Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
31 March 2018

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements

For the three-month period ended 31 March 2018

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

The Shareholders of Commercial Bank of Dubai PSC

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Commercial Bank of Dubai PSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprises:

- the condensed consolidated interim statement of financial position as at 31 March 2018;
- the condensed consolidated interim statement of profit or loss for the three-month period ended 31 March 2018;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month period ended 31 March 2018;
- the condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2018;
- the condensed consolidated interim statement of cash flows for the three-month period ended 31 March 2018; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 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 31 March 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2017 and for the three month period ended 31 March 2017 were audited/reviewed by another auditor who expressed an unmodified audit/review opinion on those statements on 22 February 2018 and 20 April 2017 respectively.

KPMG Lower Gulf Limited

Vijendra Nath Malhotra
Registration Number: 48
Dubai, United Arab Emirates
Date: 25 APR 2018

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of financial position

As at 31 March 2018

	Notes	31 March 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
ASSETS			
Cash and balances with Central Bank	7	**6,255,205**	6,808,539
Due from banks, net	8	**3,278,565**	2,834,710
Loans and advances and Islamic financing, net	9	**46,967,028**	47,275,725
Investment securities, net	10	**7,012,877**	7,077,080
Investment in an associate		**84,719**	81,053
Investment properties		**199,331**	194,980
Property and equipment		**376,480**	383,704
Bankers acceptances		**5,397,209**	5,121,186
Other assets		**635,668**	637,080
TOTAL ASSETS		**70,207,082**	70,414,057
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**637,637**	779,823
Customer deposits and Islamic customer deposits	11	**48,204,030**	48,411,192
Notes and medium term borrowings	12	**6,091,933**	6,089,663
Due for trade acceptances		**5,397,209**	5,121,186
Other liabilities		**1,513,669**	931,438
TOTAL LIABILITIES		**61,844,478**	61,333,302
EQUITY			
Share capital	13	**2,802,734**	2,802,734
Legal reserve		**1,401,367**	1,401,367
Capital reserve		**38,638**	38,638
General reserve		**1,328,025**	1,328,025
Fair value reserve		**(112,010)**	(10,956)
Retained earnings		**2,903,850**	3,520,947
TOTAL EQUITY		**8,362,604**	9,080,755
TOTAL LIABILITIES AND EQUITY		**70,207,082**	70,414,057

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 25 April 2018.

The attached notes on pages 8 to 26 form part of these condensed consolidated interim financial statements.

Mr. Humaid Al Qutami
Chairman

Dr. Bernd van Linder
Chief Executive Officer

The review report of the Auditors is set out on page 1 and 2.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of profit or loss

For the three-month period ended 31 March 2018

	Notes	31 March 2018 AED'000 (Unaudited)	31 March 2017 AED'000 (Unaudited)
Interest income and income from Islamic financing		**661,928**	586,937
Interest expense and distributions to Islamic depositors		**(204,091)**	(156,839)
Net interest income and net income from Islamic financing		**457,837**	430,098
Net fees and commission income		**141,982**	144,934
Net gains from foreign exchange and derivatives		**36,295**	31,838
Net gains from investments at fair value through profit or loss		**193**	2,509
Net gains from sale of equity investments at fair value through other comprehesive income		**-**	1,198
Net gains from sale of debt investments at fair value through other comprehesive income		**1,923**	513
Share of profit of from associate		**3,666**	3,560
Dividend income		**4,674**	3,137
Other income		**11,432**	10,167
Total operating income		**658,002**	627,954
Impairment allowances on due from banks	*8*	**(3)**	-
Impairment allowances on loans and advances and Islamic financing	*9*	**(158,170)**	(256,736)
Impairment allowance on other assets		**(14,334)**	-
Recoveries	*9*	**7,011**	13,922
Reversal of impairment allowance on investments securities	*10*	**866**	-
Total net income		**493,372**	385,140
Staff and other expenses		**(199,053)**	(211,547)
Depreciation and amortisation		**(14,575)**	(13,447)
Total operating expenses		**(213,628)**	(224,994)
Net profit for the period		**279,744**	160,146
Basic and diluted earnings per share	*14*	**AED 0.1**	AED 0.06

The attached notes on pages 8 to 26 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on page 1 and 2.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of profit or loss and other comprehensive income

For the three-month period ended 31 March 2018

	31 March 2018 AED'000 (Unaudited)	31 March 2017 AED'000 (Unaudited)
Net profit for the period	**279,744**	160,146
Items that will not be reclassified to profit or loss:		
Realised gains on sale of equity investments held at FVOCI	**886**	-
Revaluation loss of equity investments held at FVOCI	**(11,234)**	-
Items that may be subsequently reclassified to profit or loss:		
Other comprehensive income:		
Changes in fair value of effective portion of cash flow hedge	**(4,788)**	(2,394)
Realised gain on sale of equity investments	**-**	(1,198)
	(4,788)	(3,592)
Changes in investments held at FVOCI:		
Realised gain on sale of debt investments	**(1,923)**	(513)
Revaluation (loss) / gain on debt investments	**(83,109)**	38,053
Net change in investments held at FVOCI	**(85,032)**	37,540
Other comprehensive (loss) / income for the period	**(100,168)**	33,948
Total comprehensive income for the period	**179,576**	194,094

The attached notes on pages 8 to 26 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on page 1 and 2.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of changes in equity

For the three-month period ended 31 March 2018

	Share capital AED'000	Legal reserve AED'000	Capital reserve AED'000	General reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2017	2,802,734	1,401,367	38,638	1,328,025	18,014	3,090,845	8,679,623
Transactions with shareholders, recorded directly in equity							
Cash dividend for 2016 (20%)	-	-	-	-	-	(560,547)	(560,547)
Directors' remuneration for 2016	-	-	-	-	-	(11,000)	(11,000)
Other comprehensive income							
Net profit for the period	-	-	-	-	-	160,146	160,146
Other comprehensive income for the period	-	-	-	-	33,948	-	33,948
Total other comprehensive income for the period	-	-	-	-	33,948	160,146	194,094
At 31 March 2017 (unaudited)	2,802,734	1,401,367	38,638	1,328,025	51,962	2,679,444	8,302,170
At 1 January 2018	**2,802,734**	**1,401,367**	**38,638**	**1,328,025**	**(10,956)**	**3,520,947**	**9,080,755**
IFRS 9 adjustment (refer note 5)	-	-	-	-	-	**(396,249)**	**(396,249)**
	2,802,734	**1,401,367**	**38,638**	**1,328,025**	**(10,956)**	**3,124,698**	**8,684,506**
Transactions with shareholders, recorded directly in equity							
Cash dividend for 2017 (17.5%)	-	-	-	-	-	**(490,478)**	**(490,478)**
Directors' remuneration for 2017	-	-	-	-	-	**(11,000)**	**(11,000)**
Other comprehensive income							
Net profit for the period	-	-	-	-	-	**279,744**	**279,744**
Other comprehensive loss for the period	-	-	-	-	**(101,054)**	**886**	**(100,168)**
Total other comprehensive income for the period	-	-	-	-	**(101,054)**	**280,630**	**179,576**
At 31 March 2018 (unaudited)	**2,802,734**	**1,401,367**	**38,638**	**1,328,025**	**(112,010)**	**2,903,850**	**8,362,604**

The attached notes on pages 8 to 26 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on page 1 and 2.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of cash flows

For the three-month period ended 31 March 2018

	Note	31 March 2018 AED'000 (Unaudited)	31 March 2017 AED'000 (Unaudited)
OPERATING ACTIVITIES			
Net profit for the period		**279,744**	160,146
Adjustments for:			
Depreciation and amortisation		**14,575**	13,447
Loss on disposal of property and equipment		**75**	-
Amortisation of premium / discounts on investments		**13,000**	13,879
Dividend income		**(4,674)**	(3,137)
Gain on forex translation		**(2,662)**	(3,203)
Realised gains on sale of investments		**(2,019)**	(3,872)
Net unrealised gain on derivatives		**(16,595)**	(1,326)
Share of profit of from associate		**(3,666)**	(3,560)
Impairment allowance on other assets		**14,334**	-
Reversal of impairment allowance on investments securities		**(866)**	-
Amortisation of transaction cost on notes and medium term borrowings		**2,270**	2,262
		293,516	174,636
Increase in statutory reserve with the Central Bank		**(41,334)**	(41,001)
Decrease in negotiable Central Bank certificate of deposits with original maturity of more than three months		**550,000**	-
(Increase) / decrease in due from banks with original maturity of more than three months		**(2,802)**	176,639
Increase in loans and advances and Islamic financing, net		**(79,864)**	(2,043,123)
Increase in other assets		**(15,146)**	(65,879)
(Decrease) / increase in customer deposits and Islamic customer deposits		**(207,162)**	2,154,758
Increase in other liabilities		**92,574**	358,471
Decrease in due to banks with original maturity of more than three months		**(183,650)**	(150,000)
Directors' remuneration paid		**-**	(11,000)
Net cash flow from operating activities		**406,132**	553,501
INVESTING ACTIVITIES			
Purchase of investments		**(1,156,466)**	(2,305,909)
Purchase of property and equipment		**(11,787)**	(10,398)
Dividend income		**4,674**	3,137
Proceeds from sale of investments		**1,112,729**	2,233,775
Dividend from an associate		**-**	3,194
Proceeds from sale of property and equipment		**10**	-
Net cash flow used in investing activities		**(50,840)**	(76,201)
Net increase in cash and cash equivalents		**355,292**	477,300
Cash and cash equivalents at 1 January		**3,471,981**	5,558,692
Cash and cash equivalents at end of the period	*15*	**3,827,273**	6,035,992

The attached notes on pages 8 to 26 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on page 1 and 2.

1 LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates (U.A.E.) in 1969 and is registered as a Public Shareholding Company (PSC) in accordance with Federal Law No. 2 of 2015. The Bank is listed on the Dubai Financial Market. The Bank's principal activity is commercial banking. The registered address of the Bank is Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

The condensed consolidated interim financial statements of the Group for the three month period ended 31 March 2018 comprise the results of the Bank, its wholly owned subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

Details about subsidiaries and an associate:

a) CBD Financial Services LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is broking for local shares and bonds.
b) Attijari Properties LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is self-owned property management services and buying & selling of real estate.
c) CBD (Cayman) Limited is a special purpose entity (SPE) registered in British Virgin Islands. The SPE has been established for any future issuance of debt securities.
d) CBD (Cayman II) Limited, which is a special purpose entity (SPE) registered in British Virgin Islands. The SPE has been established to transact and negotiate derivatives agreements.
e) National General Insurance Co. (PSC) is an associate of the Bank and is listed on the Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds 17.8% interest in the associate. The management believes that it has significant influence on the associate by virtue of having representation on the board of directors of the associate.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. These condensed consolidated interim financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2017.

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2017, except for the adoption of IFRS 9 and IFRS 15 for the first time.

From 1 January 2018, under Federal Decree-Law No. (8) of 2017, Value Added Tax (VAT) has been levied in United Arab Emirates. The Group complies with the executive regulations and is required to file quarterly returns.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2 Functional and presentation currency

The condensed consolidated interim financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional and presentation currency, rounded to the nearest thousand unless otherwise stated.

2.3 Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Bank, its wholly owned subsidiaries (together referred to as "the Group"), which it controls and the Group's interest in an associate, as at 31 March 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

3 SUMMARY OF SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of initial application of 1 January 2018, which resulted in changes in accounting policies.

As permitted by the transitional provisions of IFRS 9, the Group has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised directly in the retained earnings as of 1 January 2018 and are disclosed in the Note 5. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have only been applied to the current period.

3.1 Financial assets

a) Classification and measurement of financial instruments

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and loans and receivables) have been replaced by:

(i) Amortised cost;

(ii) Fair value through other comprehensive income (FVOCI); or

(iii) Fair value through profit or loss (FVPL).

(i) Financial assets at amortized cost

A debt instrument, including loans and advances, Islamic financing asset is classified as being measured at amortized cost if they are held within a business model where the objective is to hold financial assets in order to collect contractual cash flows.

(ii) Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is classified as being measured at FVOCI if they are held within a business model where the objective is achieved by both collecting contractual cash flows and selling the debt instrument and is not designated at FVPL.

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in statement of profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from statement of changes in equity to statement of profit or loss and recognised in 'Net gains from sale of investments held at FVOCI'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to statement of profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

(iii) Financial asset at FVPL

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and is presented in the profit or loss statement within 'Net gains from investments at FVPL' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net gains from sale of debt investments at FVOCI'.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Interest income from these financial assets is included in 'Net gains from investments at fair value through profit or loss' using the effective interest rate method.

Gains and losses on equity investments at FVPL are included in the 'Net gains from investments at fair value through profit or loss' line in the condensed consolidated interim statement of profit or loss.

3 SUMMARY OF SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.1 Financial assets (continued)

a) Classification and measurement of financial instruments (continued)

IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of

- o the entity's business model for managing the assets and
- o the instruments' contractual cash flow characteristics.

o ***Business model assessment***

The Group makes an assessment of the objective of a business model in which a financial asset is held at portfolio level, because this reflects the way the business is managed and information is provided to the management. The assessment is not determined by a single factor or activity. Instead, the entity considers all relevant information available at the date of the assessment. The information considered includes:

- How the performance of the portfolio and the financial asset held within the portfolio is evaluated and reported to the management.
- The risks that affect the performance of the portfolio and, in particular, the way in which those risks are managed.
- How the managers of the portfolio are compensated.
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

o ***Assessment whether contractual cash flows is solely payments of principal and interest***

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

b) Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs that are not measured at FVPL on the following financial instruments:

- loans and advances and other financial assets;
- loan commitments;
- lease receivables; and
- financial guarantee contracts.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

3 SUMMARY OF SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.1 Financial assets (continued)

b) Impairment of financial assets (continued)

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the life time expected credit losses (LTECLs).

Stage 3: Loans considered credit-impaired. The group records an allowance for the LTECLs.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

(i) Assessment of significant increase in credit risk

Assessment of significant increase in credit is performed on atleast quarterly basis for each individual exposure. Quantitative thresholds are established for the significant increase in the credit based on the movement in credit rating grades relative to initial recognition as mentioned in the annual audited financial statements. In addition to quantitative criteria the Group has a proactive Early Warning Indicator (EWI) framework, based on which the Credit Risk team performs a portfolio quality review on a monthly basis. The objective of the same is to identify potentially higher risk customers within the performing customers.

(ii) Improvement in credit risk profile

The Group has defined below criteria to assess any improvement in the credit risk profile which will result into upgradation of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) after meeting the curing period of atleast 12 months.
- Restructured cases will be upgraded if repayments of 3 installments have been made or 12 months cure period, if the repayments frequency are longer than monthly or quarterly installments.

(iii) Default definition

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and based on data developed internally and obtained from external sources.

The Group has performed a historical default rate analysis to identify homogeneous segments and further estimated ECL parameters (i.e. PD, LGD and EAD) at similar granularities. To perform a historical default rate analysis, the Group has adopted two separate definitions of default for the non-retail and the retail portfolio.

o ***Non-retail portfolio***

The non-retail portfolio comprises of loans which are managed individually by the Relationship Managers (RMs) with oversight from the Credit Risk team of the Group. These loans are appraised at-least annually based on the financial information, other qualitative information and account conduct of the customer.

3 SUMMARY OF SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.1 Financial assets (continued)

b) Impairment of financial assets (continued)

(iii) Default definition (continued)

o ***Non-retail portfolio (continued)***

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

o ***Retail portfolio***

The retail portfolio comprises of loans that are managed at a product level, and based on approved product programs. A retail account is identified as default if the customer is delinquent for more than 90 days.

(iv) Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group relies on a broad range of forward looking information as economic inputs such as:

- GDP growth
- Central Bank base rate

3.2 Use of estimates and judgments

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, significant judgment is exercised by management in applying the Group's accounting policies. The key sources of estimation and uncertainty are consistent with the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2017, except for the following:

3.2.1 Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

3.2.2 Impairment of financial instruments

The measurement of the ECL allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk since initial recognition;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL.

4 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS "IFRS"

Relevant new and revised IFRS applied with no material effect on the condensed consolidated interim financial statements

The following new and revised IFRS have been adopted in these condensed consolidated interim financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods.

	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	1 January 2018
Amendments to IFRS 2 'Share Based Payment'	1 January 2018
Amendments to IFRS 4 'Insurance Contracts'	1 January 2018
Amendments to IAS 40 'Investment Property'	1 January 2018

5 Summary of impact analysis as per IFRS 9

The following table reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Group's financial assets and financial liabilities with the impairment effect on opening retained earnings as at 1 January 2018.

	Original classification as per IAS 39	New classification as per IFRS 9	Original carrying amount	ECL under IFRS 9	New carrying amount
Financial assets					
Cash and balances with Central Bank	Other amortised cost	Amortised cost	6,808,539	-	6,808,539
Due from banks, net	Other amortised cost	Amortised cost	2,834,710	184	2,834,526
Loans and advances and Islamic financing, net	Loans and receivables	Amortised cost	47,275,725	388,748	46,886,977
Investment securities - Debt	FVPL	FVPL	42,104	-	42,104
Investment securities - Debt	AFS	FVOCI	6,810,574	7,177	6,803,397
Investment securities - Debt	HTM	Amortised cost	133,242	140	133,102
Equity securities	AFS	FVOCI	91,160	-	91,160
Other assets	FVPL	FVPL	69,675	-	69,675
Other assets	Other amortised cost	Amortised cost	326,825	-	326,825
Total financial assets			**64,392,554**	**396,249**	**63,996,305**
Financial liabilities					
Due to banks	Other amortised cost	Amortised cost	779,823	-	779,823
Customer deposits and Islamic customer deposits	Other amortised cost	Amortised cost	48,411,192	-	48,411,192
Notes and medium term borrowings	Other amortised cost	Amortised cost	6,089,663	-	6,089,663
Other liabilities	FVPL	FVPL	73,984	-	73,984
Other liabilities	Other amortised cost	Amortised cost	740,665	-	740,665
Total financial liabilities			**56,095,327**	**-**	**56,095,327**

6 RISK GOVERNANCE AND FINANCIAL RISK MANAGEMENT

The Group's Risk Governance and Financial Risk Management objectives, policies and procedures are consistent with those disclosed in the annual audited consolidated financial statements as at and for the year ended 31 December 2017.

7 CASH AND BALANCES WITH CENTRAL BANK

	31 March 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Cash in hand	**401,682**	509,915
Balances with U.A.E Central Bank		
- Clearing account balances	**239,156**	475,591
- Statutory reserves	**3,064,367**	3,023,033
- Negotiable certificates of deposit	**2,550,000**	2,800,000
	6,255,205	6,808,539

Statutory reserves are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the Central Bank. The level of reserves required changes periodically in accordance with the directives of the Central Bank.

Cash and balances with Central Bank is classified in stage 1 as per IFRS 9. However, there are no expected credit losses and hence no provision has been recognised.

8 DUE FROM BANKS, NET

	31 March 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Current and demand deposits	**1,032,610**	1,084,783
Overnight, call and short notice	**2,091,462**	1,597,865
Loans to banks	**154,680**	152,062
Gross due from banks	**3,278,752**	2,834,710
Allowances for impairment losses	**(187)**	-
Net due from banks	**3,278,565**	2,834,710
Within the U.A.E.	**937,940**	991,877
Outside the U.A.E.	**2,340,625**	1,842,833
	3,278,565	2,834,710

Due from banks is classified in stage 1 as per IFRS 9. The expected credit loss as at 31 March 2018 is AED 187 thousand (31 December 2017: AED 184 thousand).

9 LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

The composition of the loans and advances and Islamic financing portfolio is as follows:

	31 March 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Loans and advances		
Overdrafts	**4,807,609**	4,659,635
Loans	**34,585,329**	35,277,114
Advances against letters of credit and trust receipts	**1,866,401**	1,473,914
Bills discounted	**1,714,194**	1,711,513
Gross loans and advances	**42,973,533**	43,122,176
Islamic financing		
Murabaha and Tawaruq	**2,834,247**	2,630,365
Ijara	**4,499,911**	4,314,252
Others	**109,762**	118,654
Gross Islamic financing	**7,443,920**	7,063,271
Gross loans and advances and Islamic financing	**50,417,453**	50,185,447
Allowances for impairment losses	**(3,450,425)**	(2,909,722)
Net loans and advances and Islamic financing	**46,967,028**	47,275,725

Concentration by sector	**31 March 2018 AED'000 (Unaudited)**	31 December 2017 AED'000 (Audited)
Manufacturing	**2,972,854**	3,063,164
Construction	**2,423,326**	2,076,674
Real estate	**16,050,138**	16,257,991
Trade	**5,159,343**	4,959,352
Transportation and storage	**1,952,406**	1,952,551
Services	**3,970,491**	3,710,102
Hospitality	**2,747,705**	2,929,679
Financial and insurance activities	**5,091,087**	4,668,691
Government entities	**141,847**	135,121
Personal-mortgage	**2,682,206**	2,627,582
Personal-schematic	**4,275,894**	4,544,506
Individual loans for business	**2,081,085**	2,282,999
Others	**869,071**	977,035
Gross loans and advances and Islamic financing	**50,417,453**	50,185,447
Allowances for impairment losses	**(3,450,425)**	(2,909,722)
Net loans and advances and Islamic financing	**46,967,028**	47,275,725

9 LOANS AND ADVANCES AND ISLAMIC FINANCING, NET (CONTINUED)

An analysis of changes in the gross carrying and the corresponding ECL allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying as at 1 Jan 2018	41,515,604	3,819,155	4,850,688	**50,185,447**
Net transfers between stages	(1,295,846)	1,118,507	177,339	-
Net additions / (repayments)	638,434	(301,755)	(64,254)	**272,425**
Amounts written off	-	-	(40,419)	**(40,419)**
At 31 March 2018	**40,858,192**	**4,635,907**	**4,923,354**	**50,417,453**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowance as at 1 Jan 2018	934,633	282,946	2,080,891	**3,298,470**
Net transfers between stages	(32,384)	22,508	9,876	-
Net (reversals) / impairment charge	(7,484)	(12,207)	177,861	**158,170**
Interest not recognised	-	-	41,215	**41,215**
Recoveries	-	-	(7,011)	**(7,011)**
Amounts written off	-	-	(40,419)	**(40,419)**
At 31 March 2018	**894,765**	**293,247**	**2,262,413**	**3,450,425**

	Interest suspended AED'000	Specific provisions AED'000	Collective provisions AED'000	Total AED'000
Opening balance 1 January 2017	530,661	1,849,309	771,330	3,151,300
Interest not recognised / new provisions raised	234,356	741,678	57,501	1,033,535
Less:				
Written-off	(210,291)	(966,073)	-	(1,176,364)
Recoveries / reversal to income	(6,221)	(92,528)	-	(98,749)
Closing balance 31 December 2017	548,505	1,532,386	828,831	2,909,722

The Group has hedged the fair value of certain fixed rate loans and advances and Islamic financing. The carrying value of these loans and advances and Islamic financing was AED 267 million (31 December 2017: AED 271 million). Net negative fair value of the hedged component was AED 0.3 million (31 December 2017: net positive fair value AED 1.8 million).

10 INVESTMENT SECURITIES, NET

31 March 2018 (Unaudited)	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
Held at fair value through other comprehensive income				
Equities	75,538	-	-	75,538
Fund of funds	5,176	11,542	198	16,916
Fixed rate securities				
- Government	2,516,859	982,592	368,274	3,867,725
- Others	1,736,894	518,092	423,118	2,678,104
Floating rate non-government securities	295,662	8,807	33,083	337,552
Held at amortised cost				
Fixed rate non-government securities	25,120	-	18,373	43,493
	4,655,249	1,521,033	843,046	7,019,328
Allowances for impairment losses	-	-	(6,451)	(6,451)
Net investment securities	4,655,249	1,521,033	836,595	7,012,877

10 INVESTMENT SECURITIES, NET (CONTINUED)

31 December 2017 (Audited)	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
Held at fair value through profit or loss				
Fixed rate government securities	23,942	5,491	12,671	42,104
Held at fair value through other comprehensive income				
Equities	91,160	-	-	91,160
Fund of funds	3,346	11,611	198	15,155
Fixed rate securities				
- Government	2,638,562	961,796	279,058	3,879,416
- Others	1,658,896	690,368	401,184	2,750,448
Floating rate non-government securities	138,383	8,809	18,363	165,555
Held at amortised cost				
Fixed rate non-government securities	114,807	-	18,435	133,242
Net investment securities	4,669,096	1,678,075	729,909	7,077,080

An analysis of changes in the ECL allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowance as at 1 Jan 2018	7,317	-	-	7,317
Reversal of impairment allowance	(866)	-	-	(866)
At 31 March 2018	6,451	-	-	6,451

Included in held at fair value through other comprehensive income securities is an amount of AED 1,373 million (31 December 2017: AED 1,393 million), pledged under repurchase agreements with banks (note 12).

As at 31 March 2018, the fair value of investments held at amortised cost is AED 43.3 million (31 December 2017: AED 133.2 million). The fair value represents level 1 of the fair value hierarchy.

10.1 Fund of funds investments

This represents investments in global and regional asset management funds as a part of the Group's strategy of diversifying its holdings. These investments are carried at net assets value provided by the respective fund managers which represents the fair value of the underlying funds.

11 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	31 March 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Customer deposits		
Current and demand accounts	**15,963,132**	15,255,996
Savings accounts	**1,790,544**	1,739,286
Time deposits	**21,951,654**	23,630,424
	39,705,330	40,625,706
Islamic customer deposits		
Current and demand accounts	**2,255,475**	1,574,694
Mudaraba savings accounts	**631,531**	615,517
Investment and Wakala deposits	**5,611,694**	5,595,275
	8,498,700	7,785,486
Total customer deposits and Islamic customer deposits	**48,204,030**	48,411,192

12 NOTES AND MEDIUM TERM BORROWINGS

		31 December 2017 AED'000 (Audited)	Cash flow changes AED'000	Non cash changes AED '000	31 March 2018 AED'000 (Unaudited)
Syndicated loan	12.1	1,645,826	-	1,164	1,646,990
Repurchase agreements - I	12.2	551,442	-	-	551,442
Repurchase agreements - II	12.2	591,799	-	-	591,799
Euro medium term notes - I	12.3	1,835,376	-	772	1,836,148
Euro medium term notes - II	12.3	1,465,220	-	334	1,465,554
Total		6,089,663	-	2,270	6,091,933

		31 December 2016 AED'000 (Audited)	Cash flow changes AED'000	Non cash changes AED '000	31 December 2017 AED'000 (Audited)
Syndicated loan	12.1	1,641,103	-	4,723	1,645,826
Repurchase agreements - I	12.2	551,442	-	-	551,442
Repurchase agreements - II	12.2	591,799	-	-	591,799
Euro medium term notes - I	12.3	1,832,276	-	3,100	1,835,376
Euro medium term notes - II	12.3	1,463,917	-	1,303	1,465,220
Total		6,080,537	-	9,126	6,089,663

12.1 *Syndicated loan*

In June 2016, the Group entered into a club deal of USD 450 million (AED 1,653 million) for a term of 3 years with an option to roll over on a quarterly or semi-annual basis. This replaced the syndicated loan arrangement of USD 450 million maturing in December 2016, which was prepaid in June 2016 and carried interest at the rate of 3 month LIBOR plus 125 basis points payable on a quarterly basis. The current arrangement carries interest at the rate of 3 month LIBOR plus 125 basis points payable on a quarterly basis.

12 NOTES AND MEDIUM TERM BORROWINGS (CONTINUED)

12.2 *Repurchase agreements*

In July 2012, the Group entered into Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 150.1 million (AED 551.3 million) with arrangements to repurchase them at a fixed future date in July 2017. During the period ended 30 June 2016 the arrangement of repurchase has been extended for additional five years till July 2022.

In June 2016, the Group entered into additional Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 161.1 million (AED 591.8 million) with arrangements to repurchase them at a fixed future date in June 2021.

As at 31 March 2018, the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 1,373 million (USD 373.8 million) (2017: AED 1,393 million (USD 379.3 million)) (note 10).

12.3 *Euro medium term notes*

In 2013, CBD activated its Euro Medium Term Note (EMTN) program. These notes can be issued by way of private or public placements and in each case on a syndicated or non-syndicated basis. These notes can be priced at fixed rate, floating rate or can be index linked. The maximum issuance under the program was USD 2 billion (AED 7.3 billion). At the Annual General Meeting (AGM) held on 28 February 2016 shareholders approved the increase of the program limit up to a total of USD 3 Billion (AED 11 billion).

In May 2013, CBD issued USD 500 million (AED 1,836.5 million) of conventional bonds. These notes were priced at 3.375 per cent fixed rate and mature on 21 May 2018.

In November 2015, CBD issued USD 400 million (AED 1,469.2 million) of conventional bonds. These notes were priced at 4 per cent fixed rate and mature on 17 November 2020.

13 EQUITY

Share capital

The fully paid up and authorised ordinary share capital as at 31 March 2018 comprised 2,802,733,968 ordinary shares of AED 1 each (31 December 2017: 2,802,733,968 shares of AED 1 each). There was no movement in authorised ordinary share capital during the period.

14 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit divided by the weighted average number of ordinary shares outstanding 2,802,733,968 (31 March 2017: 2,802,733,968).

Diluted earnings per share as of 31 March 2018 and 31 March 2017 are equivalent to basic earnings per share as no new shares have been issued that would impact earnings per share when executed.

15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated interim statement of cash flow comprise the following consolidated interim statement of financial position amounts:

	31 March 2018 AED'000 (Unaudited)	31 March 2017 AED'000 (Unaudited)
Cash in hand	**401,682**	427,263
Balances with the U.A.E. Central Bank	**239,156**	313,298
Negotiable certificates of deposit with the U.A.E. Central Bank with original maturity less than three months	**700,000**	3,000,000
Due from banks with original maturity of less than three months	**3,124,072**	3,735,237
	4,464,910	7,475,798
Due to banks with original maturity of less than three months	**(637,637)**	(1,439,806)
	3,827,273	6,035,992

16 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit and guarantees which are designed to meet the requirements of the Group's customers toward third parties. Undrawn commitments represent the Group's commitments towards approved un-drawn credit facilities. The amount of contingent liabilities reflected below represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	31 March 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Contingent liabilities:		
Letters of credit	**1,082,636**	1,021,104
Letters of guarantee	**9,428,784**	9,197,212
Total contingent liabilities	**10,511,420**	10,218,316
Undrawn commitments to extend credit		
- irrevocable	**2,109,817**	1,998,263
- revocable	**11,112,718**	12,558,189
	13,222,535	14,556,452
Total contingent liabilities and undrawn commitments	**23,733,955**	24,774,768

17 SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure that are regularly reviewed by the Executive Committee in order to allocate resources to the segment and to assess its performance.

Business segments pay to and receive interest from the Treasury to reflect the allocation of funding costs.

Business segments

Corporate banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to large corporate clients (including Government related entities).
Commercial banking	Includes loans, working capital financing, trade finance and deposits products to commercial (mid-sized) clients.
Business banking	Includes loans, working capital financing, trade finance and deposits products to small business clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to business (small) clients, high net-worth (Al Dana), mid-tier clients (personal) and modest income group (direct).
Treasury and investments	Undertakes balance sheet management deals and manages the Group's proprietary investment portfolio. It also has derivatives for trading and risk management purposes.

Interest is charged or credited to business segments and branches to match funding transfer pricing rates which approximate the cost of funds.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

	Corporate banking AED'000	**Commercial banking AED'000**	**Business banking AED'000**	**Personal banking AED'000**	**Treasury & investments AED'000**	**Total AED'000**
31 March 2018 (Unaudited)						
Assets	**34,940,777**	**10,732,061**	**774,133**	**6,862,280**	**16,897,831**	**70,207,082**
Liabilities	**32,291,168**	**6,935,316**	**3,460,798**	**12,282,877**	**6,874,319**	**61,844,478**
31 December 2017 (Audited)						
Assets	32,598,749	12,575,106	1,002,959	6,993,281	17,243,962	70,414,057
Liabilities	31,489,704	7,629,553	3,415,560	11,829,742	6,968,743	61,333,302

17 SEGMENTAL REPORTING (CONTINUED)

	Corporate banking AED'000	Commercial banking AED'000	Business banking AED'000	Personal banking AED'000	Treasury & investments AED'000	Total AED'000
31 March 2018 (Unaudited)						
Net interest income and net income from Islamic financing	**172,857**	**101,950**	**37,771**	**99,049**	**46,210**	**457,837**
Non-interest & other income	**61,527**	**36,718**	**22,778**	**36,689**	**42,453**	**200,165**
Total operating income	**234,384**	**138,668**	**60,549**	**135,738**	**88,663**	**658,002**
Expenses *(note a)*	**33,770**	**31,615**	**32,595**	**100,716**	**14,932**	**213,628**
Net provisions *(note b)*	**37,885**	**52,336**	**32,704**	**41,705**	**-**	**164,630**
	71,655	**83,951**	**65,299**	**142,421**	**14,932**	**378,258**
Net profit for the period	**162,729**	**54,717**	**(4,750)**	**(6,683)**	**73,731**	**279,744**
31 March 2017 (Unaudited)						
Net interest income and net income from Islamic financing	172,708	101,320	46,608	85,725	23,737	430,098
Non-interest & other income	58,886	37,929	28,343	49,637	23,061	197,856
Total operating income	231,594	139,249	74,951	135,362	46,798	627,954
Expenses *(note a)*	40,910	39,902	32,022	100,442	11,718	224,994
Net provisions *(note b)*	13,240	119,544	52,655	57,375	-	242,814
	54,150	159,446	84,677	157,817	11,718	467,808
Net profit for the period	177,444	(20,197)	(9,726)	(22,455)	35,080	160,146

(a) This includes staff and other expenses and depreciation and amortization.

(b) This includes impairment allowances on loans and advances and Islamic financing, investment securities and other assets net of recoveries.

The following is an analysis of the total operating income of each segment between income from external parties and inter-segment:

	External parties		**Inter-segment**	
	31 March 2018 AED'000 (Unaudited)	31 March 2017 AED'000 (Unaudited)	**31 March 2018 AED'000 (Unaudited)**	31 March 2017 AED'000 (Unaudited)
Corporate banking	**257,128**	231,904	**(22,744)**	(310)
Commercial banking	**170,336**	156,454	**(31,668)**	(17,205)
Business banking	**50,218**	72,050	**10,331**	2,901
Personal banking	**121,450**	126,952	**14,288**	8,410
Treasury & investments	**58,870**	40,594	**29,793**	6,204
Total operating income	**658,002**	627,954	**-**	-

18 FINANCIAL ASSETS AND LIABILITIES

18.1 Financial assets and liabilities classification

The table below sets out the Group's assets and liabilities classification in accordance with the categories of financial instruments in IFRS 9:

	Fair value through Profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount
	AED'000	AED'000	AED'000	AED'000
31 March 2018 (Unaudited)				
Cash and balances with Central Bank	-	-	6,255,205	6,255,205
Due from banks, net	-	-	3,278,565	3,278,565
Loans and advances and Islamic financing, net	-	-	46,967,028	46,967,028
Investment securities, net	-	6,975,835	43,493	7,019,328
Bankers acceptances	-	-	5,397,209	5,397,209
Other assets	67,451	-	392,462	459,913
Total financial assets	67,451	6,975,835	62,333,962	69,377,248
Due to banks	-	-	637,637	637,637
Customers' deposits and Islamic customers' deposits	-	-	48,204,030	48,204,030
Notes and medium term borrowing	-	-	6,091,933	6,091,933
Due for trade acceptances	-	-	5,397,209	5,397,209
Other liabilities	62,163	-	1,337,428	1,399,591
Total financial liabilities	62,163	-	61,668,237	61,730,400
31 December 2017 (Audited)				
Cash and balances with Central Bank	-	-	6,808,539	6,808,539
Due from banks, net	-	-	2,834,710	2,834,710
Loans and advances and Islamic financing, net	-	-	47,275,725	47,275,725
Investment securities, net	42,104	6,901,734	133,242	7,077,080
Bankers acceptances	-	-	5,121,186	5,121,186
Other assets	69,675	-	326,825	396,500
Total financial assets	111,779	6,901,734	62,500,227	69,513,740
Due to banks	-	-	779,823	779,823
Customers' deposits and Islamic customers' deposits	-	-	48,411,192	48,411,192
Notes and medium term borrowing	-	-	6,089,663	6,089,663
Due for trade acceptances	-	-	5,121,186	5,121,186
Other liabilities	73,984	-	740,665	814,649
Total financial liabilities	73,984	-	61,142,529	61,216,513

The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different from their fair values.

18.2 Fair value measurement – Fair value hierarchy:

The table below shows categorization of fair value of financial assets and liabilities into different levels of the fair value hierarchy:

Different level of fair value hierarchy have been defined as follows:

Level 1: Quoted market price (unadjusted) in principal market for identified assets / liabilities.

Level 2: Valuation technique based on observable inputs, either directly (i.e.. as prices) or indirectly (i.e.. derived from prices).

Level 3: Valuation technique using significant unobservable inputs.

Except for financial assets and liabilities specified in the below table, the fair value of financial assets and liabilities is not materially different from their carrying value.

18 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

18.2 Fair value measurement – Fair value hierarchy: (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Carrying value AED'000
31 March 2018 (Unaudited)					
Investments					
Equities	75,538	-	-	75,538	75,538
Fund of funds	-	16,916	-	16,916	16,916
Fixed and floating rate securities	6,920,311	-	-	6,920,311	6,920,423
Positive market value of forward foreign exchange contracts and other derivatives					
FVPL	-	66,408	-	66,408	66,408
Held for fair value hedge	-	1,043	-	1,043	1,043
Held for cash flow hedge	-	-	-	-	-
Negative market value of forward foreign exchange contracts and other derivatives					
FVPL	-	(44,016)	-	(44,016)	(44,016)
Held for fair value hedge	-	(1,333)	-	(1,333)	(1,333)
Held for cash flow hedge	-	(16,814)	-	(16,814)	(16,814)
Liabilities at amortized cost					
Notes and medium term borrowings	(3,320,759)	(2,790,231)	-	(6,110,990)	(6,091,933)
	3,675,090	(2,768,027)	-	907,063	926,232

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Carrying value AED'000
31 December 2017 (Audited)					
Investments					
Equities	91,160	-	-	91,160	91,160
Fund of funds	-	15,155	-	15,155	15,155
Fixed and floating rate securities	6,970,723	-	-	6,970,723	6,970,765
Positive market value of forward foreign exchange contracts and other derivatives					
FVPL	-	69,477	-	69,477	69,477
Held for fair value hedge	-	198	-	198	198
Held for cash flow hedge	-	-	-	-	-
Negative market value of forward foreign exchange contracts and other derivatives					
FVPL	-	(59,936)	-	(59,936)	(59,936)
Held for fair value hedge	-	(2,022)	-	(2,022)	(2,022)
Held for cash flow hedge	-	(12,026)	-	(12,026)	(12,026)
Liabilities at amortized cost					
Notes and medium term borrowings	(3,352,090)	(2,789,067)	-	(6,141,157)	(6,089,663)
	3,709,793	(2,778,221)	-	931,572	983,108

During the period there were no transfers between Level 1 and Level 2 of the fair value hierarchy above and no financial instruments were classified within level 3 of the fair value hierarchy at any time during the current or prior period. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the current or prior period.

19 RELATED PARTY TRANSACTIONS AND BALANCES

As at 31 March 2018 and 31 December 2017, Investment Corporation of Dubai ("ICD") owns 20% share capital of the Bank. ICD is wholly owned by the Government of Dubai (the "Government").

Other than the transactions disclosed below, the Group enters into transactions with other Government entities. In accordance with the exemption available in the revised IAS 24, the other transactions with such related Government entities are not collectively or individually significant and have not been disclosed.

The Group in the ordinary course of business enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board of Directors.

	Directors and key management personnel		Government related parties		Other related parties	
	31 March 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)	**31 March 2018 AED'000 (Unaudited)**	31 December 2017 AED'000 (Audited)	**31 March 2018 AED'000 (Unaudited)**	31 December 2017 AED'000 (Audited)
Loans and advances and Islamic financing, net	**153,177**	157,357	**1,604,407**	1,804,980	**1,189,816**	1,207,730
Due from banks, net	-	-	**456,501**	771,404	-	-
Investment securities, net	-	-	**1,321,701**	1,466,632	-	-
Bankers acceptances	-	-	-	-	**302,880**	149,886
Letters of credit	-	-	-	-	**17,194**	12,606
Letters of guarantee	-	-	**323,475**	323,531	**615,740**	624,380
Undrawn commitments to extend credit	**23,378**	26,167	**926,264**	1,238,827	**523,136**	589,391
Due to banks	-	-	-	11,926	-	-
Customer deposits and Islamic customer deposits	**56,247**	52,559	**3,470,429**	4,495,314	**571,905**	1,235,327

	31 March 2018 AED'000 (Unaudited)	31 March 2017 AED'000 (Unaudited)	**31 March 2018 AED'000 (Unaudited)**	31 March 2017 AED'000 (Unaudited)	**31 March 2018 AED'000 (Unaudited)**	31 March 2017 AED'000 (Unaudited)
Interest income and commission income	**2,075**	1,372	**11,956**	10,814	**11,174**	11,423
Interest expense	**11**	13	**15,257**	16,216	**1,521**	5,108
Dividend from an associate	-	-	-	-	-	3,194

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Other related parties represents major shareholders and parties related to directors, key management personnel.

The terms of transactions with related parties are comparable to third party transactions and do not involve more than normal amount of risk.

No specific allowance for impairment losses has been made on balances with key management personnel and their immediate relations at the period end.

Sitting fees paid to directors for attending committee meetings during the three month period ended 31 March 2018 amounted to AED 600 thousand (31 March 2017: AED 850 thousand).

19 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key management compensation

	31 March 2018 AED'000 (Unaudited)	31 March 2017 AED'000 (Unaudited)
Salaries	**5,724**	4,690
Post-employment benefits	**255**	216
Other benefits	**12,337**	15,527

20 CAPITAL ADEQUACY

The table below summarizes the composition of regulatory capital and the ratios of the Group as per BASEL III guidelines and has complied with all of the externally imposed capital requirements to which it is subject to:

	31 March 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Tier 1 capital	**8,284,533**	8,510,130
Tier 2 capital	**693,267**	688,185
Total regulatory capital	**8,977,800**	9,198,315
Risk weighted assets (RWA)		
Credit risk	**55,461,333**	55,411,527
Market risk	**180,332**	656,467
Operational risk	**4,660,438**	4,658,273
Risk weighted assets	**60,302,103**	60,726,267
Tier 1 ratio	**13.74%**	14.02%
Tier 2 ratio	**1.15%**	1.13%
Capital adequacy ratio	**14.89%**	15.15%

As the Group does not have any Additional Tier 1 (AT1) capital instruments, Tier 1 and Common Equity Tier 1 (CET1) capital are the same.

21 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these condensed consolidated interim financial statements, the effect of which are considered immaterial.