Commercial Bank International P.S.C.

REVIEW REPORT AND INTERIM FINANCIAL INFORMATION

FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors
Commercial Bank International P.S.C.
Dubai
United Arab Emirates

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of **Commercial Bank International P.S.C**., **Dubai, United Arab Emirates** (the "Bank") **and its Subsidiaries** (together referred to as the "Group") as at 31 March 2020 and the related condensed consolidated income statement, comprehensive income, changes in equity and cash flows for the three month period then ended. Management 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.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 9 February 2020. The condensed consolidated interim financial information of the Group for the three month period ended 31 March 2019 was reviewed by another auditor who expressed an unmodified conclusion on that information on 21 April 2019.

Deloitte & Touche (M.E.)

ديلويت اند توش
Deloitte & Touche

Musa Ramahi
Registration No.: 872
26 July 2020
Dubai
United Arab Emirates

Condensed consolidated statement of financial position

as at 31 March 2020

	Note	31 Mar 2020 AED '000 (unaudited)	31 Dec 2019 AED '000 (audited)[1] (restated)	1 Jan 2019 AED '000 (audited)[1] (restated)
Assets				
Cash and balances with the Central Bank of the UAE	8	**1,475,806**	2,410,568	3,740,658
Derivative financial instruments		**40,966**	26,792	29,659
Deposits and balances due from banks	9	**741,289**	190,313	1,262,855
Loans and advances to customers	10	**10,519,695**	11,524,325	12,694,349
Islamic financing and investing assets		**436,694**	241,095	205,736
Receivables and other assets		**2,462,786**	2,215,502	2,899,030
Property inventory		**688,530**	406,572	447,544
Investment securities measured at fair value	11	**50,286**	50,286	61,527
Investment securities measured at amortised cost	12	**1,157,162**	1,237,414	1,009,297
Investment in associates		**4,274**	5,324	9,534
Investment properties		**55,345**	56,127	69,988
Intangible assets		**57,643**	61,468	71,769
Property and equipment		**82,136**	87,740	190,633
Non-current asset held for sale		**93,782**	93,782	69,403
Total assets		**17,866,394**	18,607,308	22,761,982
Liabilities and equity				
Liabilities				
Balance due to the Central Bank of the UAE	8	-	-	60,874
Derivative financial instruments		**42,760**	27,409	30,107
Deposits and balances due to banks		**1,805,833**	1,692,742	1,832,506
Customers' deposits	13	**10,333,052**	11,254,271	14,617,625
Islamic customers' deposits		**662,586**	813,250	637,132
Payables and other liabilities		**2,526,960**	2,334,523	3,195,965
Liabilities associated with non-current asset held for sale		**13,323**	13,323	13,323
Total liabilities		**15,384,514**	16,135,518	20,387,532
Equity				
Share capital	14	**1,737,383**	1,737,383	1,737,383
Tier 1 Capital Securities	15	**459,125**	459,125	459,125
Reserves	16	**426,998**	481,884	370,188
Accumulated losses		**(141,938)**	(206,914)	(192,552)
Equity attributable to owners of the Bank		**2,481,568**	2,471,478	2,374,144
Non-controlling interests		**312**	312	306
Total equity		**2,481,880**	2,471,790	2,374,450
Total liabilities and equity		**17,866,394**	18,607,308	22,761,982

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed consolidated financial statements present fairly in all material respects the consolidated financial position, financial performance and cash flows of the company.

Ali Sultan Rakkad Al Amri
Acting Chief Executive Officer

Abdulrahim Mohammed Alawadhi
Chairman

[1] The impact of restatement in comparative amounts presented is unaudited.

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

Condensed consolidated income statement

for the three months period ended 31 March

	Note	2020 AED '000 (unaudited)	2019 AED '000 (unaudited) (restated)
Interest income		**199,657**	235,689
Income from Islamic financing and investing assets		**7,524**	4,155
Total interest income and income from Islamic financing and investing assets		**207,181**	239,844
Interest expense		**(80,366)**	(111,640)
Distribution to Islamic depositors		**(4,773)**	(4,602)
Net interest income and income from Islamic financing and investing assets		**122,042**	123,602
Fee and commission income		**46,408**	76,501
Fee and commission expense		**(4,972)**	(7,578)
Net fee and commission income		**41,436**	68,923
Other operating income, net	17	**13,193**	19,022
Net operating income		**176,671**	211,547
General and administrative expenses		**(73,473)**	(90,213)
Net impairment loss on financial assets	18	**(92,058)**	(96,197)
Share of results of associates		**(1,050)**	(700)
Profit for the period from continuing operations		**10,090**	24,437
Loss from discontinued operations		**-**	(29)
Profit for the period		**10,090**	24,408
Profit for the period attributable to:			
Owners of the Bank		**10,090**	24,408
Non-controlling interests		**-**	-
Profit for the period		**10,090**	24,408
Basic and diluted earnings per share – continuing operations (AED)	19	**0.006**	0.014
Basic and diluted earnings per share – continuing and discontinued operations (AED)	19	**0.006**	0.014

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

Condensed consolidated statement of comprehensive income

for the three months period ended 31 March

	2020 AED '000 (unaudited)	2019 AED '000 (unaudited) (restated)
Profit for the period	**10,090**	24,408
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets measured at fair value through other comprehensive income	**-**	201
Other comprehensive income for the period	**-**	201
Total comprehensive income for the period	**10,090**	24,609
Total comprehensive income attributable to:		
Owners of the Bank	**10,090**	24,409
Non-controlling interests	**-**	-
Total comprehensive income for the period	**10,090**	24,609

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

for the three months period ended 31 March

	Share capital AED '000	Tier 1 Capital Securities AED '000	Reserves AED '000	Accumulated losses AED '000	Equity attributable to owners of the Bank AED '000	Non-Controlling interests AED '000	Total AED '000
2020							
Balance as at 31 December 2019 - audited and restated	1,737,383	459,125	481,884	(206,914)	2,471,478	312	2,471,790
Profit for the period	-	-	-	10,090	10,090	-	10,090
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	10,090	10,090	-	10,090
Transfer from general reserve to accumulated losses	-	-	(11,104)	11,104	-	-	-
Transfer from general provision reserve to accumulated losses	-	-	(33,534)	33,534	-	-	-
Transfer from specific provision reserve to accumulated losses			(10,248)	10,248	-	-	-
Balance as at 31 March 2020 - unaudited	**1,737,383**	**459,125**	**426,998**	**(141,938)**	**2,481,568**	**312**	**2,481,880**

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

for the three months period ended 31 March

	Share capital AED '000	Tier 1 Capital Securities AED '000	Reserves AED '000	Accumulated losses AED '000	Equity attributable to owners of the Bank AED '000	Non-Controlling interests AED '000	Total AED '000
2019							
Balance as at 31 December 2018 - audited	1,737,383	459,125	397,366	(192,552)	2,401,322	306	2,401,628
Restatement (note 26)	-	-	(27,178)	-	(27,178)	-	(27,178)
Balance as at 1 January 2019 - restated	1,737,383	459,125	370,188	(192,552)	2,374,144	306	2,374,450
Profit for the period	-	-	-	24,408	24,408	-	24,408
Other comprehensive income for the period	-	-	201	-	201	-	201
Total comprehensive income for the period	-	-	201	24,408	24,609	-	24,609
Transfer to specific provision reserve	-	-	19,583	(19,583)	-	-	-
Balance as at 31 March 2019 – unaudited, restated	**1,737,383**	**459,125**	**389,972**	**(187,727)**	**2,398,753**	**306**	**2,399,059**

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

for the three months period ended 31 March

	2020 AED '000 (unaudited)	2019 AED '000 (unaudited) (restated)
Cash flows from operating activities		
Profit for the period	**10,090**	24,408
Adjustments for:		
Depreciation of property and equipment	**4,262**	6,425
Depreciation of investment property	**782**	955
Amortisation of intangible assets	**4,113**	4,191
Impairment of financial assets	**92,058**	96,197
Gain on disposal of property and equipment	**(96)**	(3,995)
Amortisation of financial assets measured at amortised cost	**2,483**	1,500
Right to use asset adjustment	**3,390**	-
Net loss on financial assets measured at FVTPL	**1,735**	455
Share of results of associates	**1,050**	700
Provision for end of service benefits	**2,055**	1,746
	121,922	132,582
Changes in operating assets and liabilities:		
Decrease/(increase) in balances with the Central Bank of the UAE	**969,272**	(1,108,532)
Decrease in deposits and balances due from banks	**-**	183,665
Decrease in loans and advances to customers	**631,933**	540,691
(Increase)/decrease in Islamic financing and investing assets	**(195,704)**	70,480
(Increase)/decrease in receivables and other assets	**(247,458)**	357,469
Decrease in due to the central bank of the UAE	**-**	(60,874)
Increase in deposits and balances due to banks	**113,091**	133,493
Decrease in customers' deposits	**(921,219)**	(1,244,835)
(Decrease)/increase in Islamic customers' deposits	**(150,664)**	44,991
Increase/(decrease) in payables and other liabilities	**194,196**	(386,613)
Cash from/(used in) operating activities	**515,369**	(1,337,483)
End of service benefits paid	**(3,647)**	(3,277)
Net cash flows from/(used in) operating activities	**511,722**	(1,340,760)
Cash flows from investing activities:		
Purchase of property and equipment	**(2,114)**	(6,458)
Purchase of intangible assets	**(288)**	(170)
Purchase of financial assets measured at amortised cost	**-**	(159,161)
Net settlement of financial assets measured at FVTPL	**(558)**	-
Proceeds from sale of property and equipment	**162**	95,379
Proceeds from sale/redemption of financial assets measured at amortised cost	**77,971**	-
Proceeds from disposal of financial assets measured at FVTOCI	**-**	203
Net cash generated from/(used in) investing activities	**75,173**	(70,207)

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

for the three months period ended 31 March

	Note	2020 AED '000 (unaudited)	2019 AED '000 (unaudited) (restated)
Net increase/(decrease) in cash and cash equivalents		**586,895**	(1,410,967)
Cash and cash equivalents at the beginning of the period		**382,590**	3,652,875
Cash and cash equivalents at the end of the period	21	**969,485**	2,241,908
Operational cash flows from:			
Interest received		**158,746**	148,555
Income from Islamic financing and investing assets received		**12,375**	1,142
Interest paid		**89,033**	73,756
Distribution to Islamic depositors paid		**2,987**	6,017

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

1. Status and activities

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

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

Name	Principal activity	Principal place of business	Place of incorporation	% of ownership 2020	2019
International Financial Brokerage L.L.C.	Brokerage	Dubai - the UAE	Dubai - the UAE	99.4	99.4
Takamul Real Estate L.L.C.	Real estate	Dubai - the UAE	Dubai - the UAE	100.0	100.0
Al Khaleejiah Property Investments LLC	Real estate	Sharjah - the UAE	Sharjah - the UAE	52.8	52.8
Al Caribi Development Limited	Real estate	Antigua and Barbuda	British Virgin Islands	95.0	95.0
CBI Financial Services Limited	SPV	Dubai - the UAE	Cayman Islands	100.0	100.0
CBI Tier 1 Private Ltd	SPV	Dubai - the UAE	Cayman Islands	100.0	100.0

2. Application of new and revised IFRSs

2.1 New and revised IFRSs 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 2020, have been adopted in these condensed consolidated financial statements. The application of these revised IFRSs 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.

- Revised 'Conceptual Framework for Financial Reporting'.
- Amendments to IFRS 3 *Business Combinations* to clarify the definition of a business.
- Amendments to IFRS 7 F*inancial Instruments: Disclosures* and IFRS 9 *Financial Instruments* regarding pre-replacement issues in the context of the IBOR reform.
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* regarding the definition of material.

2.2 New and revised IFRSs in issue but not yet effective and not early adopted

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely
Amendments to IAS 1 *Presentation of Financial Statements* regarding the classification of liabilities.	1 January 2022
IFRS 17 *Insurance Contracts* requires insurance liabilities to be measured at current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principal based accounting for insurance contracts.	1 January 2023

2. Application of new and revised IFRSs (continued)

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

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 may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

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 IAS 34 - *Interim Financial Reporting* issued by the IASB.

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 2019 except for property and equipment as described in note 26.

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 2019. In addition, results for the three months period ended 31 March 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

As required by the SCA Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial instruments and investment properties have been disclosed in the condensed consolidated financial statements.

3.2 Financial instruments

Financial assets and financial liabilities are recognised in the Group's condensed consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

3. Significant accounting policies (continued)

3.3 Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

3.3.1 Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

3. Significant accounting policies (continued)

3.3 Financial assets (continued)

3.3.1 Debt instruments at amortised cost or at FVTOCI (continued)

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group may have more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

3.3.2 Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; and/or
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 24.

3. Significant accounting policies (continued)

3.3 Financial assets (continued)

3.3.3 Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on 'Modification and derecognition of financial assets' see note 3.3.10.

3.3.4 Foreign exchange gains and losses

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

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

3.3.5 Impairment

The Group recognises loss allowances for expected credit losses (ECL) on the financial instruments that are not measured at FVTPL (including loan commitments and financial guarantee contracts). No impairment loss is recognised on equity investments.

With the exception of 'Purchased or Originated Credit-Impaired' (POCI) financial assets (which are considered separately below), ECL are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECL are measured at an amount equal to the 12-month ECL.

ECL are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and

3. Significant accounting policies (continued)

3.3 Financial assets (continued)

3.3.5 Impairment (continued)

- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

3.3.6 Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event, instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

3.3.7 Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

3.3.8 Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECL and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

3. Significant accounting policies (continued)

3.3 Financial assets (continued)

3.3.8 Definition of default (continued)

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

3.3.9 Significant increase in credit risk (SICR)

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine the ECL.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending, forward looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in credit worthiness of borrowers measured by rating downgrade which result in higher PD as per staging criteria.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.

3. Significant accounting policies (continued)

3.3 Financial assets (continued)

3.3.9 Significant increase in credit risk (continued)

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL, unless the Group has reasonable and supportable information that demonstrates otherwise.

3.3.10 Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity and covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, with both amounts discounted at the original effective interest. If the difference in present value is substantial the Group deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

3. Significant accounting policies (continued)

3.3 Financial assets (continued)

3.3.10 Modification and derecognition of financial assets (continued)

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss.

A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

3. Significant accounting policies (continued)

3.3 Financial assets (continued)

3.3.11 Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off, or in the case of retail loan, when the amounts are over 180 days past due, whichever occurs sooner. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

3.3.12 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

3.4 Equity and financial liabilities

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

3.4.1 Equity instruments

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

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3.4.2 Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

3. Significant accounting policies (continued)

3.4 Equity and financial liabilities (continued)

3.4.2 Financial liabilities (continued)

3.4.2.1 Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

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

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

3.4.2.2 Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

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

3.4.3 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

3. Significant accounting policies (continued)

3.5 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated so as to write off the cost of investment properties using the 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 'receivable and other assets'.

Investment properties are derecognised when either they have been disposed of 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.

4. 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.

5. Estimates and judgments

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

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited consolidated financial statements as at and for the year ended 31 December 2019.

6. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the three months periods ended 31 March 2020 and 2019.

7. 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 2019.

7. Financial risk management (continued)

Summarised information of the Group's credit risk exposure per class of financial asset (subject to impairment) is provided in following table.

	31 March 2020			31 December 2019		
	Gross carrying amount AED '000 (unaudited)	ECL allowance AED '000 (unaudited)	Carrying Amount AED '000 (unaudited)	Gross carrying amount AED '000 (audited)	ECL allowance AED '000 (audited)	Carrying amount AED '000 (audited)
Balances with the Central Bank of the UAE						
Stage 1	**1,350,594**	**-**	**1,350,594**	2,327,982	-	2,327,982
Deposits and balances due from banks						
Stage 1	**742,698**	**(1,409)**	**741,289**	190,313	-	190,313
Loans and advances to customers - retail lending						
Stage 1	1,639,378	(11,490)	1,627,888	1,831,549	(13,091)	1,818,458
Stage 2	197,485	(22,443)	175,042	175,602	(19,405)	156,197
Stage 3	78,373	(33,571)	44,802	101,390	(34,148)	67,242
	1,915,236	**(67,504)**	**1,847,732**	2,108,541	(66,644)	2,041,897
Loans and advances to customers - wholesale lending						
Stage 1	5,794,193	(22,929)	5,771,264	6,842,027	(24,927)	6,817,100
Stage 2	2,202,103	(157,395)	2,044,708	1,880,300	(91,888)	1,788,412
Stage 3	1,526,553	(670,562)	855,991	1,500,222	(623,306)	876,916
	9,522,849	**(850,886)**	**8,671,963**	10,222,549	(740,121)	9,482,428
Islamic financing and investing assets - wholesale lending						
Stage 1	**439,525**	**(2,831)**	**436,694**	243,821	(2,726)	241,095
Receivables and other assets						
Stage 1	2,394,758	(2,964)	2,391,794	2,178,467	(2,963)	2,175,504
Stage 2	12,267	(190)	12,077	1,898	(17)	1,881
	2,407,025	**(3,154)**	**2,403,871**	2,180,365	(2,980)	2,177,385
Investment securities measured at amortised cost						
Stage 1	**1,159,897**	**(2,735)**	**1,157,162**	1,240,351	(2,937)	1,237,414
Loan commitments, letters of credit and financial guarantee contracts						
Stage 1	4,785,793	(12,701)	4,773,092	5,314,114	(12,923)	5,301,191
Stage 2	346,884	(6,842)	340,042	327,833	(6,679)	321,154
Stage 3	22,107	(4,371)	17,736	19,200	(4,479)	14,721
	5,154,784	**(23,914)**	**5,130,870**	5,661,147	(24,081)	5,367,066
	22,692,608	**(952,433)**	**21,740,175**	24,175,069	(839,489)	23,335,580

7.1 Covid-19 and its impact on ECL

With the onset of Covid-19 pandemic in first quarter of 2020 and the resultant economic disruption globally, governments and their central banks have extended economic relief measures including liquidity support to offset the adverse economic impact on individuals and corporates. In the determination of ECL, the Group has considered the potential impact on its portfolio within the available information around the economic uncertainties caused by the Covid-19 pandemic, including financial support and relief measures of the CBUAE. The Group has taken into account the specific guidelines issued by the CBUAE with regards to the TESS and guidance issued by IASB.

7. Financial risk management (continued)

7.1 Covid-19 and its impact on ECL (continued)

Identification of SCIR event

As explained in note 3.3.9, if there is a significant increase in credit risk since initial recognition, the Group measures the loss allowance based on lifetime rather than 12-month ECL i.e. financial assets are migrated from stage 1 to stage 2. A SICR event occurs when there has been a significant increase in the risk of a default occurring, over the expected life of a financial instrument. The Group continuously reviews its portfolio for other indicators of unlikeliness to meet its financial obligations, any financial deterioration beyond temporary liquidity stress and whether it is likely to be short term, because of Covid-19, or longer term.

In line with the CBUAE guidance to support the economy, the Group has initiated a program of payment relief for its impacted customers by deferring interest/principal due, for a period of three month to nine months until the end of December 2020. These payment reliefs are considered as short-term liquidity support to address borrower cash flow issues. The relief offered to customers may indicate a potential SICR event, however, management believes that the extension of these payment reliefs do not automatically trigger a SICR event and do not warrant a stage migration for the purposes of calculating ECL, as these should in fact support customer affected by the Covid-19 outbreak and help them to resume regular payments. The Group has undertaken impact assessment of Covid-19 on our portfolio, however at this stage, it is challenging to isolate and individually differentiate a customer's short-term liquidity constraints against a permanent change in lifetime credit risk at a point in time, hence this process will be continuously reviewed to determine the impact on ECL on reporting date. This is also in line with the expectations of the CBUAE as referred in the TESS guidelines.

Reasonableness of Forward Looking Information and probability weights

The overall impact of Covid-19 is subject to very high level of uncertainty as there is limited forward-looking information available in these times of high volatility, however the Group is continuously reviewing its portfolio as new information becomes available. The Group had previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio as part of model calibration exercise with qualitative expert judgement included as part of the process. Forecast of these economic variables (the "base, and downside economic scenario") are obtained from the CBUAE. Expert judgmental overlay has been exercised on wholesale portfolio in line with the CBUAE guidance to incorporate uncertainty in measuring ECL. The Group has limited unsecured portfolio across retail segment, hence we do not anticipate any significant increase in ECL due to Covid-19 impact.

The Group has applied industry specific and account level adjustments for significant wholesale exposures that are expected to be most impacted due to Covid-19. The increase in these judgmental overlays has resulted in an additional ECL of AED 36.9 million for the Group. The full assessment of impact of such uncertain economic environment is challenging and the Group will continue to reassess its position and the related impact on a regular basis. As with any economic forecasts, the forward-looking forecasts and the probability of such event occurrences are subject to significant uncertainty and therefore the actual outcomes in remaining quarters may be significantly different to those currently projected.

8. Cash and balances with the Central Bank of the UAE

In the table below, statutory cash ratio requirements with the Central Bank of the UAE represent 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 2.18% and 2.35% per annum (2019: 2.05% and 2.52% per annum).

8. Cash and balances with the Central Bank of the UAE (continued)

	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Cash on hand	**125,212**	82,586
Balances with the Central Bank of the UAE:		
Current account	**101,575**	109,691
Statutory cash ratio requirements	**599,019**	668,291
Certificates of deposit	**650,000**	1,550,000
	1,475,806	2,410,568

9. Deposits and balances due from banks

	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Demand and call deposit	**213,764**	190,313
Term deposits	**528,934**	-
	742,698	190,313
Less: ECL allowance	**(1,409)**	-
	741,289	190,313

10. Loans and advances to customers

	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Retail lending:		
Mortgage loans	**1,037,382**	1,087,663
Credit cards	**101,657**	116,906
Other	**776,197**	903,972
	1,915,236	2,108,541
Less: ECL allowance	**(67,504)**	(66,644)
	1,847,732	2,041,897
Wholesale lending:		
Loans	**7,531,544**	8,234,783
Overdrafts	**1,207,657**	1,184,551
Trust receipts	**352,514**	378,067
Bills discounted	**431,134**	425,148
	9,522,849	10,222,549
Less: ECL allowance	**(850,886)**	(740,121)
	8,671,963	9,482,428
	10,519,695	11,524,325

11. Investment securities measured at fair value

The Group has designated the following investments in equity instruments and investment fund at FVTOCI as these are the investments that the Group plans to hold in the long term for strategic reasons. The table below shows fair value of these investments.

	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Investment in quoted shares	**14,475**	14,475
Investment in unquoted shares	**33,116**	33,116
Investment in unquoted investment fund	**2,695**	2,695
	50,286	50,286

12. Investment securities measured at amortised cost

The table below shows investment securities at amortised cost held by the Group at the end of the reporting period. The Group holds these investment securities with an average yield of 2.1% to 7.4% per annum (2019: 2.1% to 7.4% per annum). The investment securities are redeemable at par on various maturity dates from 2020 to 2028 (2017: 2020 to 2028).

	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Investment in debt instrument	**904,046**	984,429
Investment in Islamic Sukuk	**255,851**	255,922
	1,159,897	1,240,351
Less: ECL allowance	**(2,735)**	(2,937)
	1,157,162	1,237,414

13. Customers' deposits

	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Current accounts	**2,213,456**	2,694,664
Savings accounts	**835,372**	937,299
Time deposits	**7,030,528**	7,371,529
Other	**253,696**	250,779
	10,333,052	11,254,271

14. Share capital

The authorised, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (2019: 1,737,383,050 shares of AED 1 each). Fully paid up shares carry one vote per share and carry a right to dividends.

15. Tier 1 Capital Securities

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

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

16. Reserves

The movements in the reserves during the period were as follows:

	Statutory reserve AED '000	General reserve AED '000	Investment revaluation reserve AED '000	Specific provision reserve AED '000	General provision reserve AED '000	Total AED '000
2020						
As at 1 January (audited) (restated)	268,778	11,104	(54,909)	223,377	33,534	481,884
Other comprehensive income/(loss)	-	-	-	-	-	-
Transfers	-	(11,104)	-	(10,248)	(33,534)	(54,886)
As at 31 March (unaudited)	**268,778**	**-**	**(54,909)**	**213,129**	**-**	**426,998**
2019						
As at 1 January (audited) (restated)	257,674	22,551	(43,870)	133,833	-	370,188
Other comprehensive income	-	-	201	-	-	201
Transfers	-	-	-	19,583	-	19,583
As at 31 March (unaudited) (restated)	257,674	22,551	(43,669)	153,416	-	389,972

17. Other operating income, net

	2020 AED '000 (unaudited)	2019 AED '000 (unaudited) (restated)
Foreign exchange gains	**8,271**	12,829
Net loss on financial assets measured at FVTPL	**(1,735)**	(455)
Other	**6,657**	6,648
	13,193	19,022

18. Net impairment loss on financial assets

	2020 AED '000 (unaudited)	2019 AED '000 (unaudited)
Net ECL charge for the period	**112,777**	103,106
Recoveries against written off loans	**(21,336)**	(8,014)
Bad debts written off	**-**	80
Other	**617**	1,025
	92,058	96,197

19. Basic and diluted 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:

	From continuing operations		From continuing and discontinued operations	
	2020 (unaudited)	2019 (unaudited) (restated)	2020 (unaudited)	2019 (unaudited) (restated)
Profit for the period attributable to owners of the Bank (AED'000)	**10,090**	24,437	**10,090**	24,408
Weighted average number of shares in issue ('000)	**1,737,383**	1,737,383	**1,737,383**	1,737,383
Basic and diluted earnings per share (AED)	**0.006**	0.014	**0.006**	0.014

20. Contingent liabilities and commitments

	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Letters of credit and guarantees:		
Guarantees	**3,030,362**	3,174,176
Letters of credit	**364,250**	489,808
	3,394,612	3,663,984

20. Contingent liabilities and commitments (continued)

	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Other commitments:		
Loan Commitments	**1,760,172**	1,997,163
Capital commitments	**2,021**	1,805
	1,762,193	1,998,968

21. Cash and cash equivalents

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

	31 March 2020 AED '000 (unaudited)	31 December 2019 AED '000 (audited)	31 March 2019 AED '000 (unaudited)
Cash and balances with the Central Bank of the UAE	**1,475,806**	2,410,568	4,476,757
Deposits and balances due from banks	**742,698**	190,313	42,905
	2,218,504	2,600,881	4,519,662
Less: Statutory reserve with the Central Bank of the UAE	**(599,019)**	(668,291)	(777,754)
Less: CDs with original maturity of more than 90 days	**(650,000)**	(1,550,000)	(1,500,000)
	969,485	382,590	2,241,908

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

b) Related party balances at the end of the reporting period were as follows:

	Terms %	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Subsidiaries			
Financial guarantee contract		**25,000**	25,000
Associate			
Loans and advances to customers	**5.0**	**96,263**	95,000
Receivables and other assets	**-**	**16,910**	16,910
Key management personnel (including directors)			
Loans and advances to customers	**2.75 - 3.0**	**11,667**	3,934
Customers' deposits	**2.5**	**6,915**	1,193

22. Related party transactions (continued)

	Terms %	2020 AED '000 (unaudited)	2019 AED '000 (audited)
Other related parties			
Loans and advances to customers		**-**	542,204
Deposits and balances due from banks	**-**	**15,223**	8,020
Deposits and balances due to banks	**-**	**35,461**	23,533
Customers' deposits	**-**	**-**	300,314
Interest rate swaps (Notional amount)	**-**	**36,730**	36,730
Tier 1 capital securities	**6.5**	**459,125**	459,125

c) Significant transactions with related parties during the period were as follows:

	2020 AED '000 (unaudited)	2019 AED '000 (unaudited)
Associate		
Interest income	**1,150**	749
Key management personnel (including directors)		
Interest income	**119**	89
Interest expense	**7**	24
Directors' expenses	**120**	298
Compensation of key management personnel	**5,370**	4,205
Other related parties		
Interest income	**-**	5,851
Interest expense	**-**	1,913

23. Operating segments

Operating Segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO in order to allocate resources to the segment and to assess its performance. The Group's reportable segments under IFRS 8 are therefore as follows:

- Wholesale banking;
- Retail banking;
- Treasury;
- Real estate (financial position and results of real estate subsidiary TRE);
- Other

23. Operating segments (continued)

The segmental information provided to the Group's CEO for the reportable segments for the period ended 31 March 2020 and 31 March 2019 were as follows:

	Wholesale banking AED '000	Retail banking AED '000	Treasury AED '000	Real estate AED '000	Other AED '000	Total AED '000
Three months period ended 31 March 2020 (unaudited)						
Net interest income from external customers	84,790	16,732	18,991	1,722	(193)	**122,042**
Inter-segmental net interest income	(6,808)	10,970	(2,633)	(1,722)	193	**-**
Fee and commission income	37,806	8,595	7	-	-	**46,408**
Fee and commission expense	(787)	(3,995)	(183)	-	(7)	**(4,972)**
Other operating income, net	10,857	1,284	548	504	-	**13,193**
Impairment losses and provisions, net	(71,077)	(19,772)	(1,209)	-	-	**(92,058)**
General and administrative expenses excluding depreciation and amortisation	(34,432)	(25,748)	(3,463)	(517)	(156)	**(64,316)**
Depreciation and amortisation	(5,147)	(2,775)	(453)	(782)	-	**(9,157)**
Share of results of associates	(1,050)	-	-	-	-	**(1,050)**
Profit/(loss) for the period	**14,152**	**(14,709)**	**11,605**	**(795)**	**(163)**	**10,090**
As at 31 March 2020 (unaudited)						
Assets	11,377,625	1,847,732	3,465,509	287,372	888,156	**17,866,394**
Liabilities	11,083,039	2,152,783	1,848,593	959	299,140	**15,384,514**

Non-current asset held for sale and associated liabilities are presented in 'Wholesale banking' segment.

23. Operating segments (continued)

	Wholesale banking AED '000	Retail banking AED '000	Treasury AED '000	Real estate AED '000	Other AED '000	Total AED '000
Three months period ended 31 March 2019 (unaudited) (restated)						
Net interest income from external customers	64,333	51,443	4,911	-	2,915	**123,602**
Inter-segmental net interest income	1,869	-	-	(1,869)	-	**-**
Fee and commission income	51,166	25,335	-	-	-	**76,501**
Fee and commission expense	(2,252)	(4,892)	(285)	-	(149)	**(7,578)**
Other operating income, net	4,639	6,018	2,834	5,471	60	**19,022**
Impairment losses and provisions, net	(60,816)	(35,412)	31	-	-	**(96,197)**
General and administrative expenses excluding depreciation and amortisation	(11,303)	(29,085)	(1,236)	(1,986)	(40,178)	**(83,788)**
Depreciation and amortisation	(657)	(2,755)	(72)	(319)	(2,622)	**(6,425)**
Share of results of associates	(700)	-	-	-	-	**(700)**
Loss from discontinued operations	-	-	-	-	(29)	**(29)**
Profit/(loss) for the period	**46,279**	**10,652**	**6,183**	**1,297**	**(40,003)**	**24,408**
As at 31 December 2019 (audited) (restated)						
Assets	11,732,868	2,157,117	3,976,640	285,211	455,472	**18,607,308**
Liabilities	9,418,160	4,558,679	1,696,134	445	462,100	**16,135,518**

The Group conducted all of its operation in the UAE, there is no operation outside the UAE apart from non-current asset held for sale and associated liabilities.

24. Fair value of financial instruments

This note provides information about how the Group determines the fair value of various financial assets and financial liabilities.

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The fair value of financial assets and financial liabilities are determined as follows:

- Fair value of all quoted investments measured at fair value through profit or loss and at fair value through other comprehensive income are based on quoted bid prices in an active market;

24. Fair value of financial instruments (continued)

24.1 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

- Fair value of all unquoted equity investments and unquoted investment funds measured at fair value through other comprehensive income is mainly based on market approach based valuation technique using price/book value multiple of trading peers and precedent transactions. These price/book values multiples and precedent transactions are unobservable inputs; and
- Fair value of all derivatives is calculated using discounted cash flows. Discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Derivatives are measured using quoted rates and yield curves derived from quoted rates matching maturities of the contracts.

The table below summarises the Group's financial instruments fair value according to fair value hierarchy:

	Level 1		Level 3	
	2020 AED '000 (unaudited)	**2019 AED '000 (audited)**	**2020 AED '000 (unaudited)**	**2019 AED '000 (audited)**
Financial assets at fair value through other comprehensive income				
Equity shares	**14,475**	14,475	**33,116**	33,116
Investment funds	**-**	-	**2,695**	2,695
	14,475	14,475	**35,811**	35,811

	Level 2	
	2020 AED '000 (unaudited)	**2019 AED '000 (audited)**
Financial assets at fair value through profit or loss		
Positive fair value of derivatives financial assets	**40,966**	26,792
Financial liabilities at fair value through profit or loss		
Negative fair value of derivatives financial assets	**42,760**	27,409

For level 3 fair valuation, the higher the unobservable input of price/book value multiple, the higher the fair value. The price/book value multiple used in valuation ranges between AED 0.91X to AED 0.95X (2019: AED 0.91X to AED 0.95X). There were no transfers between Level 1 and 2 during the periods ended 31 March 2020 and 2019.

Reconciliation of Level 3 fair value measurements of financial assets

	2020 AED '000 (unaudited)	**2019 AED '000 (audited)**
Balance at the beginning of the period/year	**35,811**	45,523
Total losses in other comprehensive income	**-**	(9,510)
Redemption	**-**	(202)
	35,811	35,811

24. Fair value of financial instruments (continued)

24.1 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

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

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

24.2 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.

	Carrying amount		Fair value	
	2020 AED '000 (unaudited)	**2019 AED '000 (audited)**	**2020 AED '000 (unaudited)**	**2019 AED '000 (audited)**
Investment securities measured at amortised cost	**1,157,162**	1,237,414	**1,038,577**	1,262,240

25. Capital management

The Group's capital management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2019.

Regulatory capital

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

	2020 AED '000 (unaudited)	**2019 AED '000 (audited)**
CET1 capital	**1,879,554**	1,754,694
AT1 capital	**459,125**	459,125
T2 capital	**174,909**	175,167
Total capital base	**2,513,588**	2,388,986
Credit risk	**13,992,730**	14,013,333
Market risk	**10,591**	10,594
Operational risk	**1,489,725**	1,494,604
Total risk weighted assets	**15,493,046**	15,518,531
CET1 capital ratio	**12.13%**	11.31%
Tier 1 capital ratio	**15.10%**	14.27%
Total capital ratio	**16.22%**	15.39%

26. Restatement

During the period the Group has voluntarily changed its accounting policy of land and buildings under property and equipment from revaluation model to cost model. Management believes that change will result in financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows.

The Group has applied change in accounting policy using the full retrospective approach, with restatement of the comparative information. New accounting policy and financial impact of change in accounting policy is described below.

26.1 New accounting policy for property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are charged to the consolidated income statement in the period in which they are incurred.

Capital work in progress is carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of assets, other than land and capital work in progress, using the straight-line method, over the estimated useful lives of the respective assets. Freehold land is not depreciated. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	25 years
Property improvements	4 - 7 years
Furniture, fixtures, equipment and vehicles	4 years
Right of use assets	2 - 5 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated income statement.

26.2 Financial impact of restatement

The table below shows the amount of adjustment for each financial statement line item affected by restatement for prior periods.

	As previously reported AED '000 (unaudited)	Restatement AED '000 (unaudited)	As restated AED '000 (unaudited)
Period ended 31 March 2019			
Impact on profit or loss			
Other operating income	15,027	3,995	19,022
General and administrative expenses	(90,640)	427	(90,213)
Net impact on profit or loss		**4,422**	
Impact on other comprehensive income			
Revaluation of properties	3,995	(3,995)	-
Net impact on other comprehensive income		**(3,995)**	

26. Restatement (continued)

26.2 Financial impact of restatement (continued)

	As previously reported AED '000 (unaudited)	Restatement AED '000 (unaudited)	As restated AED '000 (unaudited)
Period ended 31 March 2019			
Impact on earnings per share			
Basic and diluted earnings per share from continuing operations (AED)	0.012	0.002	0.014
Basic and diluted earnings per share from continuing and discontinued operations (AED)	0.012	0.002	0.014
Impact on cash flows			
Cash flows from operating activities	(1,340,760)	-	(1,340,760)
Cash flows from investing activities	(70,207)	-	(70,207)
Cash flows from financing activities	-	-	-
Net impact on cash flows		**-**	

	As previously reported AED '000 (audited)	Restatement AED '000 (unaudited)	As restated AED '000 (unaudited)
As at 1 January 2019			
Impact on assets, liabilities and equity			
Property and equipment	217,811	(27,178)	190,633
Net impact on total assets		**(27,178)**	
Net impact on total liabilities		**-**	
Reserves	397,366	(27,178)	370,188
Net impact on total equity		**(27,178)**	
As at 31 December 2019			
Impact on assets, liabilities and equity			
Property and equipment	113,210	(25,470)	87,740
Net impact on total assets		**(25,470)**	
Net impact on total liabilities		**-**	
Reserves	507,354	(25,470)	481,884
Net impact on total equity		**(25,470)**	

27. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 26 July 2020.

Glossary of abbreviations

AED	United Arab Emirates Dirham
AKPI	Al Khaleejiah Property Investments LLC
AT1	Additional Tier 1
Basel III	Basel III: International regulatory framework for banks
CBI	Commercial Bank International PSC
CBUAE	Central Bank of the UAE
CDs	Certificates of Deposit
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
ECL	Expected Credit Losses
EIR	Effective Interest Rate
EPS	Earnings Per Share
FVTOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASs	International Accounting Standards
IFB	International Financial Brokerage LLC
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IFRSs	International Financial Reporting Standards
LGD	Loss Given Default
LLC	Limited Liability Company
OCI	Other Comprehensive Income
PD	Probability of Default
POCI	Purchased or Originated Credit Impaired
SCA	Securities and Commodities Authority of the UAE
SIC	Standard Interpretations Committee
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest on the principal amount outstanding
SPV	Special Purpose Vehicle
T2	Tier 2
TESS	Targeted Economic Support Scheme
the UAE	the United Arab Emirates
TRE	Takamul Real Estate LLC