**Commercial Bank International P.S.C.**

**Review report and interim financial information for the six months period ended 30 June 2015**

**Commercial Bank International P.S.C.**

**Table of contents**

Deloitte.

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax: +971 (0) 4 376 8899
www.deloitte.com/middleeast

# 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 30 June 2015 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six 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.)

Musa Ramahi
Registration Number 872
6 August 2015

## Condensed consolidated statement of financial position as at 30 June 2015

| | Notes | 30 June 2015 AED'000 (unaudited) | 31 December 2014 AED'000 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the Central Bank of the U.A.E. | 4 | **1,551,172** | 773,773 |
| Deposits and balances due from banks | | **426,618** | 1,461,385 |
| Loans and advances to customers | 5 | **12,129,522** | 13,341,524 |
| Financial assets measured at fair value through other comprehensive income (FVTOCI) | 6 | **78,347** | 179,444 |
| Financial assets measured at fair value through profit or loss (FVTPL) | 6 | **-** | 163,825 |
| Financial assets measured at amortised cost | 6 | **652,346** | 1,660,602 |
| Property inventory | | **280,766** | 280,218 |
| Interest receivable and other assets | | **1,329,787** | 1,494,272 |
| Investment properties | | **111,416** | 114,116 |
| Property and equipment | | **220,994** | 214,285 |
| **Total assets** | | **16,780,968** | 19,683,444 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 7 | **1,737,383** | 1,654,651 |
| Statutory reserve | | **205,157** | 205,157 |
| General reserve | | **130,445** | 130,445 |
| Properties revaluation reserve | | **112,478** | 118,127 |
| Investments revaluation reserve | | **(19,081)** | (97,396) |
| Retained earnings | | **157,826** | 328,116 |
| Equity attributable to owners of the Bank | | **2,324,208** | 2,339,100 |
| Non-controlling interests | | **459** | 466 |
| **Total equity** | | **2,324,667** | 2,339,566 |
| Deposits and balances due to banks | | **1,939,417** | 1,245,757 |
| Customers' deposits | 8 | **11,063,302** | 14,538,717 |
| Interest payable and other liabilities | | **1,453,582** | 1,559,404 |
| **Total liabilities** | | **14,456,301** | 17,343,878 |
| **Total equity and liabilities** | | **16,780,968** | 19,683,444 |

..................................
Mark Timothy Robinson
Chief Executive Officer

..................................
Obaid Mohamed Ahmed Al Salami
Director

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

## Condensed consolidated income statement (unaudited)
## for the six months period ended 30 June 2015

| | Notes | Three months period ended | | Six months period ended | |
|---|---|---|---|---|---|
| | | **30 June 2015 AED'000** | 30 June 2014 AED'000 | **30 June 2015 AED'000** | 30 June 2014 AED'000 |
| Interest income | | **163,775** | 172,586 | **349,685** | 338,569 |
| Interest expense | | **(43,856)** | (41,150) | **(96,703)** | (78,119) |
| **Net interest income** | | **119,919** | 131,436 | **252,982** | 260,450 |
| Fees and commission income | | **56,073** | 49,042 | **112,247** | 99,953 |
| Fees and commission expense | | **(3,031)** | (2,101) | **(5,637)** | (3,569) |
| **Net fee and commission income** | | **53,042** | 46,941 | **106,610** | 96,384 |
| Other operating income, net | 13 | **26,021** | 12,229 | **57,491** | 42,290 |
| **Net interest and operating income** | | **198,982** | 190,606 | **417,083** | 399,124 |
| General and administrative expenses | | **(110,576)** | (90,058) | **(212,446)** | (178,859) |
| Impairment losses and provisions | 14 | **(102,619)** | (64,706) | **(195,867)** | (111,602) |
| **Profit for the period** | | **(14,213)** | 35,842 | **8,770** | 108,663 |
| **Attributed to:** | | | | | |
| Owners of the Bank | | **(14,224)** | 35,818 | **8,765** | 108,630 |
| Non-controlling interests | | **11** | 24 | **5** | 33 |
| | | **(14,213)** | 35,842 | **8,770** | 108,663 |
| Earnings per share | 15 | **AED (0.008)** | AED 0.021 | **AED 0.005** | AED 0.063 |

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

## Condensed consolidated statement of comprehensive income (unaudited)
## for the six months period ended 30 June 2015

| | Three months period ended | | Six months period ended | |
|---|---|---|---|---|
| | **30 June 2015 AED'000** | 30 June 2014 AED'000 | **30 June 2015 AED'000** | 30 June 2014 AED'000 |
| Profit for the period | **(14,213)** | 35,842 | **8,770** | 108,663 |
| **Other comprehensive income** | | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | | |
| Change in the fair value of other financial assets measured at FVTOCI | **(8,665)** | (13,467) | **(23,669)** | 3,123 |
| Other comprehensive income for the period | **(8,665)** | (13,467) | **(23,669)** | 3,123 |
| **Total comprehensive income for the period** | **(22,878)** | 22,375 | **(14,899)** | 111,786 |
| **Attributable to:** | | | | |
| Owners of the Bank | **(22,889)** | 22,370 | **(14,892)** | 111,752 |
| Non-controlling interests | **11** | 5 | **(7)** | 34 |
| | **(22,878)** | 22,375 | **(14,899)** | 111,786 |

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

## Condensed consolidated statement of changes in equity for the six months period ended 30 June 2015

| | Share capital AED'000 | Statutory reserve AED'000 | General reserve AED'000 | Properties revaluation reserve AED'000 | Investments revaluation reserve AED'000 | Retained earnings AED'000 | Attributable to owners of the Bank AED'000 | Non-controlling interests AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 31 December 2013 - audited | 1,575,858 | 191,805 | 117,093 | 106,400 | (92,948) | 291,581 | 2,189,789 | 483 | 2,190,272 |
| Profit for the period | - | - | - | - | - | 108,630 | 108,630 | 33 | 108,663 |
| Other comprehensive income for the period | - | - | - | - | 3,122 | - | 3,122 | 1 | 3,123 |
| Total comprehensive income for the period | - | - | - | - | 3,122 | 108,630 | 111,752 | 34 | 111,786 |
| Bonus shares issued | 78,793 | - | - | - | - | (78,793) | - | - | - |
| Depreciation of properties revaluation reserve | - | - | - | (5,479) | - | 5,479 | - | - | - |
| **Balance at 30 June 2014 - unaudited** | **1,654,651** | **191,805** | **117,093** | **100,921** | **(89,826)** | **326,897** | **2,301,541** | **517** | **2,302,058** |
| Balance at 31 December 2014 - audited | 1,654,651 | 205,157 | 130,445 | 118,127 | (97,396) | 328,116 | 2,339,100 | 466 | 2,339,566 |
| Profit for the period | - | - | - | - | - | 8,765 | 8,765 | 5 | 8,770 |
| Other comprehensive income for the period | - | - | - | - | (23,657) | - | (23,657) | (12) | (23,669) |
| Total comprehensive income for the period | - | - | - | - | (23,657) | 8,765 | (14,892) | (7) | (14,899) |
| Transfer on disposal of investment carried at FVTOCI | - | - | - | - | 101,972 | (101,972) | - | - | - |
| Depreciation of properties revaluation reserve | - | - | - | (5,649) | - | 5,649 | - | - | - |
| Bonus shares issued (Note 7) | 82,732 | - | - | - | - | (82,732) | - | - | - |
| **Balance at 30 June 2015 – unaudited** | **1,737,383** | **205,157** | **130,445** | **112,478** | **(19,081)** | **157,826** | **2,324,208** | **459** | **2,324,667** |

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

**Commercial Bank International P.S.C.**
**Condensed consolidated statement of cash flows (unaudited)**
**for the six months period ended 30 June 2015**



| | Six months period ended 30 June 2015 AED'000 | 30 June 2014 AED'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the period | **8,770** | 108,663 |
| Adjustments for: | | |
| Depreciation | **17,188** | 15,220 |
| Impairment losses and provisions (Note 14) | **195,867** | 111,602 |
| Gain on disposal of financial assets held at amortised cost (Note 13) | **(29,205)** | - |
| Amortization of financial assets measured at amortised cost | **(133)** | (125) |
| Loss/(gain) on revaluation of financial assets measured at FVTPL (Note 13) | **5,527** | (18,156) |
| Gain on disposal of property and equipment | **(106)** | - |
| Dividend income (Note 13) | **(5,155)** | (6,577) |
| Provision for end of service benefits | **5,927** | 3,810 |
| | **198,680** | 214,437 |
| **Changes in operating assets and liabilities:** | | |
| (Increase)/decrease in statutory deposits with the Central Bank | **(491,005)** | 60,550 |
| (Increase)/decrease in deposits and balances due from banks | **(367,300)** | 7,583 |
| Decrease/(increase) in loans and advances to customers | **1,016,135** | (1,294,211) |
| Decrease/(increase) in interest receivable and other assets | **153,714** | (251,593) |
| Increase/(decrease) in deposits and balances due to banks | **693,660** | (150,601) |
| (Decrease)/increase in customers' deposits | **(3,475,415)** | 1,636,547 |
| (Decrease)/increase in interest payable and other liabilities | **(106,678)** | 265,671 |
| **Cash (used in)/generated from operating activities** | **(2,378,209)** | 488,383 |
| End of service benefits paid | **(5,071)** | (1,951) |
| **Net cash (used in)/generated from operating activities** | **(2,383,280)** | 486,432 |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | **(20,744)** | (3,784) |
| Proceeds from disposal property and equipment | **106** | - |
| Purchase of investment property | **(453)** | (33) |
| Purchase of property inventory | **(548)** | - |
| Purchase of financial assets measured at amortised cost | - | (422,595) |
| Proceeds from sale of financial assets measured at amortised cost | **1,048,365** | - |
| Proceeds from sale of financial assets measured at FVTOCI | **77,428** | - |
| Proceeds from sale of financial assets measured at FVTPL | **158,298** | - |
| Dividend received | **5,155** | 6,577 |
| **Net cash generated from/(used in) investing activities** | **1,267,607** | (419,835) |
| **Net (decrease)/increase in cash and cash equivalents** | **(1,115,673)** | 66,597 |
| Cash and cash equivalents, beginning of period | **1,641,186** | 543,732 |
| **Cash and cash equivalents, end of period (Note 10)** | **525,513** | 610,329 |
| **Operational cash flows from interest:** | | |
| Interest received | **502,323** | 327,836 |
| Interest paid | **(113,892)** | (91,521) |

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

**Notes to the condensed consolidated financial statements for the six months period ended 30 June 2015**

## 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 carries on commercial banking activities through its branches in the United Arab Emirates ("U.A.E.").

These condensed consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries: International Financial Brokerage LLC (the "subsidiary - IFB") and Takamul Real Estate L.L.C. (the "subsidiary - TRE") (collectively referred to as the "Group"). The subsidiary - IFB is a limited liability company registered in the Emirate of Dubai and acts as a broker for customers trading in shares and securities on the Dubai Financial Market and the Abu Dhabi Exchange. The Bank owns 99.19% (2014: 99.19%) of the subsidiary - IFB. The subsidiary - TRE is a limited liability company registered in the Emirate of Dubai and acts as a real estate broker. The Bank owns 100% (2014: 100%) of the subsidiary - TRE.

## 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 revised IFRS, which became effective for annual periods beginning on or after 1 January 2015, has been adopted in these condensed consolidated financial statements. The application of these amendments to IFRS has not had any material impact on the amounts reported for the current period and prior year but may affect the accounting for future transactions or arrangements.

- Amendments to *IAS 19 Employee Benefits*

### 2.2 New and revised IFRS is in issue but not yet effective

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

| New and revised IFRS | Effective for annual periods beginning on or after |
|---|---|
| • IFRS 14 *Regulatory Deferral Accounts* | 1 January 2016 |
| • Amendments to IAS 16, IAS 38 and IAS 41. | 1 January 2016 |
| • Amendments to IFRS 11 *Joint Arrangements.* | 1 January 2016 |
| • Amendments to IFRS 10, IFRS 12 and IAS 28. | 1 January 2016 |
| • Amendments to IAS 27 *Separate Financial Statements.* | 1 January 2016 |
| • Amendments to IAS 1 *Presentation of Financial Statements.* | 1 January 2016 |
| • Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7 and IAS 19. | 1 July 2016 |
| • IFRS 15 *Revenue from Contracts with Customers* | 1 January 2017 |
| • Finalised version of IFRS 9 (IFRS 9 *Financial Instruments* (2014)) | 1 January 2018 |

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 2014.

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 2014. In addition, results for the six months period ended 30 June 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

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 17.

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue. Diyidends earned are recognised in 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 (see above).

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

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in consolidated income statement and is included within 'other operating income' line item. Fair value is determined in the manner described in Note 17.

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

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

*Financial assets at amortised cost*

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

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

All other financial assets are subsequently measured at fair value.

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

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

**Notes to the condensed consolidated financial statements for the six months period ended 30 June 2015 (continued)**

## 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 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 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 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 written off. 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 consolidated income statement.

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

*Cash and cash equivalents*

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

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

## 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 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 2014, except for changes in estimated useful lives of property and equipment and investment properties as follows:

| | |
|---|---|
| Buildings | 25 years |
| Leasehold improvement | 4 – 7 years |
| Investment properties | 25 years |

### 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 2014.

### 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 six months period ended 30 June 2015 (continued)**

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

| | 30 June 2015 AED'000 (unaudited) | 31 December 2014 AED'000 (audited) |
|---|---|---|
| Cash on hand | **74,233** | 84,081 |
| Balances with the Central Bank of the U.A.E.: | | |
| Current account | **191,962** | 95,720 |
| Statutory cash ratio requirements | **684,977** | 593,972 |
| Certificates of deposit | **600,000** | - |
| | **1,551,172** | 773,773 |

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.

## 5. Loans and advances to customers

| | 30 June 2015 AED'000 (unaudited) | 31 December 2014 AED'000 (audited) |
|---|---|---|
| Overdrafts | **1,253,339** | 1,484,874 |
| Loans | **8,587,323** | 10,428,860 |
| Bills discounted | **1,044,731** | 927,482 |
| Trust receipts | **1,905,825** | 1,679,871 |
| Credit cards | **56,501** | 51,539 |
| Other | **198,600** | 199,440 |
| | **13,046,319** | 14,772,066 |
| Less: Allowance for impairment | **(916,797)** | (1,430,542) |
| | **12,129,522** | 13,341,524 |

| | 30 June 2015 AED'000 (unaudited) | 31 December 2014 AED'000 (audited) |
|---|---|---|
| Allowance for impairment: | | |
| Individual impairment and interest in suspense | **684,790** | 1,220,248 |
| Collective impairment | **232,007** | 210,294 |
| | **916,797** | 1,430,542 |

**Notes to the condensed consolidated financial statements for the six months period ended 30 June 2015 (continued)**

## 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:

| | **30 June 2015 AED'000 (unaudited)** | 31 December 2014 AED'000 (audited) |
|---|---|---|
| Balance at the beginning of the period/year | **1,430,542** | 1,224,892 |
| Impairment allowance for the period/year | **242,679** | 375,310 |
| Interest suspended for the period/year | **63,205** | 180,667 |
| Amounts written off during the period/year | **(792,018)** | (310,852) |
| Recoveries during the period/year | **(27,611)** | (39,475) |
| Balance at the end of the period/year | **916,797** | 1,430,542 |

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

| | **30 June 2015 AED'000 (unaudited)** | 31 December 2014 AED'000 (audited) |
|---|---|---|
| Services | **2,159,101** | 2,887,196 |
| Wholesale and retail trade | **2,286,270** | 2,479,752 |
| Construction | **1,057,383** | 1,327,384 |
| Personal loans | **2,551,094** | 2,824,476 |
| Real estate | **2,860,159** | 3,076,598 |
| Manufacturing | **693,047** | 701,836 |
| Transport and communication | **575,034** | 929,722 |
| Financial institutions | **864,088** | 544,911 |
| Government | **143** | 191 |
| | **13,046,319** | 14,772,066 |

**Notes to the condensed consolidated financial statements for the six months period ended 30 June 2015 (continued)**

## 6. Other financial assets

| | 30 June 2015 AED'000 (unaudited) | 31 December 2014 AED'000 (audited) |
|---|---|---|
| **Financial assets measured at FVTOCI** | | |
| Investment in quoted shares | 76 | 35,013 |
| Investment in unquoted shares | 70,602 | 90,262 |
| Investment in unquoted funds | 7,669 | 54,169 |
| | 78,347 | 179,444 |
| **Financial assets measured at FVTPL** | | |
| Non-discretionary investment portfolio managed by a related party (Note 12) | - | 163,825 |
| **Financial assets measured at amortised cost** | | |
| Investments in debt instruments | 652,346 | 1,660,602 |
| | 730,693 | 2,003,871 |
| Investment by geographic concentration are as follows: | | |
| Within the U.A.E. | 458,773 | 1,014,806 |
| Outside the U.A.E. | 271,920 | 989,065 |
| | 730,693 | 2,003,871 |

## 7. Share capital

As of 30 June 2015, the authorised, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (31 December 2014: 1,654,650,524 shares of AED 1 each).

The shareholders, in the Annual General Meeting held on 31 March 2015, approved bonus shares of 5% of issued share capital as at 31 December 2014. Book closure date for the allotment of bonus shares was 8 April 2015 and the allotment date was 12 April 2015.

## 8. Customers' deposits

| | 30 June 2015 AED'000 (unaudited) | 31 December 2014 AED'000 (audited) |
|---|---|---|
| Current accounts | 2,930,414 | 3,207,506 |
| Savings accounts | 661,122 | 242,888 |
| Time deposits | 7,135,171 | 10,695,273 |
| Other | 336,595 | 393,050 |
| | 11,063,302 | 14,538,717 |

## 9. Contingencies and commitments

| | 30 June 2015 AED'000 (unaudited) | 31 December 2014 AED'000 (audited) |
|---|---|---|
| *Contingencies* | | |
| Guarantees | **2,918,372** | 3,139,500 |
| Letters of credit | **1,089,014** | 1,080,663 |
| | **4,007,386** | 4,220,163 |
| *Commitments* | | |
| Loan commitments | **3,191,567** | 3,214,217 |
| Capital commitments | **19,913** | 21,577 |
| | **3,211,480** | 3,235,794 |

## 10. Cash and cash equivalents

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

| | 30 June 2015 AED'000 (unaudited) | 31 December 2014 AED'000 (audited) | 30 June 2014 AED'000 (unaudited) |
|---|---|---|---|
| Cash and balances with the Central Bank of the U.A.E. | **1,551,172** | 773,773 | 615,597 |
| Deposits and balances due from bank with an original maturity of 90 days or less | **59,318** | 1,461,385 | 483,914 |
| Less: CDs with original maturity of more than 90 days | **(400,000)** | - | - |
| Less: Statutory reserve with the Central Bank, of the U.A.E. | **(684,977)** | (593,972) | (489,182) |
| | **525,513** | 1,641,186 | 610,329 |

## 11. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the six months periods ended 30 June 2015 and 2014.

## 12. 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. The shareholders and the management decide on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges.

**Notes to the condensed consolidated financial statements**
**for the six months period ended 30 June 2015 (continued)**

## 12. Related party transactions (continued)

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

| | 30 June 2015 AED'000 (unaudited) | 31 December 2014 AED'000 (audited) |
|---|---|---|
| Loans and advances to customers | **110,768** | 232,634 |
| Non-discretionary investment portfolio managed by a related party and classified as financial assets measured at FVTPL (Note 6) | **-** | 163,825 |
| Deposits and balances due to banks | **1,283,725** | 771,330 |
| Directors' fee payable | **-** | 2,400 |
| Customers' deposits | **250,427** | 250,630 |

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

| | Six months period ended | |
|---|---|---|
| | 30 June 2015 AED'000 (unaudited) | 30 June 2014 AED'000 (unaudited) |
| Interest income | **2,857** | 4,817 |
| Interest expense | **9,201** | 5,495 |
| Directors' expenses | **1,234** | 1,690 |
| Compensation of key management personnel | **6,761** | 8,374 |

## 13. Other operating income, net

| | Six months period ended | |
|---|---|---|
| | 30 June 2015 AED'000 (unaudited) | 30 June 2014 AED'000 (unaudited) |
| (Loss)/gain on revaluation of financial assets measured at FVTPL | **(5,527)** | 18,156 |
| Foreign exchange gains | **16,169** | 13,759 |
| Dividend income | **5,155** | 6,577 |
| Gain on sale of financial assets carried at amortised cost | **29,205** | - |
| Other | **12,489** | 3,798 |
| | **57,491** | 42,290 |

**Notes to the condensed consolidated financial statements for the six months period ended 30 June 2015 (continued)**

## 14. Impairment losses and provisions

| | Six months period ended 30 June 2015 AED'000 (unaudited) | 30 June 2014 AED'000 (unaudited) |
|---|---|---|
| Impairment allowance on loans and advances to customers | **242,679** | 134,698 |
| Recoveries against impaired loans and advances to customers | **(27,611)** | (17,015) |
| Recoveries against written off loans | **(20,028)** | (9,352) |
| Recoveries of impaired brokerage receivables | **(1,141)** | (3,338) |
| Bad debts written off | **1,968** | 6,609 |
| | **195,867** | 111,602 |

## 15. 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:

| | Six months period ended 30 June 2015 (unaudited) | 30 June 2014 (unaudited) |
|---|---|---|
| Profit for the period (AED'000) (Attributable to owners of the Bank) | **8,765** | 108,630 |
| Weighted average number of shares in issue | **1,737,383,050** | 1,737,383,050 |
| Earnings per share | **AED 0.005** | AED 0.063 |

The weighted average number of shares in issue throughout the six months period ended 30 June 2014 have been adjusted to reflect the bonus shares approved during six months period ended 30 June 2015.

## 16. 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 six months period ended 30 June 2014 (continued)**

## 16. Segmental analysis (continued)

The segmental information provided to Group's CEO for the reportable segments for the six months period ended 30 June 2015 and 30 June 2014 are as follows:

**For the six months period ended 30 June 2015 (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 | 120,666 | 97,827 | 28,819 | 5,670 | 252,982 | - | - | 252,982 |
| Intersegmental net interest income | 4,117 | - | - | - | 4,117 | 242 | (4,359) | - |
| Net fee and commission income | 69,963 | 35,763 | (97) | - | 105,629 | 981 | - | 106,610 |
| Other operating income, net | 11,861 | 3,721 | 29,291 | 6,189 | 51,062 | 238 | 6,191 | 57,491 |
| Impairment losses and provisions | (135,559) | (34,279) | - | (27,712) | (197,550) | 1,683 | - | (195,867) |
| General and administrative expenses excluding depreciation | (23,026) | (77,719) | (3,023) | (87,127) | (190,895) | (2,404) | (1,959) | (195,258) |
| Depreciation expense | (586) | (3,457) | (42) | (9,869) | (13,954) | (81) | (3,153) | (17,188) |
| **Profit for the period** | 47,436 | 21,856 | 54,948 | (112,849) | 11,391 | 659 | (3,280) | 8,770 |
| **Segment total assets as at 30 June 2015 (unaudited)** | 9,750,997 | 3,575,943 | 2,902,252 | 82,037 | 16,311,229 | 2,894 | 466,845 | 16,780,968 |
| **Segment total liabilities as at 30 June 2015 (unaudited)** | 8,901,348 | 3,296,094 | 1,939,417 | 284,173 | 14,421,032 | 32,810 | 2,459 | 14,456,301 |

**Notes to the condensed consolidated financial statements for the six months period ended 30 June 2015 (continued)**

## 16. Segmental analysis (continued)

**For the six months period ended 30 June 2014 (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 | 157,112 | 81,339 | 22,356 | (357) | 260,450 | - | - | 260,450 |
| Intersegmental net interest income | 4,179 | - | - | - | 4,179 | 162 | (4,341) | - |
| Net fee and commission income | 66,864 | 27,069 | (98) | 50 | 93,885 | 2,499 | - | 96,384 |
| Other operating income, net | 9,631 | 754 | 27,131 | 678 | 38,194 | 352 | 3,744 | 42,290 |
| Impairment losses and provisions | (91,134) | (23,916) | - | - | (115,050) | 3,448 | - | (111,602) |
| General and administrative expenses excluding depreciation | (20,244) | (60,807) | (3,741) | (74,337) | (159,129) | (2,237) | (2,273) | (163,639) |
| Depreciation expense | (444) | (3,081) | (30) | (8,024) | (11,579) | (27) | (3,614) | (15,220) |
| Profit for the period | 125,964 | 21,358 | 45,618 | (81,990) | (110,950) | 4,197 | (6,484) | 108,663 |
| Segment total assets at 31 December 2014 (audited) | 11,241,286 | 3,386,576 | 4,423,741 | 146,713 | 19,198,316 | 16,494 | 468,634 | 19,683,444 |
| Segment total liabilities at 31 December 2014 (audited) | 11,030,328 | 4,281,642 | 1,817,815 | 186,467 | 17,316,252 | 24,778 | 2,848 | 17,343,878 |

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

## 17. 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 consolidated financial statements approximate their fair values:

| | **30 June 2015 AED'000 (unaudited)** | 31 December 2014 AED'000 (audited) |
|---|---|---|
| **Carrying amount** | | |
| - Investment in debt instruments (Note 6) | **652,346** | 1,660,602 |
| **Fair value** | | |
| - Investment in debt instruments | **655,267** | 1,707,633 |

*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 2014.

*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).

## 17. Fair value of financial instruments (continued)

| **30 June 2015 (unaudited)** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **AED'000** | **AED'000** | **AED'000** | **AED'000** |
| ***Financial assets at fair value through other comprehensive income*** | | | | |
| - Equity shares | **76** | **-** | **70,602** | **70,678** |
| - Investment funds | **-** | **-** | **7,669** | **7,669** |
| ***Financial assets at fair value through profit or loss*** | | | | |
| - Derivatives financial assets | **-** | **2,291** | **-** | **2,291** |
| **Total** | **76** | **2,291** | **78,271** | **80,638** |
| ***Financial liabilities at fair value through profit or loss*** | | | | |
| Derivatives financial liabilities | **-** | **1,538** | **-** | **1,538** |
| 31 December 2014 (audited) | | | | |
| ***Financial assets at fair value through other comprehensive income*** | | | | |
| - Equity shares | 35,013 | - | 90,262 | 125,275 |
| - Investment funds | - | - | 54,169 | 54,169 |
| ***Financial assets at fair value through profit or loss*** | | | | |
| - Derivatives financial assets | - | 4,973 | - | 4,973 |
| - Non-discretionary investment portfolio managed by a related party | 163,825 | - | - | 163,825 |
| **Total** | 198,838 | 4,973 | 144,431 | 348,242 |
| ***Financial liabilities at fair value through profit or loss*** | | | | |
| Derivatives financial liabilities | - | 2,069 | - | 2,069 |

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

*Reconciliation of Level 3 fair value measurements of financial assets*

| | **30 June 2015 AED'000 (unaudited)** | 31 December 2014 AED'000 (audited) |
|---|---|---|
| Balance at the beginning of the period/year | **144,431** | 135,140 |
| Total (losses)/gain: | | |
| - in other comprehensive income | **(19,660)** | 9,291 |
| Disposals | **(46,500)** | - |
| Balance at the end of the period/year | **78,271** | 144,431 |

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.'

## 18. 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 2014.

### 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

| | | **30 June 2015 AED'000 (unaudited)** | 31 December 2014 AED'000 (audited) |
|---|---|---|---|
| ***Tier 1 capital*** | | | |
| Issued and paid up capital | | **1,737,383** | 1,654,651 |
| Statutory and legal reserve | | **205,157** | 205,157 |
| General reserve | | **130,445** | 130,445 |
| Retained earnings | | **157,826** | 328,116 |
| Non-controlling interest | | **459** | 466 |
| **Total** | | **2,231,270** | 2,318,835 |
| ***Tier 2 capital*** | | | |
| Allowance for collective impairment | | **193,479** | 210,294 |
| Assets revaluation reserve | | **31,534** | (44,239) |
| **Total** | | **225,013** | 166,055 |
| **Total capital base** | **(A)** | **2,456,283** | 2,484,890 |
| **Risk-weighted assets** | **(B)** | **16,916,571** | 19,640,653 |
| **Risk asset ratio** | **[(A)/(B) x 100]** | **14.52%** | 12.65% |

## 19. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 6 August 2015.