

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

**Review report and interim financial information  
for the six-month period ended 30 June 2017**

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

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## **Review report on condensed consolidated interim financial information to the Shareholders of Commercial Bank International P.S.C.**

### **Introduction**

We have reviewed the accompanying condensed consolidated interim statement of financial position of Commercial Bank International P.S.C. ("the Bank") and its subsidiaries (together referred to as "the Group") as at 30 June 2017 and the related condensed consolidated interim statements of income and comprehensive income for the three month and six month periods then ended and the statements of changes in equity and cash flows for the six month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### **Scope of review**

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

### **Conclusion**

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

### **Other matter**

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 and condensed interim consolidated financial statements for the six month period ended 30 June 2017 were audited and reviewed, respectively, by another auditor, whose reports dated 14 February 2017 and 31 July 2016, expressed an unqualified audit opinion and review conclusion, respectively.

**PricewaterhouseCoopers**

18 JULY 2017

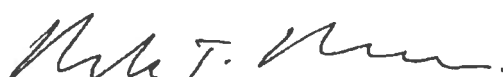
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Douglas O'Mahony, Paul Suddaby, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

**Condensed consolidated statement of financial position  
as at 30 June 2017**

	Notes	30 June 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
<b>ASSETS</b>			
Cash and balances with the Central Bank of the U.A.E.	4	1,998,254	2,561,366
Deposits and balances due from banks		501,666	624,846
Loans and advances to customers	5	13,283,443	13,024,470
Islamic financing and investing assets		285,991	248,832
Receivables and other assets	6	2,240,450	2,031,924
Property inventory		459,001	460,193
Financial assets measured at fair value	7	74,765	95,487
Other financial assets measured at amortised cost	8	990,686	933,565
Investment properties		94,109	117,608
Intangible assets		87,839	8,704
Property and equipment		150,335	210,828
<b>Total assets</b>		<b>20,166,539</b>	<b>20,317,823</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	9	1,737,383	1,737,383
Tier 1 Capital Securities	10	459,125	459,125
Statutory reserve		217,664	217,664
General reserve		-	142,952
Properties revaluation reserve		85,578	89,672
Investments revaluation reserve		(43,055)	(22,333)
Accumulated losses		(91,373)	(275,985)
Equity attributable to owners of the Bank		2,365,322	2,348,478
Non-controlling interests		332	340
<b>Net equity</b>		<b>2,365,654</b>	<b>2,348,818</b>
<b>LIABILITIES</b>			
Deposits and balances due to banks		1,292,274	1,742,844
Customers' deposits	11	13,305,707	13,662,465
Islamic customers' deposits		724,423	289,477
Payables and other liabilities	6	2,478,481	2,274,219
<b>Total liabilities</b>		<b>17,800,885</b>	<b>17,969,005</b>
<b>Total equity and liabilities</b>		<b>20,166,539</b>	<b>20,317,823</b>



Mark Timothy Robinson  
Chief Executive Officer



Mohammad Sultan Al Qadi  
Chairman

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

Condensed consolidated income statement (unaudited)  
for the six-month period ended 30 June 2017

	Notes	Three-month period ended 30 June 2017 AED'000	30 June 2016 AED'000	Six-month period ended 30 June 2017 AED'000	30 June 2016 AED'000
Interest income		208,764	179,678	404,340	343,150
Income from Islamic financing and investing assets		3,071	775	5,132	1,537
<b>Total interest income and income from Islamic financing and investing assets</b>		<b>211,835</b>	<b>180,453</b>	<b>409,472</b>	<b>344,687</b>
Interest expense		(68,847)	(49,813)	(137,800)	(99,975)
Distribution to depositors - Islamic products		(5,120)	(5,079)	(8,271)	(5,079)
<b>Net interest income and income from Islamic products net of distribution to depositors</b>		<b>137,868</b>	<b>125,561</b>	<b>263,401</b>	<b>239,633</b>
Fee and commission income		54,129	69,425	117,302	138,540
Fee and commission expense		(6,416)	(5,609)	(12,914)	(10,594)
<b>Net fee and commission income</b>		<b>47,713</b>	<b>63,816</b>	<b>104,388</b>	<b>127,946</b>
Other operating income, net	16	16,780	21,296	37,376	29,886
<b>Net operating income</b>		<b>202,361</b>	<b>210,673</b>	<b>405,165</b>	<b>397,465</b>
General and administrative expenses		(111,124)	(114,251)	(222,113)	(219,651)
Impairment losses and provisions, net	17	(59,479)	(64,269)	(130,572)	(109,121)
<b>Profit for the period</b>		<b>31,758</b>	<b>32,153</b>	<b>52,480</b>	<b>68,693</b>
<b>Attributable to:</b>					
Owners of the Bank		31,762	32,152	52,488	68,694
Non-controlling interests		(4)	1	(8)	(1)
<b>Profit for the period</b>		<b>31,758</b>	<b>32,153</b>	<b>52,480</b>	<b>68,693</b>
<b>Basic and diluted earnings per share (AED)</b>	18	<b>0.010</b>	<b>0.010</b>	<b>0.022</b>	<b>0.031</b>

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

Condensed consolidated statement of comprehensive income (unaudited)  
for the six-month period ended 30 June 2017

	Three-month period ended 30 June 2017 AED'000	Six-month period ended 30 June 2017 AED'000	Three-month period ended 30 June 2016 AED'000	Six-month period ended 30 June 2016 AED'000
Profit for the period	31,758	52,480	32,153	68,693
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Change in the fair value of other financial assets measured at FVTOCI	(20,136)	(20,722)	(1,312)	(3,266)
Other comprehensive loss for the period	(20,136)	(20,722)	(1,312)	(3,266)
Total comprehensive income for the period	11,622	31,758	30,841	65,427
Attributable to :				
Owners of the Bank	11,626	31,766	30,840	65,428
Non-controlling interests	(4)	(8)	1	(1)
	11,622	31,758	30,841	65,427

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

Commercial Bank International P.S.C.

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Condensed consolidated statement of changes in equity  
for the six-month period ended 30 June 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 AED'000	Attributable to owners of the Bank AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 31 December 2015	1,737,383	457,656	205,157	130,445	106,462	(19,435)	(352,842)	2,264,826	443	2,265,269
- audited	-	-	-	-	-	-	68,694	68,694	(1)	68,693
Profit for the period	-	-	-	-	-	(3,266)	-	(3,266)	-	(3,266)
Other comprehensive loss for the period	-	-	-	-	-	(3,266)	-	(3,266)	-	(3,266)
Total comprehensive income for the period	-	-	-	-	-	(3,266)	68,694	65,428	(1)	65,427
Depreciation of properties revaluation reserve	-	-	-	-	(4,349)	-	4,349	-	-	-
Transfer on disposal of properties	-	-	-	-	(636)	-	636	-	-	-
Transaction costs paid on issuance of Tier 1 Capital Securities	-	(811)	-	-	-	-	-	(811)	-	(811)
Interest paid on Tier 1 Capital Securities	-	-	-	-	-	-	(14,921)	(14,921)	-	(14,921)
Acquisition of non-controlling interest	-	-	-	-	-	-	97	97	(97)	-
<b>Balance at 30 June 2016</b>	<b>1,737,383</b>	<b>456,845</b>	<b>205,157</b>	<b>130,445</b>	<b>101,477</b>	<b>(22,701)</b>	<b>(293,987)</b>	<b>2,314,619</b>	<b>345</b>	<b>2,314,964</b>
- unaudited										

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

**Condensed consolidated statement of changes in equity (continued)**  
**For the six-month period ended 30 June 2017**

	Share capital AED'000	Tier 1 Capital Securities AED'000	Statutory reserve AED'000	General reserve AED'000	Properties revaluation reserve AED'000	Investments revaluation reserve AED'000	Accumulated losses AED'000	Attributable to owners of the Bank AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 31 December 2016	1,737,383	459,125	217,664	142,952	89,672	(22,333)	(275,985)	2,348,478	340	2,348,818
- audited	-	-	-	-	-	-	52,488	52,488	(8)	52,480
Profit for the period	-	-	-	-	-	(20,722)	-	(20,722)	-	(20,722)
Other comprehensive loss for the period	-	-	-	-	-	(20,722)	-	(20,722)	-	(20,722)
Total comprehensive income for the period	-	-	-	-	-	(20,722)	52,488	31,766	(8)	31,758
Depreciation of properties revaluation reserve	-	-	-	-	(4,094)	-	4,094	-	-	-
Transfer from general reserve to accumulated losses	-	-	-	(142,952)	-	-	142,952	-	-	-
Interest paid on Tier 1 Capital Securities	-	-	-	-	-	-	(14,922)	(14,922)	-	(14,922)
<b>Balance at 30 June 2017</b>	<b>1,737,383</b>	<b>459,125</b>	<b>217,664</b>	<b>-</b>	<b>85,578</b>	<b>(43,055)</b>	<b>(91,373)</b>	<b>2,365,322</b>	<b>332</b>	<b>2,365,654</b>
- unaudited										

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



**Condensed consolidated statement of cash flows (unaudited)  
for six-month period ended 30 June 2017**

	Six-month period ended	
	30 June 2017 AED'000	30 June 2016 AED'000
<b>Cash flows from operating activities</b>		
Profit for the period	52,480	68,693
Adjustments for:		
Depreciation	18,961	17,329
Impairment losses and provisions	130,572	109,121
Gain on sale of financial assets held at amortised cost	(1,701)	-
Amortisation of financial assets measured at amortised cost	21	(11)
Gain on revaluation of financial assets measured at FVTPL	(1,064)	-
Gain on disposal of property and equipment	-	(176)
Gain on sale of investment property	(4,828)	(1,114)
Dividend income	(804)	(804)
Provision for end of service benefits	4,311	4,207
<b>Changes in operating assets and liabilities:</b>		
Decrease/(increase) in balances with the Central Bank	197,948	197,245
Increase in deposits and balances due from banks	232,718	(117,390)
Increase in loans and advances to customers	(360,000)	-
Increase in Islamic financing and investing assets	(391,303)	(1,368,093)
Decrease/(increase) in property inventory	(37,159)	(71,631)
Increase in receivables and other assets	2,938	(14,796)
(Decrease)/increase in deposits and balances due to banks	(207,450)	(57,368)
(Decrease)/increase in customers' deposits	(450,570)	4,491
Increase in Islamic customers' deposits	(356,758)	465,906
Increase in payables and other liabilities	434,946	243,863
	202,148	82,230
<b>Cash used in operations</b>	(732,542)	(635,543)
End of service benefits paid	(2,197)	(4,193)
<b>Net cash used in operating activities</b>	(734,739)	(639,736)
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(35,246)	(15,806)
Proceeds from disposal property and equipment	-	4,476
Proceeds from sale of investment property	25,970	2,541
Purchase of financial assets measured at amortised cost	(512,300)	(153,628)
Proceeds from sale/redemption of financial assets measured at amortised cost	456,859	10,844
Dividend received	804	804
<b>Net cash used in investing activities</b>	(63,913)	(150,769)
<b>Cash flows from financing activity</b>		
Transaction costs on issuance of Tier 1 Capital Securities paid	-	(811)
Interest paid on Tier 1 Capital Securities	(14,922)	(14,921)
<b>Net cash used in financing activities</b>	(14,922)	(15,732)
<b>Net decrease in cash and cash equivalents</b>	(813,574)	(806,237)
Cash and cash equivalents, beginning of period	1,507,811	1,560,045
<b>Cash and cash equivalents, end of period (Note 13)</b>	694,237	753,808

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 six-month period ended 30 June 2017 (continued)**

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	<b>Six-month period ended</b>	
	<b>30 June 2017 AED'000</b>	<b>30 June 2016 AED'000</b>
<b>Operational cash flows from interest and profit:</b>		
Interest received	<b>265,860</b>	333,349
Profit received	<u>6,971</u>	<u>5,822</u>
Interest paid	<u>(137,776)</u>	<u>(70,221)</u>
Profit paid	<u>(4,633)</u>	<u>(4,002)</u>

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

**Notes to the condensed consolidated financial information  
for the six-month period ended 30 June 2017**

**1. Status and activities**

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

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

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

<i>Name</i>	<i>Principal activity</i>	<i>Place of incorporation</i>	<i>% of ownership</i>	
			<i>2017</i>	<i>2016</i>
International Financial Brokerage L.L.C.	Brokerage	Dubai - U.A.E.	99.4	99.4
Takamul Real Estate L.L.C.	Real estate	Dubai - U.A.E.	100.0	100.0

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these condensed consolidated financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

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

**Notes to the condensed consolidated financial information  
for the six-month period ended 30 June 2017 (continued)**

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

**2.2 New and revised IFRS in issue but not yet effective**

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

<u><b>New and revised IFRS</b></u>	<u><b>Effective for annual periods beginning on or after</b></u>
Annual Improvements to IFRSs 2014 - 2016 Cycle – Amendments to IFRS 1 <i>First Time Adoption of International Financial Reporting Standards</i> and IAS 28 <i>Investment in Associates and Joint Ventures</i> .	1 January 2018
Amendments to IFRS 2 <i>Share Based Payments</i> regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> relating to different effective dates of IFRS 9 <i>Financial Instruments</i> and the forthcoming new insurance contract standard.	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i> : IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
Finalised version of IFRS 9 [IFRS 9 <i>Financial Instruments</i> (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.	
IFRIC 12 <i>Foreign Currency Transactions and Advance Consideration</i> : The interpretation addresses foreign currency transactions or parts of transactions where:	1 January 2018
<ul style="list-style-type: none"> <li>➤ there is a consideration that is denominated or priced in a foreign currency;</li> <li>➤ the entity recognises a prepayment asset or deferred income liability in respect of that consideration, in advance of the recognition of related asset, expense or income; and</li> <li>➤ the prepayment asset or deferred income liability is non-monetary.</li> </ul>	

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**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)**

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

<u><b>New and revised IFRS</b></u>	<u><b>Effective for annual periods beginning on or after</b></u>
Amendments to IAS 40 <i>Investment Property</i> : Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence on change in use. A change in use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from 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 Financial Instruments, these new standards, interpretations and amendments are not expected to have material impact on the condensed consolidated financial statements of the Group in the period of initial application.

The application of IFRS 9 Financial Instruments may have a significant impact on amounts reported and disclosures made in the Group's condensed consolidated financial statements in respect of the 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 completes a detailed review which is currently in progress.

**3. Significant accounting policies**

**3.1 Basis of preparation**

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

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

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2016.

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)****3. Significant accounting policies (continued)****3.1 Basis of preparation (continued)**

These condensed consolidated financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2016. In addition, results for the six-month period ended 30 June 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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

**3.2 Financial assets**

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

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

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

A financial asset is held for trading if:

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

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Fair value is determined in the manner described in Note 20.

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.

**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.

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**3. Significant accounting policies (continued)**

**3.2 Financial assets (continued)**

Debt instruments 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 item. Fair value is determined in the manner described in Note 20.

Interest income on debt instruments 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.

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.

Subsequent to initial recognition, the Group is required to reclassify debt instruments 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.

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**3. Significant accounting policies (continued)**

**3.2 Financial assets (continued)**

*Financial assets at amortised cost (continued)*

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

*Reclassification of financial assets*

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

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

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

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

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

*Impairment of financial assets*

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

Objective evidence of impairment could include:

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

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



**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**3. Significant accounting policies (continued)**

**3.2 Financial assets (continued)**

***Impairment of financial assets (continued)***

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan and advances to customers, where the carrying amount is reduced through the use of an allowance account. When a 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 any objective evidence exists to suggest 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 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.

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**3. Significant accounting policies (continued)**

**3.2 Financial assets (continued)**

*Impairment of financial assets (continued)*

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

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

Impairment of retail loans is calculated based on days past due. This approach is also compliant with the requirements of the Central Bank of the U.A.E.

*Derecognition of financial assets*

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

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

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

*Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, unrestricted balances held with central banks, amounts due from 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 information  
for the six months period ended 30 June 2017 (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 cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated so as to write off the cost of investment properties using straight line method over their estimated useful lives of 25 years.

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

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

**3.4 Estimates and judgments**

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

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited consolidated financial statements as at and for the year ended 31 December 2016.

**3.5 Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the audited annual consolidated financial statements as at and for the year ended 31 December 2016.

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**3. Significant accounting policies (continued)**

**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.**

	<b>30 June 2017 AED'000 (unaudited)</b>	<b>31 December 2016 AED'000 (audited)</b>
Cash on hand	225,279	155,359
Balances with the Central Bank of the U.A.E.:		
Current account	327,292	127,606
Statutory cash ratio requirements	745,683	678,401
Certificates of deposit	700,000	1,600,000
	<u><u>1,998,254</u></u>	<u><u>2,561,366</u></u>

Statutory cash ratio requirements with the Central Bank of the U.A.E. represents mandatory reserve deposits and are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest bearing. Certificates of deposit carry interest rates ranging between 0.72% to 0.97% (31 December 2016: 0.50% and 1.00%) per annum.

Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)

## 5. Loans and advances to customers

	30 June 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Loans	11,278,100	10,531,196
Trust receipts	1,415,790	1,726,577
Overdrafts	1,233,750	1,088,514
Bills discounted	228,220	451,356
Credit cards	132,867	99,258
	<u>14,288,727</u>	<u>13,896,901</u>
Less: Allowance for impairment	(1,005,284)	(872,431)
	<u>13,283,443</u>	<u>13,024,470</u>
<i>Break up of allowance for impairment:</i>		
Individual impairment and interest in suspense	764,330	635,477
Collective impairment	240,954	236,954
	<u>1,005,284</u>	<u>872,431</u>

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

	30 June 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Balance at the beginning of the period/year	872,431	800,067
Impairment allowance for the period/year	193,637	454,499
Interest suspended for the period/year	39,727	57,459
Amounts written off during the period/year	(78,085)	(341,754)
Recoveries during the period/year	(22,426)	(97,840)
Balance at the end of the period/year	<u>1,005,284</u>	<u>872,431</u>

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**5. Loans and advances to customers (continued)**

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

	<b>30 June 2017 AED'000 (unaudited)</b>	31 December 2016 AED'000 (audited)
Services	2,766,043	2,543,779
Wholesale and retail trade	2,479,520	2,373,154
Retail lending	3,033,001	2,915,810
Real estate	3,026,072	2,981,651
Construction	1,038,461	1,155,328
Transport and communication	1,043,704	1,059,573
Manufacturing	778,245	655,185
Financial institutions	123,681	28,310
Government	-	184,111
	<u>14,288,727</u>	<u>13,896,901</u>

**6. Customer acceptances**

Receivables and other assets and payables and other liabilities include customer acceptances amounting to AED 2,035 million (2016: AED 1,896 million).

**7. Financial assets measured at fair value**

	<b>30 June 2017 AED'000 (unaudited)</b>	31 December 2016 AED'000 (audited)
<b>Financial assets measured at FVTOCI</b>		
Investment in quoted shares	17,692	18,899
Investment in unquoted shares	52,091	70,696
Investment in unquoted funds	4,982	5,892
	<u>74,765</u>	<u>95,487</u>

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

	<b>30 June 2017 AED'000 (unaudited)</b>	31 December 2016 AED'000 (audited)
Within the U.A.E.	58,287	69,712
Outside the U.A.E.	16,478	25,775
	<u>74,765</u>	<u>95,487</u>

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**8. Other financial assets measured at amortised cost**

	<b>30 June 2017 AED'000 (unaudited)</b>	31 December 2016 AED'000 (audited)
Investments in debt instruments	<b>990,686</b>	933,565

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

	<b>30 June 2017 AED'000 (unaudited)</b>	31 December 2016 AED'000 (audited)
Within the U.A.E.	<b>581,956</b>	380,139
Outside the U.A.E.	<b>408,730</b>	553,426
	<b>990,686</b>	933,565

**9. Share capital**

As of 30 June 2016, the authorised, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (31 December 2016: 1,737,383,050 shares of AED 1 each).

**10. 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 % per annum (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.

Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)

## 11. Customers' deposits

	30 June 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Current accounts	3,453,478	3,553,033
Savings accounts	649,215	620,833
Time deposits	8,958,042	9,157,482
Other	244,972	331,117
	<u>13,305,707</u>	<u>13,662,465</u>

## 12. Contingencies and commitments

	30 June 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
<i>Contingencies</i>		
Guarantees	3,140,405	2,994,002
Letters of credit	487,873	493,991
	<u>3,628,278</u>	<u>3,487,993</u>
<i>Commitments</i>		
Loan commitments	2,624,717	2,944,664
Capital commitments	18,790	25,689
	<u>2,643,507</u>	<u>2,970,353</u>

## 13. Cash and cash equivalents

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

	30 June 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)	30 June 2016 AED'000 (unaudited)
Cash and balances with the Central Bank of the U.A.E.	1,998,254	2,561,366	1,590,658
Deposits and balances due from banks	501,666	624,846	172,676
Less: CDs with original maturity of more than 90 days	(700,000)	(1,000,000)	(300,000)
Less: Balances due from banks with original maturity of 90 days or more	(360,000)	-	-
Less: Statutory reserve with the Central Bank of the U.A.E.	(745,683)	(678,401)	(709,526)
	<u>694,237</u>	<u>1,507,811</u>	<u>753,808</u>



**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**14. Seasonality of results**

No income of seasonal nature was recorded in the condensed consolidated financial statements for the six-month periods ended 30 June 2017 and 2016.

**15. 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:

	<b>30 June 2017 AED'000 (unaudited)</b>	<b>31 December 2016 AED'000 (audited)</b>
Deposits and balances due from banks	<b>1,805</b>	-
Loans and advances to customers	<b>334,295</b>	240,591
Deposits and balances due to other banks	<b>214,147</b>	241,874
Customers' deposits	<b>250,800</b>	250,480
Tier 1 Capital securities	<b>459,125</b>	459,125

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

	<b>Six-month period ended 30 June 2017 AED'000 (unaudited)</b>	<b>30 June 2016 AED'000 (unaudited)</b>
Interest income	<b>4,212</b>	3,428
Interest expense	<b>3,505</b>	8,839
Directors' expenses	<b>1,295</b>	1,155
Compensation of key management personnel	<b>9,294</b>	8,443

Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)

## 16. Other operating income, net

	Six-month period ended	
	30 June 2017 AED'000 (unaudited)	30 June 2016 AED'000 (unaudited)
Foreign exchange gains	23,882	16,802
Gain on revaluation of financial assets measured at FVTPL	1,064	-
Gain on sale of other financial assets measured at amortised cost	1,701	-
Dividend income	804	804
Other	9,925	12,280
	<u>37,376</u>	<u>29,886</u>

## 17. Impairment losses and provisions, net

	Six-month period ended	
	30 June 2017 AED'000 (unaudited)	30 June 2016 AED'000 (unaudited)
Impairment allowance on loans and advances to customers	193,637	179,664
Recoveries against impaired loans and advances to customers	(22,426)	(34,576)
Recoveries against written off loans	(42,739)	(36,932)
Recoveries of impaired brokerage receivables	(12)	(570)
Bad debts written off	2,112	1,535
	<u>130,572</u>	<u>109,121</u>

## 18. 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-month period ended	
	30 June 2017 (unaudited)	30 June 2016 (unaudited)
Profit for the period (AED'000) (Attributable to owners of the Bank)	52,488	68,694
Less: Interest on Tier 1 capital	(14,922)	(14,921)
	<u>37,566</u>	<u>53,773</u>
Weighted average number of shares in issue	1,737,383,050	1,737,383,050
Earnings per share (AED)	<u>0.022</u>	<u>0.031</u>

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**19. 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 real estate.

Notes to the condensed consolidated financial information for the six months period ended 30 June 2017 (continued)

19. Segmental analysis (continued)

The segmental information provided to Group's CEO for the reportable segments for the six-month period ended 30 June 2017 and 30 June 2016 are as follows:

For the six-month period ended 30 June 2017 (unaudited)

	Wholesale AED'000	Retail AED'000	Banking			Total AED'000	Brokerage AED'000	Real estate AED'000	Total AED'000
			Treasury AED'000	Others AED'000					
Net interest income from external customers	133,642	111,399	10,911	7,449	263,401	-	-	263,401	
Intersegmental net interest income	3,501	-	-	-	3,501	502	(4,003)	-	
Net fee and commission income	66,946	37,533	(241)	-	104,238	338	(188)	104,388	
Other operating income, net	17,919	4,646	5,850	3,458	31,873	200	5,303	37,376	
Impairment losses and provisions, net	(57,916)	(67,314)	-	(5,354)	(130,584)	12	-	(130,572)	
General and administrative expenses excluding depreciation	(21,793)	(86,183)	(2,730)	(89,104)	(199,810)	(2,131)	(1,211)	(203,152)	
Depreciation expense	(1,069)	(5,392)	(97)	(9,964)	(16,522)	(81)	(2,358)	(18,961)	
<b>Profit for the period</b>	<b>141,230</b>	<b>(5,311)</b>	<b>13,693</b>	<b>(93,515)</b>	<b>56,097</b>	<b>(1,160)</b>	<b>(2,457)</b>	<b>52,480</b>	
<b>Segment total assets</b>									
At 30 June 2017	11,419,523	4,426,502	3,651,065	266,744	19,763,834	215	402,490	20,166,539	
<b>Segment total liabilities</b>									
At 30 June 2017	11,028,051	5,036,212	1,292,274	426,628	17,783,165	10,810	6,910	17,800,885	

Notes to the condensed consolidated financial information for the six months period ended 30 June 2017 (continued)

19. Segmental analysis (continued)

For the six-month period ended 30 June 2016 (unaudited)

	Banking						Total AED'000
	Wholesale AED'000	Retail AED'000	Treasury AED'000	Others AED'000	Brokage AED'000	Real estate AED'000	
Net interest income from external customers	141,332	82,671	14,121	1,509	-	-	239,633
Intersegmental net interest income	4,011	-	-	-	441	(4,452)	-
Net fee and commission income	97,703	29,371	-	-	885	(13)	127,946
Other operating income, net	12,527	1,417	1,746	1,112	18	13,066	29,886
Impairment losses and provisions, net	(44,899)	(44,792)	-	(20,000)	570	-	(109,121)
General and administrative expenses excluding depreciation	(28,983)	(78,243)	(3,469)	(86,981)	(1,978)	(2,668)	(202,322)
Depreciation expense	(900)	(5,139)	(61)	(8,388)	(84)	(2,757)	(17,329)
Profit for the period	180,791	(14,715)	12,337	(112,748)	(148)	3,176	68,693
Segment total assets At 30 June 2016	10,412,250	3,582,462	2,834,942	65,011	2,157	426,447	17,323,269
Segment total liabilities At 30 June 2016	9,334,230	3,396,176	1,933,411	328,878	14,421	1,189	15,008,305

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

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**20. 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:

	<b>30 June 2017 AED'000 (unaudited)</b>	<b>31 December 2016 AED'000 (audited)</b>
<b>Carrying amount</b>		
- Investment in debt instruments (Note 8)	<b>990,686</b>	<b>933,565</b>
<b>Fair value</b>		
- Investment in debt instruments	<b>986,084</b>	<b>917,831</b>

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited annual consolidated financial statements for the year ended 31 December 2016.

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000				
<i>Financial assets at FVTOCI</i>						
Equity shares	17,692	18,899	Level 1	Quoted bid prices in an active market.	None	N/A
Equity shares	52,091	70,696	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Investment funds	4,982	5,892	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.
<i>Financial assets at FVTPL</i>						
Derivatives financial assets	24,765	7,935	Level 2	Discounted cash flow valuation method.	None	N/A
<i>Financial liabilities at FVTPL</i>						
Derivatives financial liability	23,843	8,655	Level 2	Discounted cash flow valuation method.	None	N/A

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

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

	30 June 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Balance at the beginning of the period/year	76,588	78,280
Total losses:		
- in other comprehensive loss	(19,515)	(1,692)
Balance at the end of the period/year	<u>57,073</u>	<u>76,588</u>

The financial liabilities subsequently measured at fair value are classified as level 2 fair value measurement. There are no financial liabilities classified as level 3 fair value measurement.

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

**Notes to the condensed consolidated financial information  
for the six months period ended 30 June 2017 (continued)**

**21. Capital management**

The Group's capital management objectives and policies are consistent with those disclosed in the audited annual consolidated financial statements as at and for the year ended 31 December 2016.

**Regulatory capital**

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

The Group's regulatory capital position is as follows:

**Capital adequacy**

	<b>30 June 2017 AED'000 (unaudited)</b>	<b>31 December 2016 AED'000 (audited)</b>
<b><i>Tier 1 capital</i></b>		
Issued and paid up capital	1,737,383	1,737,383
Tier 1 Capital Securities, net	459,125	459,125
Statutory reserve	217,664	217,664
General reserve	-	142,952
Accumulated losses	(91,373)	(275,985)
Non-controlling interest	332	340
Total	<u>2,323,131</u>	<u>2,281,479</u>
<b><i>Tier 2 capital</i></b>		
Allowance for collective impairment	196,776	197,193
Assets revaluation reserve	(4,545)	18,019
Total	<u>192,231</u>	<u>215,212</u>
<b>Total capital base</b>	<b>(A) 2,515,362</b>	<b>2,496,691</b>
<b><i>Risk-weighted assets</i></b>		
Credit risk	15,742,105	15,775,392
Market risk	1,560	1,187
Operational risk	1,432,704	1,509,439
<b>Total risk-weighted assets</b>	<b>(B) 17,176,369</b>	<b>17,286,018</b>
<b>Risk asset ratio</b>	<b>[(A)/(B) x 100]</b>	<b>14.6%</b>
		<b>14.4%</b>

**22. Approval of the condensed consolidated financial statements**

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 18 July 2017.