	2,970,353

12. Cash and cash equivalents

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

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)	31 March 2016 AED'000 (unaudited)
Cash and balances with the Central Bank of the U.A.E.	**2,027,375**	2,561,366	2,414,652
Deposits and balances due from bank with an original maturity of 90 days or less	**1,129,393**	624,846	153,192
Less: CDs with original maturity of more than 90 days	**(1,100,000)**	(1,000,000)	(300,000)
Less: Statutory reserve with the Central Bank of the U.A.E.	**(698,943)**	(678,401)	(600,219)
	1,357,825	1,507,811	1,667,625

13. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the three months periods ended 31 March 2017 and 2016.

14. 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 such related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties.

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

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Deposits and balances due from banks	**17,005**	-
Loans and advances to customers	**326,900**	240,591
Deposits and balances due to other banks	**656,289**	241,874
Customers' deposits	**250,559**	250,480
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 2017 AED'000 (unaudited)	31 March 2016 AED'000 (unaudited)
Interest income	**507**	1,369
Interest expense	**1,633**	5,182
Directors' expenses	**623**	492
Compensation of key management personnel	**4,234**	4,222

Notes to the condensed consolidated financial statements for the three months period ended 31 March 2017 (continued)

15. Other operating income, net

	Three months period ended 31 March 2017 AED'000 (unaudited)	31 March 2016 AED'000 (unaudited)
Foreign exchange gains	**12,621**	7,322
Loss on revaluation of financial assets measured at FVTPL	**(140)**	-
Gain on sale of other financial assets measured at amortised cost	**1,763**	-
Other	**6,352**	1,268
	20,596	8,590

16. Impairment losses and provisions, net

	Three months period ended 31 March 2017 AED'000 (unaudited)	31 March 2016 AED'000 (unaudited)
Impairment allowance on loans and advances	**103,814**	97,809
Recoveries against impaired loans	**(16,402)**	(32,354)
Recoveries against written off loans	**(17,288)**	(21,491)
Impairment losses reversed on brokerage receivables	**(17)**	(17)
Bad debts written off	**986**	905
	71,093	44,852

17. 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 2017 (unaudited)	31 March 2016 (unaudited)
Profit for the period (AED'000) (Attributable to owners of the Bank)	**20,726**	36,542
Weighted average number of shares in issue	**1,737,383,050**	1,737,383,050
Earnings per share (AED)	**0.012**	0.021

18. 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.

Notes to the condensed consolidated financial statements
for the three months period ended 31 March 2017 (continued)

18. Segmental analysis (continued)

The segmental information provided to Group's CEO for the reportable segments for the three months period ended 31 March 2017 and 31 March 2016 are as follows:

For the three months period ended 31 March 2017 (unaudited)

	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
Net interest income from external customers	61,727	54,847	8,572	387	125,533	-	-	125,533
Intersegmental 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 for the period	67,461	(6,425)	10,834	(48,863)	23,007	(583)	(1,702)	20,722
Segment total assets At 31 March 2017	11,526,357	4,454,922	4,262,822	190,309	20,434,410	1,686	424,801	20,860,897
Segment total liabilities At 31 March 2017	11,738,976	4,815,154	1,528,806	390,736	18,473,672	10,654	7,617	18,491,943

Notes to the condensed consolidated financial statements
for the three months period ended 31 March 2017 (continued)

18. Segmental analysis (continued)

For the three months period ended 31 March 2016 (unaudited)

	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
Net interest income from external customers	66,582	40,194	6,764	532	114,072	-	-	114,072
Intersegmental net interest income	1,977	-	-	-	1,977	224	(2,201)	-
Net fee and commission income	49,824	13,894	(42)	-	63,676	454	-	64,130
Other operating income, net	5,495	301	373	278	6,447	18	2,125	8,590
Impairment losses and provisions, net	(5,241)	(25,628)	-	(14,000)	(44,869)	17	-	(44,852)
General and administrative expenses excluding depreciation	(14,632)	(38,098)	(1,607)	(40,928)	(95,265)	(1,010)	(431)	(96,706)
Depreciation expense	(448)	(2,546)	(30)	(4,160)	(7,184)	(43)	(1,467)	(8,694)
Profit for the period	103,557	(11,883)	5,458	(58,278)	38,854	(340)	(1,974)	36,540
Segment total assets								
At 31 March 2016	9,889,710	3,377,654	3,494,506	82,966	16,844,836	3,567	438,035	17,286,438
Segment total liabilities								
At 31 March 2016	9,252,055	3,353,929	2,045,718	319,622	14,971,324	13,497	2,573	14,987,394

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

19. 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 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Carrying amount		
- Investment in debt instruments (Note 7)	**897,278**	933,565
Fair value		
- Investment in debt instruments	**895,046**	917,831

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 2016.

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).

19. Fair value of financial instruments (continued)

Financial assets	Fair value as at 31 March 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Financial assets at FVTOCI						
Equity shares	**19,223**	18,899	Level 1	Quoted bid prices in an active market.	None	N/A
Equity shares	**70,696**	70,696	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Investment funds	**4,982**	5,892	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Financial assets at FVTPL						
Derivatives financial assets	**24,980**	7,935	Level 2	Discounted cash flow valuation method.	None	N/A
Financial liabilities						
Financial liabilities at FVTPL						
Derivatives financial liability	**23,987**	8,655	Level 2	Discounted cash flow valuation method.	None	N/A

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

Reconciliation of Level 3 fair value measurements of financial assets

	31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Balance at the beginning of the period/year	**76,588**	78,280
Total losses:		
- in other comprehensive loss	**(910)**	(1,692)
Balance at the end of the period/year	**75,678**	76,588

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'.

Notes to the condensed consolidated financial statements
for the three months period ended 31 March 2017 (continued)

20. 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 2016.

Regulatory capital

The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

The Group's regulatory capital position is as follows:

Capital adequacy

		31 March 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Tier 1 capital			
Issued and paid up capital		**1,737,383**	1,737,383
Tier 1 Capital Securities, net		**459,125**	459,125
Statutory reserve		**217,664**	217,664
General reserve		**-**	142,952
Accumulated losses		**(110,260)**	(275,985)
Non-controlling interest		**336**	340
Total		**2,304,248**	2,281,479
Tier 2 capital			
Allowance for collective impairment		**197,338**	197,193
Assets revaluation reserve		**16,512**	18,019
Total		**213,850**	215,212
Total capital base	**(A)**	**2,518,098**	2,496,691
Risk-weighted assets			
Credit risk		**15,787,035**	15,775,392
Market risk		**4,767**	1,187
Operational risk		**1,432,704**	1,509,439
Total risk-weighted assets	**(B)**	**17,224,506**	17,286,018
Risk asset ratio	**[(A)/(B) x 100]**	**14.62%**	14.4%

21. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 20 April 2017.