Commercial Bank International P.S.C.

Review report and interim financial information for the three months period ended 31 March 2016

Commercial Bank International P.S.C.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors
Commercial Bank International P.S.C.
Ras Al-Khaimah
United Arab Emirates

We have reviewed the accompanying condensed consolidated statement of financial position of **Commercial Bank International P.S.C.** (the "Bank") **and its Subsidiaries** (collectively the "Group") as at 31 March 2016 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS 34"). Our responsibility is to express a conclusion on this 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 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte & Touche (M.E.)

Samir Madbak
Registration Number 386
28 April 2016

Anis Sadek (521), Georges Najem (809), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem Dajani (726), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practicing auditors with the UAE Ministry of Economy.

Condensed consolidated statement of financial position
as at 31 March 2016

	Notes	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
ASSETS			
Cash and balances with the Central Bank of the U.A.E.	4	**2,414,652**	1,561,539
Deposits and balances due from banks		**153,192**	890,642
Loans and advances to customers	5	**11,963,180**	11,334,737
Islamic financing and investing assets		**246,223**	171,828
Financial assets measured at fair value	6	**96,431**	98,385
Other financial assets measured at amortised cost	7	**645,455**	648,924
Property inventory		**443,457**	443,457
Receivables and other assets		**990,985**	993,680
Investment properties		**105,034**	106,501
Property and equipment		**227,829**	227,377
Total assets		**17,286,438**	16,477,070
EQUITY AND LIABILITIES			
Share capital	8	**1,737,383**	1,737,383
Tier 1 Capital Securities	9	**456,845**	457,656
Statutory reserve		**205,157**	205,157
General reserve		**130,445**	130,445
Properties revaluation reserve		**104,414**	106,462
Investments revaluation reserve		**(21,389)**	(19,435)
Accumulated losses		**(314,155)**	(352,842)
Equity attributable to owners of the Bank		**2,298,700**	2,264,826
Non-controlling interests		**344**	443
Total equity		**2,299,044**	2,265,269
Deposits and balances due to banks		**2,045,718**	1,928,920
Customers' deposits	10	**11,765,463**	11,091,021
Islamic customers' deposits		**16,657**	14,252
Payables and other liabilities		**1,159,556**	1,177,608
Total liabilities		**14,987,394**	14,211,801
Total equity and liabilities		**17,286,438**	16,477,070

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 2016

	Notes	Three months period ended 31 March 2016 AED'000	31 March 2015 AED'000 (restated)
Interest income		**163,472**	185,910
Income from Islamic financing and investing assets		**762**	-
Total interest income and income from Islamic financing and investing assets		**164,234**	185,910
Interest expense		**(50,162)**	(52,847)
Net interest income and income from Islamic financing and investing assets		**114,072**	133,063
Fee and commission income		**69,115**	69,810
Fee and commission expense		**(4,985)**	(2,606)
Net fee and commission income		**64,130**	67,204
Other operating income, net	15	**8,590**	31,330
Net operating income		**186,792**	231,597
General and administrative expenses		**(105,400)**	(101,870)
Impairment losses and provisions, net	16	**(44,852)**	(93,248)
Profit for the period		**36,540**	36,479
Attributable to:			
Owners of the Bank		**36,542**	36,485
Non-controlling interests		**(2)**	(6)
Profit for the period		**36,540**	36,479
Basic and diluted earnings per share (AED)	17	**0.021**	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 2016

	Three months period ended	
	31 March 2016 AED'000	31 March 2015 AED'000 (restated)
Profit for the period	**36,540**	36,479
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	**(1,954)**	(15,004)
Other comprehensive loss for the period	**(1,954)**	(15,004)
Total comprehensive income for the period	**34,586**	21,475
Attributable to :		
Owners of the Bank	**34,588**	21,493
Non-controlling interests	**(2)**	(18)
	34,586	21,475

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 2016

	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)/ retained earnings AED'000	Attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 31 December 2014 - audited	1,654,651	-	205,157	130,445	118,127	(97,396)	288,252	2,299,236	466	2,299,702
Profit for the period (restated)	-	-	-	-	-	-	36,485	36,485	(6)	36,479
Other comprehensive loss for the period	-	-	-	-	-	(14,992)	-	(14,992)	(12)	(15,004)
Total comprehensive income for the period (restated)	-	-	-	-	-	(14,992)	36,485	21,493	(18)	21,475
Depreciation of properties revaluation reserve	-	-	-	-	(3,651)	-	3,651	-	-	-
Bonus shares issued	82,732	-	-	-	-	-	(82,732)	-	-	-
Transfer on disposal of investment carried at FVTOCI	-	-	-	-	-	23,686	(23,686)	-	-	-
Balance at 31 March 2015 - unaudited (restated)	1,737,383	-	205,157	130,445	114,476	(88,702)	221,970	2,320,729	448	2,321,177

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 2016

	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)/ retained earnings 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 cash flows (unaudited)
for the three months period ended 31 March 2016

	Three months period ended 31 March 2016 AED'000	31 March 2015 AED'000 (restated)
Cash flows from operating activities		
Profit for the period	**36,540**	36,479
Adjustments for:		
Depreciation of property and equipment	**7,227**	7,731
Depreciation of investment properties	**1,467**	1,798
Gain on disposal of financial assets measured at amortised cost	-	(24,053)
Amortisation of financial assets measured at amortised cost	**(29)**	(6)
Loss on revaluation of financial assets measured at FVTPL	-	6,370
Impairment losses and provisions	**44,852**	93,248
Dividend income	-	(4,895)
Provision for end of service benefits	**2,342**	3,815
Gain on disposal of property and equipment	-	(99)
	92,399	120,388
Changes in operating assets and liabilities:		
Increase in balances with the Central Bank of the U.A.E.	**(8,083)**	(61,567)
(Increase)/decrease in loans and advances to customers	**(673,295)**	579,264
Increase in Islamic financing and investing assets	**(74,395)**	-
Decrease in receivable and other assets	**2,695**	40,344
Increase/(decrease) in deposits and balances due to banks	**116,798**	(184,529)
Increase/(decrease) in customers' deposits	**674,442**	(674,163)
Increase in Islamic customers' deposits	**2,405**	-
Decrease in payable and other liabilities	**(17,789)**	(39,877)
Cash generated from/(used in) operating activities	**115,177**	(220,140)
End of service benefits paid	**(2,605)**	(741)
Net cash generated from/(used in) operating activities	**112,572**	(220,881)
Cash flows from investing activities		
Purchase of property and equipment	**(7,679)**	(8,919)
Proceeds from disposal of property and equipment	-	99
Proceeds from redemption of financial assets measured at amortised cost	**3,498**	3,498
Proceeds from sale of financial assets measured at amortised cost	-	789,918
Proceeds from disposal of financial assets measured at FVTOCI	-	6,988
Dividend received	-	4,895
Net cash (used in)/ generated from investing activities	**(4,181)**	796,479
Cash flows from financing activity		
Transaction costs on issuance of Tier 1 Capital Securities paid	**(811)**	-
Net cash used in investing activity	**(811)**	-
Net increase in cash and cash equivalents	**107,580**	575,598
Cash and cash equivalents, beginning of period	**1,560,045**	1,641,186
Cash and cash equivalents, end of period (Note 12)	**1,667,625**	2,216,784
Operational cash flows from interest:		
Interest received	**163,023**	201,864
Interest paid	**(29,703)**	(39,720)

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 2016

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 2016*	*% of ownership 2015*
International Financial Brokerage L.L.C.	Brokerage	Dubai - U.A.E.	**99.4%**	99.2%
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 2016, 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.

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortization.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* relating to bearer plants.
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.
- Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7 and IAS 9 and IAS 34.
- Amendments to IAS 1 *Presentation of Financial Statements* relating to disclosure initiative.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment 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:

New and revised IFRS	**Effective for annual periods beginning on or after**
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.	1 January 2017

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
Amendments to IAS 12 relating to recognition of deferred tax assets for unrealised losses	1 January 2017
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
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.	1 January 2018
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.	
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
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 assets, 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 2015.

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 2015. In addition, results for the three months period ended 31 March 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

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.

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 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. 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.

Notes to the condensed consolidated financial statements
for the three months period ended 31 March 2016 (continued)

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 2015.

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 2015.

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.

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

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Cash on hand	**155,032**	68,327
Balances with the Central Bank of the U.A.E.:		
Current account	**559,401**	301,076
Statutory cash ratio requirements	**600,219**	692,136
Certificates of deposit	**1,100,000**	500,000
	2,414,652	1,561,539

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 0.25% to 0.72% (31 December 2015: 0.25% to 0.4%) per annum.

5. Loans and advances to customers

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Loans	**9,327,871**	8,238,937
Trust receipts	**1,673,345**	1,726,033
Overdrafts	**982,278**	983,458
Bills discounted	**501,466**	902,512
Credit cards	**68,604**	68,551
Other	**184,997**	215,313
	12,738,561	12,134,804
Less: Allowance for impairment	**(775,381)**	(800,067)
	11,963,180	11,334,737

Break up of allowance for impairment:		
Individual impairment and interest in suspense	**530,874**	569,560
Collective impairment	**244,507**	230,507
	775,381	800,067

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 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Balance at the beginning of the period/year	800,067	1,430,542
Impairment allowance for the period/year	97,809	932,244
Interest suspended for the period/year	10,456	105,548
Amounts written off during the period/year	(100,597)	(1,616,577)
Recoveries during the period/year	(32,354)	(51,690)
Balance at the end of the period/year	775,381	800,067

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

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Services	1,909,615	2,111,200
Wholesale and retail trade	2,057,366	2,025,083
Construction	938,383	764,185
Personal loans	2,582,521	2,558,549
Real estate	2,815,855	2,794,759
Manufacturing	680,289	636,614
Transport and communication	888,490	552,135
Financial institutions	682,287	692,186
Government	183,755	93
	12,738,561	12,134,804

6. Financial assets measured at fair value

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Financial assets measured at FVTOCI		
Investment in quoted shares	19,542	20,105
Investment in unquoted shares	70,997	70,611
Investment in unquoted funds	5,892	7,669
	96,431	98,385

Notes to the condensed consolidated financial statements
for the three months period ended 31 March 2016 (continued)

6. Financial assets measured at fair value (continued)

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

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Within the U.A.E.	**70,358**	72,696
Outside the U.A.E.	**26,073**	25,689
	96,431	98,385

7. Other financial assets measured at amortised cost

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Investments in debt instruments	**645,455**	648,924

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

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Within the U.A.E.	**399,276**	402,723
Outside the U.A.E.	**246,179**	246,201
	645,455	648,924

8. Share capital

As of 31 March 2016, the authorized, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (31 December 2015: 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), including a transaction cost amounting to USD 0.4 million (AED 1.469 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.

During the period ended 31 March 2016, the Bank has incurred additional transaction costs amounting to USD 0.2 million (AED 0.81 million).

10. Customers' deposits

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Current accounts	**3,565,781**	2,811,056
Savings accounts	**642,373**	663,650
Time deposits	**7,247,031**	7,281,208
Other	**310,278**	335,107
	11,765,463	11,091,021

11. Contingencies and commitments

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Contingencies		
Guarantees	**2,729,928**	2,927,757
Letters of credit	**741,888**	754,827
	3,471,816	3,682,584
Commitments		
Loan commitments	**3,951,461**	4,258,587
Capital commitments	**42,302**	43,212
	3,993,763	4,301,799

12. Cash and cash equivalents

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

	31 March 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)	31 March 2015 AED'000 (unaudited)
Cash and balances with the Central Bank of the U.A.E.	**2,414,652**	1,561,539	1,892,440
Deposits and balances due from bank with an original maturity of 90 days or less	**153,192**	890,642	979,883
Less: CDs with original maturity of more than 90 days	**(300,000)**	(200,000)	-
Less: Statutory reserve with the Central Bank of the U.A.E.	**(600,219)**	(692,136)	(655,539)
	1,667,625	1,560,045	2,216,784

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 2016 and 2015.

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 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Loans and advances to customers	**176,094**	97,468
Deposits and balances due to other banks	**734,590**	818,733
Customers' deposits	**250,305**	10,949

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

	Three months period ended	
	31 March 2016 AED'000 (unaudited)	31 March 2015 AED'000 (unaudited)
Interest income	**1,369**	687
Interest expense	**5,182**	4,554
Directors' expenses	**492**	561
Compensation of key management personnel	**4,222**	3,094

Notes to the condensed consolidated financial statements for the three months period ended 31 March 2016 (continued)

15. Other operating income, net

	Three months period ended	
	31 March 2016 AED'000 (unaudited)	31 March 2015 AED'000 (unaudited) (restated)
Loss on revaluation of financial assets measured at FVTPL	**-**	(6,370)
Foreign exchange gains	**7,322**	6,851
Dividend income	**-**	4,895
Gain on sale of other financial assets measured at amortised cost	**-**	24,053
Other	**1,268**	1,901
	8,590	31,330

16. Impairment losses and provisions, net

	Three months period ended	
	31 March 2016 AED'000 (unaudited)	31 March 2015 AED'000 (unaudited)
Impairment allowance on loans and advances	**97,809**	122,647
Recoveries against impaired loans	**(32,354)**	(17,667)
Recoveries against written off loans	**(21,491)**	(12,456)
Impairment losses reversed on brokerage receivables	**(17)**	-
Bad debts written off	**905**	724
	44,852	93,248

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 2016 (unaudited)	31 March 2015 (unaudited) (restated)
Profit for the period (AED'000) (Attributable to owners of the Bank)	**36,542**	36,485
Weighted average number of shares in issue	**1,737,383,050**	1,737,383,050
Earnings per share (AED)	**0.021**	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 2016 (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 2016 and 31 March 2015 are as follows:

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/(loss) 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

Notes to the condensed consolidated financial statements
for the three months period ended 31 March 2016 (continued)

18. Segmental analysis (continued)

For the three months period ended 31 March 2015 (unaudited) (restated)

	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	68,386	47,807	10,828	6,042	133,063	-	-	133,063
Intersegmental net interest income	2,056	-	-		2,056	109	(2,165)	-
Net fee and commission income	49,620	17,332	(56)	-	66,896	308	-	67,204
Other operating income, net	4,796	685	23,791	97	29,369	102	1,859	31,330
Impairment losses and provisions, net	(75,270)	(17,923)	-	-	(93,193)	(55)	-	(93,248)
General and administrative expenses excluding depreciation	(11,441)	(36,465)	(1,479)	(40,917)	(90,302)	(1,121)	(918)	(92,341)
Depreciation expense	(298)	(1,565)	(21)	(5,807)	(7,691)	(40)	(1,798)	(9,529)
Profit/(loss) for the period	37,849	9,871	33,063	(40,585)	40,198	(697)	(3,022)	36,479
Segment total assets At 31 December 2015 (audited)	9,188,094	3,286,041	3,382,139	177,598	16,033,872	1,909	441,289	16,477,070
Segment total liabilities At 31 December 2015 (audited)	8,571,969	3,303,500	1,928,920	380,226	14,184,615	24,295	2,891	14,211,801

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 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Carrying amount		
- Investment in debt instruments (Note 7)	**645,455**	648,924
Fair value		
- Investment in debt instruments	**647,445**	643,043

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 2015.

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).

Notes to the condensed consolidated financial statements
for the three months period ended 31 March 2016 (continued)

19. Fair value of financial instruments (continued)

Financial assets	Fair value as at 31 March 2016 (unaudited) AED'000	31 December 2015 (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	**19,542**	20,105	Level 1	Quoted bid prices in an active market.	None	N/A
Equity shares	**70,997**	70,611	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Investment funds	**5,892**	7,669	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	**1,249**	406	Level 2	Discounted cash flow valuation method.	None	N/A
Financial liabilities						
Financial liabilities at FVTPL						
Derivatives financial liability	**5,082**	3,452	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 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Balance at the beginning of the period/year	**78,280**	144,431
Total losses:		
- in other comprehensive loss	**(1,391)**	(19,651)
Disposals	**-**	(46,500)
Balance at the end of the period/year	**76,889**	78,280

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'.

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 2015.

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 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Tier 1 capital			
Issued and paid up capital		**1,737,383**	1,737,383
Tier 1 Capital Securities, net		**456,845**	457,656
Statutory reserve		**205,157**	205,157
General reserve		**130,445**	130,445
Accumulated losses		**(314,155)**	(352,842)
Non-controlling interest		**344**	443
Total		**2,216,019**	2,178,242
Tier 2 capital			
Allowance for collective impairment		**190,760**	183,873
Assets revaluation reserve		**25,597**	28,473
Total		**216,357**	212,346
Total capital base	**(A)**	**2,432,376**	2,390,588
Risk-weighted assets			
Credit risk		**15,260,837**	14,709,861
Market risk		**880**	892
Operational risk		**1,509,439**	1,436,940
Total risk-weighted assets	**(B)**	**16,771,156**	16,147,693
Risk asset ratio	**[(A)/(B) x 100]**	**14.50%**	14.80%

21. Restatement of comparative information for the period ended 31 March 2015

During prior year ended 31 December 2015, the management identified certain adjustments with respect to its fee and commission income and fair value of derivative financial instruments. The financial statements for the period ended 31 March 2015 were issued prior to such adjustments, therefore, the comparative information of these financial statements for the period ended 31 March 2015 has been restated to conform to the effect of adjustments as required by IAS 8. The retrospective adjustment had the following impacts on the interim financial information:

- Fee and commission income for three months period ended 31 March 2015 increased by AED 13,636 thousands;
- Other operating income for three months period ended 31 March 2015 decreased by AED 140 thousands;
- Basic and diluted earnings per share for the three months period ended 31 March 2015 increased by AED 0.008 per share.

22. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on 28 April 2016.