

Commercial Bank of Dubai PSC

Consolidated financial statements

31 December 2018

These Audited Financial Statements are subject to the approval by
Central Bank of UAE and the Shareholders at the Annual General
Meeting

Commercial Bank of Dubai PSC

Consolidated financial statements

For the year ended 31 December 2018

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Independent Auditors' Report

To the Shareholders of Commercial Bank of Dubai P.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Commercial Bank of Dubai P.S.C. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key Audit Matter (continued)

Impairment of loans and advances and islamic financing

Refer to note 6 for transition impact and note 10 and 35(b) of the consolidated financial statements for year-end disclosures.

IFRS 9 "Financial Instruments" (IFRS 9) was adopted by the Group on 1 January 2018 and has resulted in:

- change in accounting for impairment from an incurred loss model to an expected credit loss model ("ECL") which involves complex estimates and judgements;
- transition adjustments recognised in retained earnings on 1 January 2018, being the date of adoption of IFRS 9;
- use of statistical models and methodologies for determination of expected credit losses;
- significant change in processes, data and control that have not been subject to testing previously; and
- complex disclosure requirements regarding impact of initial application of IFRS 9 and explanation of key judgements and material inputs used in determination of expected credit losses.

Given the inherently judgemental nature of computation of ECL for loans and advances and Islamic financing, this is considered a key audit matter.

Our response

We have performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL process and to understand the governance framework around model review, validation and approval of ECL model, data gathering and its integrity and underlying estimates and assumptions used by the management.

Controls Testing

- Testing controls over modelling process, including model review, validation and approval;
- Testing controls over the accuracy of key inputs and appropriateness of key assumptions and judgement's used in the model;



Key Audit Matter – Impairment of loans and advances and Islamic financing (continued)

Our response (continued)

Controls Testing (continued)

- Testing controls over significant increase in credit risk (SICR) criteria involved testing controls relating to authorisation of the criteria and the application of the criteria in the models;
- Testing key controls over internal credit grading (which is a key driver in determining SICR) and monitoring process, to assess if the risk grades allocated to counterparties were appropriately identified and updated on a timely basis;
- Testing key controls relating to selection and implementation of material economic variables and the controls over the scenario selection and probabilities; and
- Testing controls over the assessment of model outputs and authorisation and review of post model adjustments and management overlays.

Involvement of Specialists

- We involved our Financial Risk Management (FRM) specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This included challenging key assumptions/judgements relating to significant increase in credit risk, definition of default, probability of default, recovery rates, use macro-economic variables and probability weighted outcomes. FRM specialists also re-performed key elements of the Group's model calculations and evaluates the model performance results for accuracy; and
- We have involved our information technology specialists to assist in testing the relevant General IT and Application Controls over Key Systems used in the ECL Process.

Substantive Testing

- Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weightages to confirm the accuracy of information used;



Key Audit Matter – Impairment of loans and advances and Islamic financing (continued)

Our response (continued)

Substantive Testing (continued)

- Re-performing key aspects of the Group's SICR determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified;
- Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing it back to source data;
- Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades at a given point in time and assess the financial performance of the borrower, source of repayment and future cash flows of the borrower to assess recoverability and ECL by comparing key assumptions to progress against business plans and our own understanding of relevant industries and business environment and where possible to externally derived evidence such as business performance and real estate valuations for assessing the appropriateness of collateral values held by the Group; and
- Assessing the adequacy of the Group's disclosure in relation to transition impact arising from first time application of IFRS 9 and use of significant estimates and judgement by reference to the requirements of the relevant accounting standards.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 22 February 2018.

Other information

Management is responsible for the other information. The other information comprises the Directors' report which we obtained prior to the date of this auditors' report, and the Chairman's message, List of Board of Directors, Corporate Governance Framework Report, List of Executive Committee and Major Indicators ("the Reports") which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



Other information (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Report on Other Legal and Regulatory Requirements (continued)

- as disclosed in note 11 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2018;
- note 33 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Group, its Articles of Associations, which would materially affect its activities or its consolidated financial position as at 31 December 2018; and
- note 25 to the consolidated financial statements discloses the social contributions made during the year.

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purposes of our audit.

KPMG Lower Gulf Limited

Emilio Pera
Registration No: 1146
Dubai, United Arab Emirates
Date:

30 JAN 2019

Commercial Bank of Dubai PSC

Consolidated statement of financial position


As at 31 December 2018

	Note	2018 AED'000	2017 AED'000
ASSETS			
Cash and balances with Central Bank	8	8,682,322	6,808,539
Due from banks, net	9	971,280	2,834,710
Loans and advances and Islamic financing, net	10	50,944,947	47,275,725
Investment securities, net	11	6,751,150	7,077,080
Investment in an associate	12	84,842	81,053
Investment properties, net	13	214,420	194,980
Property and equipment	14	343,093	383,704
Bankers acceptances		5,266,428	5,121,186
Other assets, net	15	843,064	637,080
TOTAL ASSETS		74,101,546	70,414,057
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	16	2,762,944	779,823
Customer deposits and Islamic customer deposits	17	53,165,030	48,411,192
Notes and medium term borrowings	18	2,609,944	6,089,663
Due for trade acceptances		5,266,428	5,121,186
Other liabilities	19	1,078,474	931,438
TOTAL LIABILITIES		64,882,820	61,333,302
EQUITY			
Share capital	20.1	2,802,734	2,802,734
Legal and statutory reserve	20.2	1,401,367	1,401,367
General reserve	20.3	1,328,025	1,328,025
Capital reserve	20.4	38,638	38,638
Fair value reserve	20.5	(137,060)	(10,956)
Retained earnings		3,785,022	3,520,947
TOTAL EQUITY		9,218,726	9,080,755
TOTAL LIABILITIES AND EQUITY		74,101,546	70,414,057

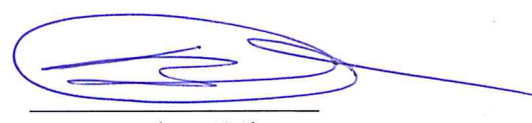
These consolidated financial statements were approved and authorised for issue by the Board of Directors on 23 January 2019.

The attached notes on pages 14 to 96 form part of these consolidated financial statements.

The report of the Auditors' is set out on pages 1 to 8.



Mr. Humaid Al Qutami
Chairman



Dr. Bernd van Linder
Chief Executive Officer

Commercial Bank of Dubai PSC

Consolidated statement of profit or loss

For the year ended 31 December 2018

	Note	2018 AED'000	2017 AED'000
Interest income and income from Islamic financing	21	2,847,213	2,514,762
Interest expense and distributions to Islamic depositors	22	(935,990)	(694,038)
Net interest income and net income from Islamic financing		1,911,223	1,820,724
Net fees and commission income	23	578,205	564,590
Net gains from foreign exchange and derivatives		142,969	119,368
Net gains from investments at fair value through profit or loss	24	650	5,248
Net gains from sale of equity investments at fair value through other comprehensive income (2017: available-for-sale)		-	9,172
Net gains from sale of debt investments at fair value through other comprehensive income (2017: available-for-sale)		6,914	9,310
Share of profit of an associate	12	9,621	6,750
Dividend income		5,126	61,013
Other income		69,995	46,251
Total operating income		2,724,703	2,642,426
Impairment allowance on due from banks		(2,951)	-
Impairment allowance on loans and advances and Islamic financing	10	(727,410)	(799,179)
Recoveries		47,770	112,159
Reversal of / (impairment) allowance on investment securities	11	1,056	(2,255)
Impairment allowance on investment property	13	-	(27,835)
Impairment allowance on other assets		(22,730)	(22,730)
Total net income		2,020,438	1,902,586
Staff and other expenses	25	(795,354)	(844,619)
Depreciation and amortisation	13 & 14	(62,973)	(56,049)
Total operating expenses		(858,327)	(900,668)
Net profit for the year		1,162,111	1,001,918
Basic and diluted earnings per share	27	AED 0.41	AED 0.36

The attached notes on pages 14 to 96 form part of these consolidated financial statements.

The report of the Auditors' is set out on pages 1 to 8.

Commercial Bank of Dubai PSC

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

	2018	2017
	AED'000	AED'000
Net profit for the year	1,162,111	1,001,918
Items that will not be reclassified to profit or loss:		
Realised gain on sale of equity investments held at fair value through other comprehensive income	1,384	-
Revaluation loss of equity investments held at fair value through other comprehensive income	(12,391)	-
Actuarial (loss) / gain on retirement benefits obligations	(1,061)	6,243
Items that may be subsequently reclassified to profit or loss:		
Changes in fair value of effective portion of cash flow hedge	4,881	(12,722)
Realised gain on sale of equity investments	-	(9,172)
Changes in fair value reserve of an associate	(147)	-
Changes in investments held at fair value through other comprehensive income / available-for-sale:		
Realised gain on sale of debt investments	(6,914)	(9,310)
Revaluation (loss) / gain on debt investments	(110,472)	13,855
Revaluation loss on equity investments	-	(17,864)
Net change in investments held at fair value through other comprehensive income / available-for-sale	(117,386)	(13,319)
Other comprehensive loss for the year	(124,720)	(28,970)
Total comprehensive income for the year	1,037,391	972,948

The attached notes on pages 14 to 96 form part of these consolidated financial statements.

The report of the Auditors' is set out on pages 1 to 8.

Commercial Bank of Dubai PSC

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital AED'000	Legal and statutory reserve AED'000	General reserve AED'000	Capital 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	1,328,025	38,638	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)
Share of Directors' remuneration of an associate (note 12)	-	-	-	-	-	(269)	(269)
Other comprehensive income							
Net profit for the year	-	-	-	-	-	1,001,918	1,001,918
Other comprehensive loss for the year	-	-	-	-	(28,970)	-	(28,970)
Total other comprehensive income	-	-	-	-	(28,970)	1,001,918	972,948
At 31 December 2017	2,802,734	1,401,367	1,328,025	38,638	(10,956)	3,520,947	9,080,755
At 31 December 2017	2,802,734	1,401,367	1,328,025	38,638	(10,956)	3,520,947	9,080,755
IFRS 9 adjustment (refer note 6)	-	-	-	-	-	(397,495)	(397,495)
At 1 January 2018	2,802,734	1,401,367	1,328,025	38,638	(10,956)	3,123,452	8,683,260
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)
Share of Directors' remuneration of an associate (note 12)	-	-	-	-	-	(447)	(447)
Other comprehensive income							
Net profit for the year	-	-	-	-	-	1,162,111	1,162,111
Gain on sale of equity investments at fair value through other comprehensive income	-	-	-	-	(1,384)	1,384	-
Other comprehensive loss for the year	-	-	-	-	(124,720)	-	(124,720)
Total other comprehensive income	-	-	-	-	(126,104)	1,163,495	1,037,391
At 31 December 2018	2,802,734	1,401,367	1,328,025	38,638	(137,060)	3,785,022	9,218,726

The attached notes on pages 14 to 96 form part of these consolidated financial statements.

The report of the Auditors' is set out on pages 1 to 8.

Commercial Bank of Dubai PSC

Consolidated statement of cash flows

For the year ended 31 December 2018

		2018	2017
	Note	AED'000	AED'000
OPERATING ACTIVITIES			
Net profit for the year		1,162,111	1,001,918
Adjustments for:			
Depreciation and amortisation	13 & 14	62,973	56,049
Amortisation of premium / discounts on investments		49,331	54,086
Amortisation of transaction cost on notes and medium term borrowings		9,631	9,126
Loss / (gain) on forex translation on investments		7,706	(13,611)
Realised gain on sale of investments		(7,175)	(23,998)
Net unrealised (gain) / losses on derivatives		(30,556)	7,239
(Reversal of) / impairment allowance on investment securities	11	(1,056)	2,255
Share of profit of an associate	12	(9,621)	(6,750)
Dividend income		(5,126)	(61,013)
Net unrealised loss on investments at fair value through profit or loss		-	268
Impairment allowance on loans and advances and Islamic financing	10	727,410	799,179
Impairment allowance on due from banks		2,951	-
Impairment allowance on other assets		22,730	22,730
Impairment allowance on investment properties	13	-	27,835
Loss / (gain) on disposal of property and equipment		81	(3,817)
		1,991,390	1,871,496
Increase in statutory reserve with the Central Bank		(177,398)	(143,997)
Decrease / (increase) in negotiable Central Bank certificate of deposits with original maturity of more than three months		700,000	(2,300,000)
(Increase) / decrease in due from banks with original maturity of more than three months		(157,528)	373,512
Increase in loans and advances and Islamic financing		(4,785,380)	(6,112,366)
Increase in other assets		(193,833)	(126,962)
Increase / (decrease) in due to banks with original maturity of more than three months		1,447,912	(3,080)
Increase in customer deposits and Islamic customer deposits		4,753,838	4,637,368
Increase / (decrease) in other liabilities		143,672	(15,796)
Directors' remuneration paid		(11,000)	(11,000)
Net cash flow from / (used in) operating activities		3,711,673	(1,830,825)
INVESTING ACTIVITIES			
Purchase of investments		(2,950,319)	(5,919,555)
Proceeds from sale of investments		3,094,592	6,230,624
Purchase of property and equipment	14	(43,822)	(75,744)
Proceeds from sale property and equipment		1,939	5,127
Dividend received		5,126	61,013
Dividend from an associate	12	3,992	3,196
Net cash flow from investing activities		111,508	304,661
FINANCING ACTIVITIES			
Notes and medium term borrowings		(3,489,350)	-
Dividend paid		(490,478)	(560,547)
Net cash flow used in financing activities		(3,979,828)	(560,547)
Net decrease in cash and cash equivalents		(156,647)	(2,086,711)
Cash and cash equivalents at 1 January		3,471,981	5,558,692
Cash and cash equivalents at 31 December	28	3,315,334	3,471,981
<u>Supplemental disclosure:</u>			
Interest income and income from Islamic financing received		2,781,643	2,469,190
Interest expense and distributions to Islamic depositors paid		812,883	600,741

The report of the Auditors' is set out on pages 1 to 8.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

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 consolidated financial statements of the Group for the year ended 31 December 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 providing brokerage facilities for local shares and bonds.
- b) CBD Employment Services One Person Company 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 100% interest. Its principal activity is supply of manpower services.
- c) 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 as well as buying and selling of real estate.
- d) CBD (Cayman) Limited is a special purpose entity (SPE) registered in the British Virgin Islands. The SPE has been established for issuance of debt securities.
- e) CBD (Cayman II) Limited, which is a special purpose entity (SPE) registered in the British Virgin Islands. The SPE has been established to transact and negotiate derivative agreements.
- f) 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E.

These consolidated financial statements includes Basel II Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank of the UAE.

As required by the UAE Securities and Commodities Authority (SCA) notification number 85/2009 dated January 6, 2009, the Group’s exposure in cash and advances with Central Bank of the UAE, Due from Banks and Investment Securities outside the UAE have been presented under the respective notes.

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.

2.2 Functional and presentation currency

The consolidated 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 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity are disclosed in note 4.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 BASIS OF PREPARATION (CONTINUED)

2.4 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments classified as trading and fair value through profit or loss (FVPL);
- financial assets at fair value through other comprehensive income (applicable from 1 January 2018);
- financial assets at available-for-sale are measured at fair value (applicable before 1 January 2018)
- recognised financial assets and financial liabilities that are hedged items in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged. Amortised cost is adjusted for hedging gain or loss.

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are entities controlled by the Group.

(i) Business Combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired.

(ii) Subsidiary

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interest (NCI). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the cumulative translation differences recorded in equity;
- Derecognises the carrying amount of any non-controlling interest;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of profit or loss; and
- Reclassifies the parent's share of components previously recognised in consolidated OCI to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 BASIS OF PREPARATION (CONTINUED)

2.5 Basis of consolidation (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(iii) Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit or loss of an associate'.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

Management reviews its share of investments in associates to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and choosing a suitable discount rate in order to calculate the present value of those cash flows.

(iv) Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency translation gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements, except changes in accounting policies resulting from the adoption of IFRS 9 and IFRS 15 as described below.

Transition

The Group initially applied IFRS 15 and IFRS 9 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The adoption of IFRS 15 did not materially impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information due to adoption of IFRS 15 is limited only to new disclosure requirements (refer note 3.17 (iii)).

However, changes in accounting policies resulting from the adoption of IFRS 9 have been applied as follows:

- Comparative periods have not been restated and differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in the retained earnings as of 1 January 2018.

Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and is therefore not comparable to the information presented for the period under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - o The determination of the business model within which a financial asset is held;
 - o The designation and revocation or previous designations of certain financial assets and financial liabilities measured at FVPL; and
 - o The designation of certain investments in equity instruments not held for trading as FVOCI.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

IFRS 7 Financial Instruments - Disclosures

IFRS 7 Financial Instruments: Disclosures, which was updated to reflect the differences between IFRS 9 and IAS 39, was also adopted by the Group together with IFRS 9, for the year beginning 1 January 2018. Refer note 6 for the transition disclosures.

3.1 Financial Instruments

a) Recognition and initial measurement

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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 FVPL) are added to or deducted from the fair value of the financial assets or financial liabilities respectively, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVPL are recognised immediately in consolidated statement of 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 consolidated statement of 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).

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Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

a) Recognition and initial measurement (continued)

After initial recognition, the deferred gain or loss will be released to consolidated statement of 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.

b) Fair Value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, which reflects the significance of inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The hierarchy used by the Group is set out in note 7.2.

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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Notes to the consolidated financial statements

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

b) Fair Value measurement (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.1.1 Financial assets

Applicable from 1 January 2018:

a) Classification

The Group classifies financial assets on initial recognition in the following categories:

- (i) Amortised cost;
- (ii) Fair value through other comprehensive income (FVOCI); and
- (iii) Fair value through profit or loss (FVPL).

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:

- The stated policies and objectives for the business and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- 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 business 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.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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 (SPPI), the Group considers the contractual terms of the instrument.

For the purpose 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. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cashflows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash from specified assets;
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

a) Classification (continued)

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

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

(i) Financial assets at amortized cost

A debt instrument, including loans and advances and Islamic financing asset is classified as being measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

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

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

A debt instrument is classified as being measured at FVOCI if it meets the following two conditions and the debt instrument is not designated at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group 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. This election is made on an investment-by-investment basis.

(iii) Financial assets at fair value through profit or loss (FVPL)

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

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.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

Applicable before 1 January 2018:

Classification

- Financial assets at fair value through profit or loss (FVPL):

This category has the following two sub-categories:

Financial assets held for trading

Financial assets held for trading are those that are acquired principally for the purpose of sale in the near term. They are recorded at fair value. Fair value changes are recognised in consolidated statement of profit or loss.

Designated to be fair valued through profit or loss at inception

The Group designates financial assets at fair value through profit or loss in the following circumstances:

- The assets are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

- Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. These arise when the Group provides money directly to the borrower with no intention of trading the receivable.

- Held-to-maturity (HTM):

Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of and the ability to hold to maturity. HTM assets are carried at amortized cost less impairment loss if any.

Sale of HTM assets is allowed only under the following circumstances:

- The investment is close enough to maturity as to have no impact on fair value;
- The principal is substantially received;
- Isolated events beyond the Group's control;
- Significant credit deterioration;
- Major business combination or disposal; or
- Increase in regulatory capital requirements.

- Available-for-sale (AFS):

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or not classified as (i) financial assets at fair value through profit or loss, (ii) loans and receivables or (iii) held-to-maturity investments. AFS assets are carried at fair value, with fair value changes recognised in other comprehensive income (OCI). These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the consolidated statement of profit or loss. Impairment losses are recognised in the consolidated statement of profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to the consolidated statement of profit or loss.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

b) Subsequent measurement

Applicable from 1 January 2018

The Group measures financial instruments, such as derivatives and investments in equity and certain fixed income instruments, at fair value at each reporting date.

Financial asset classified as at FVOCI or FVPL are subsequently measured at fair value. Financial assets not carried at fair value are subsequently measured at amortized cost using the effective interest method, less expected credit allowances.

Applicable before 1 January 2018

Financial asset classified as at available-for-sale or fair value through profit or loss are subsequently measured at fair value. Financial assets not carried at fair value are subsequently measured at amortized cost using the effective interest method, less expected credit allowances.

c) Reclassifications

Applicable from 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition except in the period after the Group changes its business model for managing financial assets. 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 and previous financial year 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 of financial assets*' and '*Derecognition of financial assets*' described in note 3.1.1 (g) and 3.1.1 (h) respectively).

Applicable before 1 January 2018

In cases where available-for-sale investments with a fixed maturity are reclassified as held-to-maturity investments, the fair value gains or losses until the date of the reclassification are held in OCI and amortised over the remaining life of the held-to-maturity investments using the effective interest rate method.

d) 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 consolidated statement of profit or loss in the 'net gains from foreign exchange and derivatives' line item;
- for debt instruments measured at FVOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in the consolidated statement of profit or loss in the 'net gains from foreign exchange and derivatives' line item. Other exchange differences are recognised in OCI in the investments revaluation reserve;
- for financial assets measured at FVPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in consolidated statement of profit or loss in 'net gains from investments at FVPL'; and
- for equity instruments measured at FVOCI, exchange differences are recognised in OCI in the investments revaluation reserve.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

e) Impairment

Applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVPL:

- balances with central banks;
- due from banks;
- debt investment securities;
- loans and advances, islamic financing and other financial assets;
- loan commitments; and
- financial guarantee contracts.

No impairment loss is recognised on equity investments.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

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

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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 (LTECL). LTECL are the ECL that result from all possible default events over the expected life of the financial instrument.

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

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, as 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
- for financial guarantee contracts, 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 and credit 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 Effective Interest Rate (EIR), regardless of whether it is measured on an individual basis or a collective basis.

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

e) Impairment (continued)

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

Details of these statistical parameters / inputs are as follows:

- PD – PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories of counterparties and exposures.
- EAD – EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.
- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, history of recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- Loan to value ratio for retail exposure;
- date of initial recognition;
- remaining term of maturity;
- industry; and
- geography location of the borrower.

The groupings are subject to regular review to ensure that exposure within a particular group remain appropriately homogenous.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

e) Impairment (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

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 that a financial asset is credit-impaired includes the following observable data:

- 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 FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

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 includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

For POCI financial assets, the Group recognises all changes in LTECL since initial recognition as a loss allowance with any changes recognised in consolidated statement of profit or loss. A favourable change for such assets creates an impairment gain.

Default definition

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 ECLs and the identification of a significant increase in credit risk.

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.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

e) Impairment (continued)

Default definition (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.

- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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.

A non-retail customer is identified as at default if the customer is materially delinquent for more than 90 days on any of its credit obligation.

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. The default rate analysis for the retail portfolio is performed at the account level.

Assessment of significant increase in credit risk

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 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 assessment is performed on at least quarterly basis for each individual exposure.

Quantitative thresholds are established for the significant increase in the credit based on the movement in credit rating. 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.

Multiple macro economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different macro 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 whether credit risk has significantly increased.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the probability of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the probability of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised.

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Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

e) Impairment (continued)

Assessment of significant increase in credit risk (continued)

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. The following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation;
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macroeconomic information (such as oil prices or GDP) is incorporated as part of the internal rating model.

The quantitative 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.

As a back stop, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For retail lending the Group considers credit scores and events such as unemployment, bankruptcy 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.

Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Group has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading 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) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 installments (for quarterly installments) have been made or 12 months (for installments longer than quarterly) curing period is met.

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 rates;
- UAE Central Bank base rate;
- Unemployment rates; etc.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

e) Impairment (continued)

Incorporation of forward-looking information (continued)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 80% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 10% probability of occurring.

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
- for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve;
- for loan commitments and financial guarantee contracts: generally, 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.

Applicable before 1 January 2018

Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level.

Individually assessed loans

At each reporting date, the Group assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. This procedure is applied to all accounts that are considered individually significant.

In determining impairment losses on these loans, the following factors are considered:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

Identification and measurement of impairment (continued)

Individually assessed loans (continued)

- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding; and
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not local currency.
- when available, the secondary market price of debt.

Impairment losses are recognised in consolidated statement of profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Collectively assessed loans

Impairment is determined on a collective basis in two different scenarios:

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified; and
- for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been identified (performing loans) are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

This arises from individual loan impairment at the reporting date which will only be specifically identified in the future.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate specific allowance against the individual loan; and
- management's judgment as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by the management for each portfolio grouping.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

Impairment on investments classified as available-for-sale

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in OCI to consolidated statement of profit or loss as a recycle adjustment. The cumulative loss that is recycled from OCI to consolidated statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in consolidated statement of profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated statement of profit or loss, the impairment loss is reversed through consolidated statement of profit or loss to the extent of amount earlier recognised as impairment loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the consolidated statement of profit or loss and is recognised directly in other comprehensive income.

f) Write-off

Loans and advances and islamic financing and debt securities are written-off when the Group has no reasonable expectations of recovering the financial asset (either partially or in full). 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. This assessment is carried out at the individual asset level. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written-off.

Recoveries of amounts previously written-off are included in 'recoveries' in the consolidated statement of profit or loss and consolidated statement of other comprehensive income.

g) Modification of financial assets

Applicable from 1 January 2018

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.

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, 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, both amounts discounted at the original effective interest. If the difference in present value is material, the Group deems the arrangement is substantially different leading to derecognition.

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;
- the remaining lifetime PD at the reporting date based on the modified terms.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.1 Financial assets (continued)

g) Modification of financial assets (continued)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. 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.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the consolidated statement of profit or loss. 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. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Applicable before 1 January 2018

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

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Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Derecognition of financial assets

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.

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.

On derecognition of a financial asset in its entirety, 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 consolidated statement of profit or loss.

Applicable from 1 January 2018: Any cumulative gain / loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated statement of profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

3.1.2 Financial liabilities

a) Classification

The Group classifies its financial liabilities in the following categories:

- (i) Fair value through profit or loss; and
- (ii) Amortised cost.

(i) Financial liabilities at FVPL

Financial liabilities are classified as at FVPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVPL. A financial liability is classified as held for trading if:

- it has been incurred 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 that is not designated and is effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVPL 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 hybrid (combined) contract to be designated as at FVPL.

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For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.2 Financial liabilities (continued)

(i) Financial liabilities at FVPL (continued)

Subsequent measurement

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

Applicable from 1 January 2018: However, for non-derivative financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to consolidated statement of profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVPL. This determination is made at initial recognition.

Fair value is determined in the manner described in note 3.1 (b).

(ii) Financial liabilities at amortised cost

Other financial liabilities, including deposits and borrowings, 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.

b) Modification of financial liabilities

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. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is materially different from the discounted present value of the remaining cash flows of the original financial liability.

In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in the consolidated statement of profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Applicable from 1 January 2018: If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in the consolidated statement of profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

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For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) 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 the consolidated statement of 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.

3.1.3 Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

Applicable from 1 January 2018: The amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Applicable before 1 January 2018: The amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Financial guarantee contracts not designated at FVPL are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVPL.

3.1.4 Loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVPL, are subsequently measured as follows:

Applicable from 1 January 2018: At the higher of the amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Applicable before 1 January 2018: The Group recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

The Group has not designated any commitments to provide a loan below market rate designated at FVPL.

3.2 Derivative financial instruments

a) Classification

The Group enters into derivative financial instruments including forwards, futures, swaps and options in the foreign exchange and capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVPL – financial assets held for trading" financial instruments.

b) Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

The positive mark to market values (unrealised gains) of derivative financial instruments is included in other assets. The negative mark to market values (unrealised losses) of derivative financial instruments is included in other liabilities.

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For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Derivative financial instruments (continued)

c) Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as FVPL are taken to the consolidated statement of profit or loss.

3.3 Hedging instruments

As part of its asset and liability management, the Group uses derivatives for hedging purpose.

When derivatives are designated as hedges, the Group classifies them as either:

- fair value hedges which hedge the change in the fair value of recognised assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

Hedge accounting

a) Hedge documentation

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group's risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an ongoing basis.

b) Hedge effectiveness testing

The hedge is regarded as highly effective if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or cash flows of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge effectiveness testing are within a range of 80 to 125 percent.

In case of a cash flow hedge, prospective hedge effectiveness is assessed by matching the critical terms of hedging instruments and hedged items.

c) Fair value hedge

The changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments is recognised in the consolidated statement of profit or loss.

d) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss.

e) Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognised in OCI remains in other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated statement of profit or loss.

f) Hedges that do not qualify for hedge accounting

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss for the period.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less allowance for expected credit loss, if any.

3.5 Loans and advances and Islamic financing

Loans and advances and Islamic financing are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss.

In addition to conventional banking products, the Group offers its customers certain Islamic financing products, which are approved by Sharia'a Supervisory Board. Islamic financing consists of the following:

Murabaha

An agreement whereby the Group sells to a customer, commodity or asset (subject asset) on a deferred payment basis, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the subject asset and an agreed profit margin. Income is recognised on an accrual basis adjusted by actual income when received.

Ijara

Ijara refers to lease of the asset, which the Group (Lessor) constructs or purchases as per customer (Lessee) request based on the promise to lease the asset for a fixed term against certain rent installment. Ijara can end by transferring the ownership of the asset to the lessee in case of Ijara Muntahia Bittamleek.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

Musharaka

An agreement whereby the Group and a customer contribute to a certain enterprise according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise. In principle Musharaka profit is distributed on declaration / distribution by the managing partner.

Islamic financing products are initially recognised at fair value and subsequently measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability.

3.6 Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVPL or designated as at FVPL: these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as FVOCI.

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For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Investment securities (continued)

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses on equity instruments recognised in OCI are transferred to retained earnings on disposal of an investment.

Applicable before 1 January 2018:

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale. (refer note 3.1.1 (a))

3.7 Investment properties

The Group holds certain investment properties to earn rental income, for capital appreciation or both. The leased out or intended to lease out components have been classified as investment properties. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged using straight line method over the useful life of the asset. Estimated useful life of buildings is 20 to 30 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property is determined by comparing the proceeds from disposal with the carrying amount and is recognised in the consolidated statement of profit or loss under 'other income' in the year of retirement or disposal.

Transfers are made to and from investment properties when, and only when there is change in use evidenced by ending or commencing of owner-occupation, ending or commencement of an operating lease of another party or ending of construction or development.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to be completed within one year from the date of classification.

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For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for granted land, which is stated at the market value at the date of grant.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing an item of property and equipment is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The day-to-day servicing expenses of property and equipment are recognised in the consolidated statement of profit or loss as incurred.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment. These are included in the consolidated statement of profit or loss.

Property and equipment is impaired if the carrying amount of the asset or its cash generating unit (CGU) exceed its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss.

The cost of all property and equipment other than freehold land and capital work in progress is depreciated using the straight-line method over the following estimated useful lives:

Buildings	20 to 30 years
Leasehold improvements	5 years
Furniture, equipment and vehicles	3 to 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and prospectively adjusted if appropriate.

Capital work in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated in accordance with the Group's policies.

3.9 Due to banks, notes and medium term borrowing

Amounts due to banks, notes and medium term borrowing are initially measured at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest method.

3.10 Repurchase agreement

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date the agreement is accounted for as a term borrowing depending on period of the agreement, and the underlying asset continues to be recognised in the Group's financial statement.

3.11 Customer deposits and Islamic customer deposits

Customer deposits are initially recognised at fair value, being the fair value of the consideration received. After initial recognition, all deposits are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs that are directly attributable to the acquisition or receipt of customer deposit.

The Islamic customer deposits are received by entering into following kinds of agreements:

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds (Rab ul Mal) which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba. In principle Mudaraba profit is distributed on declaration/distribution by the Mudarib.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Customer deposits and Islamic customer deposits (continued)

Wakala

An agreement between Group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration/distribution by the Wakil.

Islamic customer deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit method.

3.12 Employees' terminal benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the consolidated statement of profit or loss.

The present value of the gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for gratuities include the discount and mortality rate. Any changes in these assumptions will impact the carrying amount of gratuity obligations. The value of the gratuity obligations is based on the report submitted by an independent actuarial firm.

3.13 Share capital

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.14 Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Group's shareholders in the Annual General Meeting.

3.15 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.16 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and balances with the Central Bank (excluding statutory reserve), and amounts due from and due to banks with original maturity of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Revenue recognition

(i) Interest income and expense

Applicable from 1 January 2018: Interest income and expense for all interest bearing financial instruments except at FVPL, are presented in 'interest income' and 'interest expense' in the consolidated statement of profit or loss on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income and expense for financial instruments at FVPL is recognised as 'Net gains from investments at fair value through profit or loss'.

Applicable before 1 January 2018: Interest income and expense for financial instruments classified as held for trading or designated at FVPL is recognised as 'trading income'.

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or 'impairment allowance' before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

Applicable from 1 January 2018:

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Revenue recognition (continued)

Applicable before 1 January 2018:

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(ii) Income from Islamic financing and distributions to depositors

Income from Islamic financing is recognised in the consolidated statement of profit or loss using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Distribution to depositors (Islamic products) is calculated according to the Group's standard procedures and is approved by the Group's Sharia'a Supervisory Board.

(iii) Fees and commission

Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Group to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Group based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- other fees and commission income and expense are recognised as the related services are performed or received.

Other fee and commission expenses relate mainly to credit card loyalty programme, commission and brokerage fees which are expensed as the services are received.

Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

- **Asset management services**

The Group provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Revenue recognition (continued)

- **Customer loyalty programme**

The Group operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products / services sold and the points issued. The proceeds allocated to the points are equal to their fair value. Fair value is determined by applying statistical techniques. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

For aspects where third party providers are used, the consideration allocated to the awards credits collected on behalf of the third party are charged to the consolidated statement of profit or loss at the time of supplying the rewards.

(iv) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease and is recorded under 'other income' in the consolidated statement of profit or loss.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established. The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- for equity instruments designated at FVOCI, dividend income is presented as Dividend Income; and
- for equity instruments at FVPL, dividend income is presented as 'Net gains from investments at FVPL'.

(vi) Share of profit of an associate

Share of profit of an associate reflects the Group's share of the results of operations of the associate.

3.18 Provisions

A provision is recognised if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.19 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date, are translated at the foreign exchange rate ruling at spot date.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the consolidated statement of profit or loss.

Foreign currency differences arising on translation are generally recognized in the consolidated statement of profit or loss. However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedge is effective, are recognised in OCI.

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Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Leasing

The Group has entered into leasing arrangements which based on the evaluation of the terms and condition of the leasing arrangement has been classified as operating lease. Leases are classified as operating leases if risk and reward incidental to ownership of the leased asset lie with lessor.

Group as lessor

Asset subjected to operating lease are presented in the consolidated statement of financial position according to the nature of the asset. Income from operating leases are recognised in the consolidated statement of profit or loss on straight line basis over the lease term.

Group as lessee

Lease payments under operating leases are recognised as expense on a straight line basis over the lease term.

3.21 Fiduciary activities

The Group provides wealth management solutions to manage client assets. These assets are held in the Group's custody and are invested on behalf of the client in third party funds, and other securities like bonds and sukuk.

These assets and income arising from these assets are not included in the Group's consolidated financial statements as the risk and rewards incidental to ownership of these assets lie with the client.

3.22 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Acceptances have been considered within the scope of IFRS 9 - Financial Instruments (before 1 January 2018: IAS 39 Financial Instruments - Recognition and Measurement) and continued to be recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

3.23 Derivative product types

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and interest rate swap.

Forwards

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

Options

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Derivative product types (continued)

(i) Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group and potential future fluctuations. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions.

(ii) Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading are conducted under Board approved limits.

Derivatives are initially recognised in the consolidated financial statements at cost being its fair value, for the premium received / paid. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Subsequent to initial recognition derivatives (held for trading) are measured at fair value with fair value changes recognised in the consolidated statement of profit or loss.

3.24 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.25 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Business Committee of the Group to make decisions about resources allocated to the segment and assess its performance, and for which distinct financial information is available. Segment results that are reported to the Business Committee of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.26 Related parties

An entity is considered related party of the Group if:

- a) A person or a close member of that person's family is related to the Group if that person:
 - i. has control or joint control of the Group;
 - ii. has significant influence over the Group; or
 - iii. is a member of the key management personnel of the Group.
- b) An entity is related to a Group if any of the following conditions applies:
 - i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is controlled or jointly controlled by a person identified in (a).
 - vi. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.26 Related parties (continued)

- c) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

Other than the transactions disclosed in note 33, the Group enters into transactions with other Government entities. In accordance with the exemption available in the revised IAS 24, these transactions with such related Government entities are not collectively or individually significant and have not been disclosed.

3.27 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of their non-financial assets to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in consolidated statement of profit or loss.

4 USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

Critical judgements in applying the Group's accounting policies

In particular, considerable management judgment is required in respect of the following issues:

4.1 Going concern

The Group's management has made an assessment of its ability to continue as going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

4 USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other available fair value indicators.

Applicable from 1 January 2018:

4.3 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.

4.4 Significant increase in credit risk

As explained in note 3.1.1 (e), ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

4.5 Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3.1.1 (e) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

4.6 Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3.1.1 (e) for more details on ECL.

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Notes to the consolidated financial statements

For the year ended 31 December 2018

4 USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Applicable before 1 January 2018:

4.7 Impairment losses on loans and advances and Islamic financing

The Group reviews its loan portfolios to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows (excluding future expected credit losses that have not yet been incurred). The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4.8 Held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortized cost.

4.9 Impairment of available-for-sale investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology or operational and financing cash flows.

4.10 Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Group's accounting policies:

Applicable from 1 January 2018:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Applicable before 1 January 2018:

- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 3.1 (b) for more details on fair value measurement.

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

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

The following new and revised IFRS have been adopted in these consolidated 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.

	<u>Effective for annual periods beginning on or after</u>
• Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28 to remove short-term exemptions and clarifying certain fair value measurements	1 January 2018
• IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	1 January 2018
• Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' deleting short-term exemptions for first-time adopters	1 January 2018
• Amendments to IFRS 2 'Share Based Payment' clarifying the classification and measurement of share based payment transactions	1 January 2018
• Amendments to IFRS 7 'Financial Instruments' related to disclosures about the initial application of IFRS 9	1 January 2018
• IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
• Amendments to IAS 28 Investments in Associates and Joint Ventures providing clarification on measuring investees at fair value through profit or loss is an investment-by-investment choice	1 January 2018
• Amendments to IAS 40 'Investment Property' clarifying transfers of property to, or from, investment property	1 January 2018

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

5.2 Relevant new and revised IFRS issued but not yet effective

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

	<u>Effective for annual periods beginning on or after</u>
• IFRS 16 Leases	1 January 2019
• Amendment to IAS 19 Employee Benefits	1 January 2019
• IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
• Amendments to IAS 28 Investment in Associates and Joint Ventures	1 January 2019
• Annual Improvements to IFRS Standards 2015 – 2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019
• Amendments to IFRS 10 Consolidated Financial Statements	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these IFRS and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements

For the year ended 31 December 2018

6 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 AED'000	ECL under IFRS 9 AED'000	New carrying amount AED'000
Financial assets					
Cash and balances with Central Bank	Amortised cost	Amortised cost	6,808,539	-	6,808,539
Due from banks, net	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	Amortised cost	Amortised cost	326,825	-	326,825
Total financial assets			64,392,554	396,249	63,996,305
Non-financial asset					
Investment in an associate	-	-	81,053	1,246	79,807
Total financial and non-financial assets			64,473,607	397,495	64,076,112
Financial liabilities					
Due to banks	Amortised cost	Amortised cost	779,823	-	779,823
Customer deposits and Islamic customer deposits	Amortised cost	Amortised cost	48,411,192	-	48,411,192
Notes and medium term borrowings	Amortised cost	Amortised cost	6,089,663	-	6,089,663
Other liabilities	FVPL	FVPL	73,984	-	73,984
Other liabilities	Amortised cost	Amortised cost	740,665	-	740,665
Total financial liabilities			56,095,327	-	56,095,327

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Notes to the consolidated financial statements (continued)

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7 FINANCIAL ASSETS AND LIABILITIES

7.1 Financial assets and liabilities classification

The table below sets out the Group's financial assets and liabilities classification in accordance with the categories of financial instruments in IFRS 9 (2017: IAS 39):

	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total carrying amount
	AED'000	AED'000	AED'000	AED'000
31 December 2018				
Cash and balances with Central Bank	-	-	8,682,322	8,682,322
Due from banks, net	-	-	971,280	971,280
Loans and advances and Islamic financing, net	-	-	50,944,947	50,944,947
Investment securities, net	-	6,751,150	-	6,751,150
Bankers acceptances	-	-	5,266,428	5,266,428
Other assets, net	104,556	-	596,797	701,353
Total financial assets	104,556	6,751,150	66,461,774	73,317,480
Due to banks	-	-	2,762,944	2,762,944
Customer deposits and Islamic customer deposits	-	-	53,165,030	53,165,030
Notes and medium term borrowing	-	-	2,609,944	2,609,944
Due for trade acceptances	-	-	5,266,428	5,266,428
Other liabilities	82,540	-	909,964	992,504
Total financial liabilities	82,540	-	64,714,310	64,796,850

	Loans and receivables	Held-to- maturity	Fair value through Profit or loss	Available- for-sale at fair value	Other amortised cost	Total carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
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	-	133,242	42,104	6,901,734	-	7,077,080
Bankers acceptances	-	-	-	-	5,121,186	5,121,186
Other assets, net	-	-	69,675	-	326,825	396,500
Total financial assets	47,275,725	133,242	111,779	6,901,734	15,091,260	69,513,740
Due to banks	-	-	-	-	779,823	779,823
Customer deposits and Islamic customer 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

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

7 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

7.2 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:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Carrying value AED'000
31 December 2018					
Investments					
Equities	72,324	-	-	72,324	72,324
Fund of funds	-	9,774	-	9,774	9,774
Fixed and floating rate securities	6,675,313	-	-	6,675,313	6,675,313
Positive market value of forward foreign exchange contracts and other derivatives					
Held for trading	-	104,243	-	104,243	104,243
Held for fair value hedge	-	313	-	313	313
Negative market value of forward foreign exchange contracts and other derivatives					
Held for trading	-	(74,303)	-	(74,303)	(74,303)
Held for fair value hedge	-	(1,092)	-	(1,092)	(1,092)
Held for cash flow hedge	-	(7,145)	-	(7,145)	(7,145)
Liabilities at amortized cost					
Notes and medium term borrowings	(1,470,596)	(1,143,241)	-	(2,613,837)	(2,609,944)
	5,277,041	(1,111,451)	-	4,165,590	4,169,483
31 December 2017					
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					
Held for trading	-	69,477	-	69,477	69,477
Held for fair value hedge	-	198	-	198	198
Negative market value of forward foreign exchange contracts and other derivatives					
Held for trading	-	(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

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

During the year 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 year. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the current or prior year.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

8 CASH AND BALANCES WITH CENTRAL BANK

	2018	2017
	AED'000	AED'000
Cash on hand	449,843	509,915
Balances with Central Bank U.A.E		
- Clearing account balances	732,048	475,591
- Statutory reserves	3,200,431	3,023,033
- Negotiable certificates of deposit	4,300,000	2,800,000
	<u>8,682,322</u>	<u>6,808,539</u>

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 under stage 1 as per IFRS 9. There are no expected credit losses and hence no provision has been recognised.

9 DUE FROM BANKS, NET

	2018	2017
	AED'000	AED'000
Current and demand deposits	550,754	1,084,783
Overnight, call and short notice	114,071	1,597,865
Loans to banks	309,590	152,062
Gross due from banks	<u>974,415</u>	<u>2,834,710</u>
Allowances for impairment losses	(3,135)	-
Net due from banks	<u>971,280</u>	<u>2,834,710</u>
Within the U.A.E.	36,746	991,877
Outside the U.A.E.	934,534	1,842,833
	<u>971,280</u>	<u>2,834,710</u>

Due from banks is classified under stage 1 as per IFRS 9. The expected credit loss as at 31 December 2018 is AED 3,135 thousand (1 January 2018: AED 184 thousand).

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Notes to the consolidated financial statements (continued)

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10 LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

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

	2018 AED'000	2017 AED'000
Loans and advances		
Overdrafts	6,155,390	4,659,635
Loans	35,547,904	35,277,114
Advances against letters of credit and trust receipts	3,180,672	1,473,914
Bills discounted	1,456,452	1,711,513
Gross loans and advances	46,340,418	43,122,176
Islamic financing		
Murabaha and Tawaruq	2,792,472	2,630,365
Ijara	4,810,392	4,314,252
Others	114,658	118,654
Gross Islamic financing	7,717,522	7,063,271
Gross loans and advances and Islamic financing	54,057,940	50,185,447
Allowances for impairment losses	(3,112,993)	(2,909,722)
Net loans and advances and Islamic financing	50,944,947	47,275,725

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

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross exposure at 1 January 2018	41,515,604	3,819,155	4,850,688	50,185,447
Net transfers between stages	(1,855,020)	1,676,020	179,000	-
Net additions / (repayments)	6,033,109	(977,269)	(29,973)	5,025,867
Amounts written off	-	-	(1,153,374)	(1,153,374)
At 31 December 2018	45,693,693	4,517,906	3,846,341	54,057,940
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowance at 1 January 2018	934,633	282,946	2,080,891	3,298,470
Net transfers between stages	(31,271)	4,917	26,354	-
Net (reversals) / impairment charge	(217,707)	47,448	897,669	727,410
Interest not recognised	-	-	269,822	269,822
Recoveries	-	-	(29,335)	(29,335)
Amounts written off	-	-	(1,153,374)	(1,153,374)
At 31 December 2018	685,655	335,311	2,092,027	3,112,993
	Interest suspended AED'000	Specific provisions AED'000	Collective provisions AED'000	Total AED'000
Opening balance at 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 at 31 December 2017	548,505	1,532,386	828,831	2,909,722

The economic sector composition of the loans and advances and Islamic financing is set out in note 35 (b).

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

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

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 is AED 166 million (2017: AED 271 million). Net positive fair value of the hedged component is AED 128 thousand (2017: net positive fair value of AED 1,824 thousand).

11 INVESTMENT SECURITIES, NET

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
2018				
Held at fair value through other comprehensive income				
Equities	72,324	-	-	72,324
Fund of funds (note 11.2)	5,175	4,400	199	9,774
Fixed rate securities				
- Government	2,269,581	1,005,845	366,950	3,642,376
- Others	1,459,601	403,792	773,499	2,636,892
Floating rate non-government securities	183,038	-	213,007	396,045
	3,989,719	1,414,037	1,353,655	6,757,411
Allowances for impairment losses				(6,261)
Net investment securities				6,751,150
2017				
Held for trading				
Fixed rate government securities	23,942	5,491	12,671	42,104
Available-for-sale				
Equities	91,160	-	-	91,160
Fund of funds (note 11.2)	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 to maturity				
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

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Notes to the consolidated financial statements (continued)

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11 INVESTMENT SECURITIES, NET (CONTINUED)

An analysis of changes in the investment securities (excluding equity securities held at FVOCI) gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross exposure at 1 January 2018	6,985,920	-	-	6,985,920
Net transfers between stages	(168,573)	168,573	-	-
Net disposals	(298,326)	(2,507)	-	(300,833)
At 31 December 2018	6,519,021	166,066	-	6,685,087
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowance at 1 January 2018	7,317	-	-	7,317
Net transfers between stages	(2,021)	2,021	-	-
Net reversals	(1,040)	(16)	-	(1,056)
At 31 December 2018	4,256	2,005	-	6,261

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 1,383 million (31 December 2017: AED 1,393 million), pledged under repurchase agreements with banks (note 18).

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

11.1 Held at fair value through other comprehensive income fixed and floating rate securities

The below table shows the rating of fixed and floating rate securities:

	2018 AED'000	2017 AED'000
Rated Aaa to Aa3	1,791,588	1,458,459
Rated A1 to A3	2,304,980	2,348,494
Rated Baa1 to Baa3	1,405,448	1,740,851
Rated below Baa3 or Unrated - Government	1,076,323	1,121,153
Rated below Baa3 - others	96,974	301,808
	6,675,313	6,970,765

The above represents approved ratings from External Credit Assessment Institutions (ECAIs) as per BASEL III guidelines.

11.2 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.

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

12 INVESTMENT IN AN ASSOCIATE

Equity accounting was applied using management information available at the date of reporting. The following is the aggregated financial information of the associate:

	2018 AED'000	2017 AED'000
At 1 January	81,053	77,768
Share of profit of associate	9,621	6,750
Dividends received	(3,992)	(3,196)
Share of Directors' remuneration of associate	(447)	(269)
Other equity adjustments	(1,393)	-
At 31 December	84,842	81,053
	2018	2017
	AED'000	AED'000
Assets	1,320,185	1,262,344
Liabilities	842,201	805,613
Net assets	477,984	456,731
Revenue	57,851	39,962

13 INVESTMENT PROPERTIES, NET

The movement in investment properties during the year is as follows:

	2018 AED'000	2017 AED'000
Cost	AED'000	AED'000
At 1 January	338,683	345,252
Transfers from property and equipment	42,097	-
Disposals	-	(6,569)
At 31 December	380,780	338,683
Depreciation / Impairment		
At 1 January	143,703	112,329
Charge for the year	9,919	9,547
Transfers from property and equipment	12,738	-
Disposals	-	(6,008)
Impairment	-	27,835
At 31 December	166,360	143,703
Net book value at 31 December	214,420	194,980

Investment properties comprises buildings. Rental income amounting to AED 36.7 million (2017: AED 36.8 million) from investment properties leased under operating lease is recorded in other income.

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Notes to the consolidated financial statements (continued)

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13 INVESTMENT PROPERTIES, NET (CONTINUED)

During the year ended 31 December 2018, the Group has carried out external valuations of material investment properties. The valuations are carried out by professional valuers who hold recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuations were based on income (investment) method of valuation. To value the investment properties, the passing rental income and estimated market rental income are used. Any significant movement in the assumptions used for the fair valuation of investment properties such as yield, rental growth, vacancy rate etc. is expected to result in significantly lower / higher fair value of these assets. As a result of the above impairment exercise, the Group has recognised an impairment of AED nil (2017: AED 27.8 million), which has been charged to the consolidated statement of profit or loss and is classified as 'impairment allowance on investment property'.

14 PROPERTY AND EQUIPMENT

	Freehold land and buildings	Leasehold improvements	Furniture, equipment & vehicles	Capital work in progress (CWIP)	Total
Cost	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2018	409,150	62,802	364,837	55,211	892,000
Additions during the year	-	1,908	1,844	40,070	43,822
Transfers	(42,097)	(288)	48,239	(47,951)	(42,097)
Disposals / writeoff	-	(75)	(12,252)	(2,196)	(14,523)
At 31 December 2018	367,053	64,347	402,668	45,134	879,202
Depreciation					
At 1 January 2018	168,057	38,700	301,539	-	508,296
Transfers	(12,738)	-	-	-	(12,738)
Charge for the year	9,371	7,151	36,532	-	53,054
On disposals	-	-	(12,503)	-	(12,503)
At 31 December 2018	164,690	45,851	325,568	-	536,109
Net book values at 31 December 2018	202,363	18,496	77,100	45,134	343,093
	Freehold land and buildings	Leasehold improvements	Furniture, equipment & vehicles	Capital work in progress (CWIP)	Total
Cost	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2017	395,056	55,668	344,165	53,795	848,684
Additions during the year	14,094	-	8,018	53,632	75,744
Transfer from CWIP	-	12,172	40,044	(52,216)	-
Disposals	-	(5,038)	(27,390)	-	(32,428)
At 31 December 2017	409,150	62,802	364,837	55,211	892,000
Depreciation					
At 1 January 2017	158,404	37,634	297,435	-	493,473
Charge for the year	9,653	5,915	30,934	-	46,502
On disposals	-	(4,849)	(26,830)	-	(31,679)
At 31 December 2017	168,057	38,700	301,539	-	508,296
Net book values at 31 December 2017	241,093	24,102	63,298	55,211	383,704

The Group assessed whether there is an indication that an asset may be impaired and concluded that there was no indication of impairment.

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Notes to the consolidated financial statements (continued)

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15 OTHER ASSETS, NET

	2018	2017
	AED'000	AED'000
Interest receivable	373,932	308,362
Accounts receivable and prepayments	253,780	53,569
Positive mark to market value of derivatives (note 31)	104,556	69,675
Properties acquired in settlement of debt	110,796	205,474
	<u>843,064</u>	<u>637,080</u>

During the year, the Bank has acquired certain properties against partial settlement of a debt and sold some properties acquired in similar settlement of debt during prior years. These properties are classified as 'properties acquired in settlement of debt'.

16 DUE TO BANKS

	2018	2017
	AED'000	AED'000
Current and demand deposits	187,304	223,804
Term borrowings	2,575,640	556,019
	<u>2,762,944</u>	<u>779,823</u>

17 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	2018	2017
	AED'000	AED'000
Customer deposits		
Current and demand accounts	15,158,944	15,255,996
Savings accounts	2,422,298	1,739,286
Time deposits	23,393,862	23,630,424
	<u>40,975,104</u>	<u>40,625,706</u>
Islamic customer deposits		
Current and demand accounts	2,508,574	1,574,694
Mudaraba savings accounts	591,166	615,517
Investment and Wakala deposits	9,090,186	5,595,275
	<u>12,189,926</u>	<u>7,785,486</u>
Total customer deposits and Islamic customer deposits	<u>53,165,030</u>	<u>48,411,192</u>
By sector:	2018	2017
	AED'000	AED'000
Government	13,743,546	11,852,186
Corporate	25,555,410	24,910,062
Personal	13,866,074	11,648,944
	<u>53,165,030</u>	<u>48,411,192</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

18 NOTES AND MEDIUM TERM BORROWINGS

		31 December	Cash flow	Non cash	31 December
		2017	Changes	flow	2018
		AED'000	AED'000	Changes	AED'000
Syndicated loan	18.1	1,645,826	(1,652,850)	7,024	-
Repurchase agreements - I	18.2	551,442	-	-	551,442
Repurchase agreements - II	18.2	591,799	-	-	591,799
Euro medium term notes - I	18.3	1,835,376	(1,836,500)	1,124	-
Euro medium term notes - II	18.3	1,465,220	-	1,483	1,466,703
Total		6,089,663	(3,489,350)	9,631	2,609,944

		31 December	Cash flow	Non cash	31 December
		2016	Changes	flow	2017
		AED'000	AED'000	Changes	AED'000
Syndicated loan	18.1	1,641,103	-	4,723	1,645,826
Repurchase agreements - I	18.2	551,442	-	-	551,442
Repurchase agreements - II	18.2	591,799	-	-	591,799
Euro medium term notes - I	18.3	1,832,276	-	3,100	1,835,376
Euro medium term notes - II	18.3	1,463,917	-	1,303	1,465,220
Total		6,080,537	-	9,126	6,089,663

18.1 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, carrying an interest at the rate of 3 month LIBOR plus 125 basis points payable on a quarterly 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 has been prepaid during the year and replaced with a bilateral loan of USD 350 million with 3 years maturity arranged from various banks.

18.2 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 551.4 million) with arrangements to repurchase them at a fixed future date in July 2017. In June 2016 the arrangement of repurchase has been extended for additional five years up until 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 December 2018, the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 1,383 million (USD 376.5 million) (2017: AED 1,393 million (USD 379.3 million)) (note 11).

18.3 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. These had matured 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.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

19 OTHER LIABILITIES

	2018	2017
	AED'000	AED'000
Interest payable	378,938	255,831
Employees' terminal benefits	60,648	61,305
Accounts payable	220,151	269,565
Accrued expenses	133,632	100,783
Manager cheques	116,595	108,465
Unearned fee income and deferred credits	85,970	61,505
Negative mark to market value of derivatives (note 31)	82,540	73,984
	1,078,474	931,438

20 EQUITY

20.1 Share capital

The fully paid up and authorised ordinary share capital as at 31 December 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.

20.2 Legal and statutory reserve

The Group's Article of Association in compliance with the Decretal Federal Law No. (14) of 2018 require a minimum of 10% of annual net profit to be transferred to non-distributable legal and statutory reserve, until such time as this reserve equals 50% of share capital. During the year no transfer to legal and statutory reserve was required (2017: nil) to meet the minimum regulatory requirement. The legal and statutory reserve is not available for distribution except under the circumstances stipulated by the relevant laws.

20.3 General reserve

The Group's new Articles of Association adopted by the General Assembly of Shareholders in its meeting held on 26 June 2016 deleted the requirement for the general reserve. Therefore, there is no requirement to transfer 10% of the annual net profit to the general reserve. The previous Group's Articles of Association, required a minimum of 10% of the annual net profit to be transferred to general reserve until such time as this reserve equals 50% of share capital. The disposition of the general reserve shall be in accordance with a resolution made by the Board of Directors.

20.4 Capital reserve

This reserve represents the value of the granted land at the date of grant, and is not available for distribution to the shareholders.

20.5 Fair value reserve

This represents the net change in the fair values of OCI investments (2017: AFS investments), derivative instruments designated as cash flow hedge instruments held by the Group at reporting date and actuarial changes on retirement benefits obligations. This reserve is not available for distribution to the shareholders until realised.

20.6 Proposed distribution

As of the date of approving the consolidated financial statements, the Board of Directors' proposed a cash dividend of 20.7% (2017: 17.5%).

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

21 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2018	2017
	AED'000	AED'000
Interest income		
Loans and advances	2,140,234	1,942,448
Negotiable certificates of deposit with the Central Bank	52,249	18,285
Due from banks	31,494	21,015
Investment securities		
- Debt securities at amortised cost bonds (2017: Held-to-maturity)	713	5,220
- Debt securities at FVOCI (2017: Available for sale)	216,657	210,332
	2,441,347	2,197,300
Income from Islamic financing		
Murabaha and Tawaruq	165,879	141,265
Ijara	239,987	176,197
	405,866	317,462
Total interest income and income from Islamic financing	2,847,213	2,514,762

Interest income is recognised using the effective interest rate.

22 INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS

	2018	2017
	AED'000	AED'000
Interest expense		
Due to banks	22,872	12,092
Customer deposits	532,723	361,860
Notes and medium term borrowings	197,668	201,220
	753,263	575,172
Distribution to Islamic depositors		
Islamic customer deposits	182,727	118,866
	182,727	118,866
Total interest expense and distribution to Islamic depositors	935,990	694,038

Distribution to Islamic depositors represents the share of income allocated to Islamic depositors of the Group. The allocation and distribution is approved by the Group's Sharia'a Supervisory Board.

23 NET FEES AND COMMISSION INCOME

	2018	2017
	AED'000	AED'000
Lending activities	181,435	182,324
Trade finance activities	152,230	144,353
Account operating activities	207,344	184,030
Cards income and brokerage fees	106,479	104,170
	647,488	614,877
Cards, commissions and brokerage expenses	(69,283)	(50,287)
	578,205	564,590

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

24 NET GAINS FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 AED'000	2017 AED'000
Net realised gains on sale of investments at fair value through profit or loss	650	5,516
Net unrealised losses on investments at fair value through profit or loss	-	(268)
	<u>650</u>	<u>5,248</u>

25 STAFF AND OTHER EXPENSES

Staff and other expenses include staff related expenses of AED 593 million (2017: AED 608.8 million) and sitting fees paid to directors for attending committee meetings during the year ended 31 December 2018 of AED 3.1 million (2017: AED 2.7 million) and corporate social responsibility (CSR) related expenses of AED 0.9 million (2017: AED 2.1 million).

26 OPERATING LEASES

Group as lessee

General and administrative expenses include rental expense under operating leases of AED 15.9 million (2017: AED 17.1 million). Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

	2018 AED'000	2017 AED'000
Less than 1 year	11,256	10,977
From 1 year to 5 years	16,996	9,582
	<u>28,252</u>	<u>20,559</u>

27 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit AED 1,162,111 thousand (2017: 1,001,918 thousand) divided by the weighted average number of ordinary shares outstanding 2,802,733,968 (31 December 2017: 2,802,733,968).

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

28 CASH AND CASH EQUIVALENTS

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

	2018 AED'000	2017 AED'000
Cash on hand	449,843	509,915
Balances with the Central Bank U.A.E.	732,048	475,591
Negotiable certificates of deposit with the Central Bank U.A.E. with original maturity less than three months	2,600,000	400,000
Due from banks with original maturity of less than three months	664,825	2,682,648
	<u>4,446,716</u>	<u>4,068,154</u>
Due to banks with original maturity of less than three months	(1,131,382)	(596,173)
	<u>3,315,334</u>	<u>3,471,981</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

29 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.

	2018	2017
	AED'000	AED'000
Contingent liabilities:		
Letters of credit	1,221,648	1,021,104
Letters of guarantee	<u>10,804,478</u>	<u>9,197,212</u>
	12,026,126	10,218,316
Undrawn commitments to extend credit:		
- irrevocable	3,737,846	1,998,263
- revocable	<u>9,682,925</u>	<u>12,558,189</u>
	13,420,771	14,556,452
Capital commitments:		
Capital expenditure commitments	46,615	44,210
Total contingent liabilities and commitments	<u><u>25,493,512</u></u>	<u><u>24,818,978</u></u>

30 FIDUCIARY ASSETS

Assets held under fiduciary capacity on behalf of clients amounted to AED 838.1 million (2017: AED 1,277.2 million).

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

31 DERIVATIVES

The following table shows the positive and negative fair values of derivative financial instruments at the reporting date, together with the notional amounts, analyzed by terms to maturity. The notional amount is the value of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and therefore, are neither indicative of the Group's exposure to credit risk nor market risk. Credit risk on derivatives is limited to its positive fair value if any.

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000	Over Five years AED'000
31 December 2018							
Cash flow hedge instruments	-	7,145	94,626	-	-	94,626	-
Fair value hedge instruments	313	1,092	200,331	-	-	115,950	84,381
Forward foreign exchange contracts and other derivatives assets	104,243	-	9,244,749	3,200,542	759,197	3,312,755	1,972,255
Forward foreign exchange contracts and other derivatives liabilities	-	74,303	9,620,796	3,140,194	1,528,493	3,008,451	1,943,658
	104,556	82,540	19,160,502	6,340,736	2,287,690	6,531,782	4,000,294
31 December 2017							
Cash flow hedge instruments	-	12,026	82,643	-	-	82,643	-
Fair value hedge instruments	198	2,022	262,475	-	-	104,654	157,821
Forward foreign exchange contracts and other derivatives assets	69,477	-	3,643,533	1,663,249	709,595	858,580	412,109
Forward foreign exchange contracts and other derivatives liabilities	-	59,936	2,153,125	674,082	778,932	411,931	288,180
	69,675	73,984	6,141,776	2,337,331	1,488,527	1,457,808	858,110

Cash-flow hedge instruments include interest rate and cross currency swaps. Fair value hedge instruments include interest rate swaps.

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

32 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.
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 small business and retail clients.
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	Commercial banking	Personal banking	Treasury & Investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
2018					
Assets	37,726,659	12,661,640	7,298,537	16,414,710	74,101,546
Liabilities	34,702,788	10,623,806	14,103,333	5,452,893	64,882,820
2017					
Assets	34,085,609	12,252,677	7,058,784	17,016,987	70,414,057
Liabilities	32,723,429	8,694,488	12,946,641	6,968,744	61,333,302

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

32 SEGMENTAL REPORTING (CONTINUED)

	Corporate banking AED'000	Commercial banking AED'000	Personal banking AED'000	Treasury & Investments AED'000	Total AED'000
2018					
Net interest income and net income from Islamic financing	719,205	538,851	451,554	201,613	1,911,223
Non-interest & other income	225,485	247,814	183,257	156,924	813,480
Total operating income	944,690	786,665	634,811	358,537	2,724,703
Expenses (note a)	164,851	255,242	398,782	39,452	858,327
Net provisions (note b)	422,233	95,842	179,010	7,180	704,265
	587,084	351,084	577,792	46,632	1,562,592
Net profit for the year	357,606	435,581	57,019	311,905	1,162,111
2017					
Net interest income and net income from Islamic financing	678,500	569,557	388,981	183,686	1,820,724
Non-interest & other income	223,483	224,661	161,667	211,891	821,702
Total operating income	901,983	794,218	550,648	395,577	2,642,426
Expenses (note a)	162,694	281,267	419,837	36,870	900,668
Net provisions (note b)	(84,563)	559,743	211,841	52,819	739,840
	78,131	841,010	631,678	89,689	1,640,508
Net profit / (loss) for the year	823,852	(46,792)	(81,030)	305,888	1,001,918

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

(b) This includes impairment allowances on due from banks, 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	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Corporate banking	1,089,880	991,718	(145,190)	(89,735)
Commercial banking	886,555	894,909	(99,890)	(100,691)
Personal banking	525,111	499,863	109,700	50,785
Treasury & investments	223,157	255,936	135,380	139,641
Total operating income	2,724,703	2,642,426	-	-

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

33 RELATED PARTY TRANSACTIONS AND BALANCES

As at 31 December 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").

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	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Due from banks, net	-	-	-	771,404	-	-
Loans and advances and Islamic	416,198	474,640	1,262,582	1,804,980	1,398,356	1,207,730
Investment securities, net	-	-	1,315,852	1,466,632	-	-
Acceptances	-	-	-	-	12,715	149,886
Letters of credit	-	-	223	-	6,233	12,606
Letters of guarantee	-	-	323,525	323,531	226,869	624,380
Undrawn commitments to extend credit	28,424	26,167	529,246	1,238,827	463,374	589,391
Due to banks	-	-	180,170	11,926	-	-
Customer deposits and Islamic customer deposits	98,412	52,559	3,266,268	4,495,314	165,791	1,235,327
Interest income and commission income	20,927	8,303	80,916	67,320	71,927	62,149
Interest expense	719	132	90,965	93,986	1,807	26,047
Dividend from an associate	-	-	-	-	3,992	3,196

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.

None of the balances with related parties are classified under stage 3 as per IFRS 9. Hence, no specific provision has been recorded against these balances.

Sitting fees paid to directors for attending committee meetings during the year ended 31 December 2018 amounted to AED 3.1 million (2017: AED 2.7 million).

	2018 AED'000	2017 AED'000
Key management compensation		
Salaries	22,923	18,525
Post-employment benefits	998	809
Other benefits	17,793	14,589

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

34 RISK MANAGEMENT OBJECTIVES AND POLICIES

34.1 Risk Governance

The Board of Directors (the "Board") has the overall responsibility for the operations and the financial stability of the Group, and ensures that the interests of shareholders, depositors, creditors, employees and other stakeholders, including the banking regulators and supervisors, are addressed. The Board is responsible for strategic direction, management oversight and adequate control with the ultimate objective of promoting the success and long-term value of the Bank. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. Additionally, it is responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures as well as management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by various Board Committees, namely Board Risk Committee (BRC), Audit & Compliance Committee (ACC), Credit & Investment Committee (CIC), Financial Settlements and Restructuring Committee (FSRC) and Nomination & Remuneration Committee (REMCO).

Management actively manages risk, primarily through the Risk Department with oversight by the Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Credit Committee (CC), Project Investment Committee (PIC), Information Security Risk Committee (ISRC), Compliance Committee (CCO), Human Resources Committee (HRC) and Operational Risk Management Committee (ORMC).

34.2 Control Environment

a) Group Risk

Group Risk Department comprises credit, market and operational units. Its responsibilities include the following:

- Developing a strategy, policy and framework for risk management such that these are aligned with business requirements;
- Providing support to the Group in implementation of the framework;
- Bringing together analysis of risk concentrations and sensitivities across the Group;
- Acting as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- Providing independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

b) Internal Audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the ACC or Management.

It is led by the Head of Internal Audit who reports to the ACC of the Board of Directors, with administrative reporting to the Chief Executive Officer of the Group.

To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel. The Internal Audit Charter empowers it to have full, free and effective access at all reasonable times to all records, documents and employees of the Group. Internal Audit has direct access to the Chairman of the ACC and Chief Executive Officer of the Group.

To determine whether the Internal Audit Function is functioning effectively, the ACC shall:

- Assess the appropriateness of the Internal Audit Charter once each year;
- Assess the adequacy of resources available, both in terms of skills and funding once each year; and
- Sponsor external assessments, at least once every three (3) years, by a qualified, independent reviewer from outside the Group.

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

34.2 Control Environment (continued)

c) Internal Control

Board of Directors and Management are responsible for developing and maintaining the existence of a sound Internal Control System and procedures that meet international standards and fulfill the requirements of the Group's management and external regulatory bodies. The internal control system should be capable of ensuring the achievement of the following:

- Accuracy and integrity of financial and operational statements issued by the Group;
- Effectiveness and efficiency of the Group's operational activities;
- Effectiveness of measures and procedures set to safeguard the Group's assets and properties; and
- Compatibility with laws, legislations and regulations in force as well as policies pertinent to internal operational procedures.

Executive management constantly monitors and assesses the efficiency and effectiveness of internal control procedures and their ability to achieve stated objectives and their furtherance and enhancement.

The functions and responsibilities of the Internal Control Department include but not limited to:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enabling the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Monitoring of operational activities and overseeing operational controls being exercised to ensure that these are timely and effective.

d) Compliance and Fraud prevention

The process of monitoring compliance is an independent task which aims at ensuring that the Group is in compliance with all applicable laws, regulations, instructions, directives, codes of conduct and sound banking standards and practices as issued by relevant authorities.

The Board of Directors takes necessary measures to further strengthen the values of integrity and sound professional conduct within the Group by promoting a culture of compliance in letter and spirit of applicable laws, regulations, instructions and standards.

The mission and role of compliance, AML and Fraud prevention department is to:

- Ensuring compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- Ensuring senior management is fully informed of significant compliance issues and plans for resolution;
- Contributing to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- Aligning annual compliance plans with business strategies and goals; and
- Meet regulatory expectations, Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) requirements.

Fraud prevention

The Group has a dedicated Fraud Prevention and Investigation Unit that assists in identification, detection, and verification of potential or actual fraud incidents including quantification and recoupment of any losses sustained as a result of such incident. The purpose is to manage susceptibility of Group's assets and processes to fraud risk with a view to reducing it and to raise the level of fraud awareness amongst employees and other stakeholders.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

e) Whistle Blowing

A set of arrangements has been designed to enable employees to confidentially report concerns about any potential violations, enabling the investigation and follow up of such concerns independently and discreetly through the whistle blowing policy. Such arrangements are supervised by the ACC and in coordination with the executive management.

34.3 Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all regulations and guidelines issued by the lead regulator Central Bank of the UAE (CBUAE), International Financial Reporting Standards (IFRS), Securities and Commodities Authority (SCA) and Dubai Financial Market (DFM).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

a) Materiality thresholds

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of consolidated financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement, and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down qualitative materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

b) Control framework

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of financial disclosures. In addition, the consolidated financial statements are subject to a quarterly review and year end audit procedures by the Group's external auditors.

c) Frequency and medium of disclosure

Interim financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, basel III Pillar 3, relevant laws of the U.A.E, SCA requirement and other guidelines from CBUAE is made on annual basis. Disclosures of material non-public financial information are made as follows:

- Uploading quarterly reviewed and annual audited consolidated financial statements along with Directors' report to DFM and SCA websites;
- Posting quarterly and annual consolidated financial statements on the Group's website;
- Publishing of annual audited consolidated financial statements on the Bank's website;
- Management discussion and analysis in Arabic and English newspapers in a manner that ensures wide dissemination;
- Publication of the annual report which includes audited consolidated financial statements, list of names of members of the Board of Directors, senior executives, their deputies and assistants and names of wholly or partially owned subsidiaries; and
- Investor's pack is presented on Bank's website on a quarterly and annual basis.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following primary risks from financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Risk Committee (BRC) is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's BRC is assisted in these functions by Internal Audit, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group BRC as well as ACC.

This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Group's balances with Central Bank, due from banks, loans and advances and Islamic financing, other financial assets, loan commitments and financial guarantee contracts. For reporting purpose, credit risk on loan commitments and financial guarantee contracts is reported as a component of credit risk on loans and advances and Islamic financing. For risk management purposes, credit risk arising on investment securities held at FVPL is managed independently.

(i) Management of credit risk

Credit Committee (CC) manages the credit risk of the Group by continuous review and update of the following:

- Formulating credit policies;
- Establishing the authorisation structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk;
- Limiting concentrations of exposure to counterparties, geographies and industries;
- Developing and maintaining the Group's risk gradings;
- Developing and maintaining the Group's processes for measuring ECL;
- Reviewing compliance of business units with agreed exposure limits; and
- Providing advice, guidance and specialist skills to business units to promote best practice.

(ii) Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises various categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(ii) Internal credit risk ratings (continued)

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk increases. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the customer risk profile:

- Payment record and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review and where available changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The Group credit risk rating methodology has 22 grades frame work, whereby:

Classification	Grades	Risk significance
Performing	1 - 19	Good performing assets and debt securities with External Credit Assessment (ECA) of "AAA" and better than "B-".
Non-performing	20 - 22	Impaired financial assets i.e. substandard, doubtful and loss.

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly for each obligor. The criteria used are both quantitative changes in PDs as well as qualitative.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increase in credit is effective, meaning that significant increase in credit risk is identified before the exposure is defaulted. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(iii) Measurement of ECL

As explained in note 3.1.1 (e), the Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk. However, for financial instruments such as credit cards and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

(iv) Restructured and renegotiated loans

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

(v) Exposure to credit risk

The Group measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and expected credit allowances, if any.

2018	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Due from banks				
Performing	974,415	-	-	974,415
Allowance for impairment losses	(3,135)	-	-	(3,135)
Net carrying amount	971,280	-	-	971,280
Loans and advances				
Performing	45,693,693	4,517,906	-	50,211,599
Non-performing	-	-	3,846,341	3,846,341
Allowance for impairment losses	(685,655)	(335,311)	(2,092,027)	(3,112,993)
Net carrying amount	45,008,038	4,182,595	1,754,314	50,944,947
Debt securities				
Performing	6,519,021	166,066	-	6,685,087
Allowance for impairment losses	(4,256)	(2,005)	-	(6,261)
Net carrying amount	6,514,765	164,061	-	6,678,826

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(v) Exposure to credit risk (continued)

2017	Loans and receivables AED'000	Due from banks AED'000	Debt securities AED'000
i. Neither past due nor impaired			
Grades 1: good, top performing assets	11,518,841	2,834,710	5,503,755
Grade 2 - 9: good, performing assets	33,460,948	-	1,467,010
Grade 10: watch list loans / performing	952,920	-	-
Carrying amount	<u>45,932,709</u>	<u>2,834,710</u>	<u>6,970,765</u>
ii. Past due but not impaired			
In Grade 1 to 10			
Less than 30 days	484,154	-	-
30 - 60 days	134,689	-	-
60 - 90 days	69,322	-	-
Over 90 days	285,297	-	-
Carrying amount	<u>973,462</u>	<u>-</u>	<u>-</u>
iii. Individually impaired			
Grade 11 & 12: Substandard	933,216	-	-
Grade 13: Doubtful	406,595	-	-
Grade 14: Loss	1,289,919	-	-
Carrying amount	<u>2,629,730</u>	<u>-</u>	<u>-</u>
iv. Impaired on portfolio basis – Retail			
Grade 11 & 12: Substandard	122,566	-	-
Grade 13: Doubtful	118,010	-	-
Grade 14: Loss	408,970	-	-
Carrying amount	<u>649,546</u>	<u>-</u>	<u>-</u>
Total carrying amount	<u>50,185,447</u>	<u>2,834,710</u>	<u>6,970,765</u>
Specific provision for impairment	(1,077,280)	-	-
Portfolio provision for impairment related to (iv) above	(285,669)	-	-
Specific provision for individually restructured loans and under restructuring / OLEM	(169,437)	-	-
Interest in suspense	(548,505)	-	-
Collective provision for impairment related to (i) and (ii) above	(828,831)	-	-
Total provisions for impairment	<u>(2,909,722)</u>	<u>-</u>	<u>-</u>
Carrying amount net of impairment	<u>47,275,725</u>	<u>2,834,710</u>	<u>6,970,765</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(vi) Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE (“the guidance”).

Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2018 AED'000
Allowances for impairment losses: General	
General provisions under Circular 28/2010 of CBUAE	874,263
Less: Stage 1 and Stage 2 provisions under IFRS 9	1,020,966
General provision transferred to the impairment reserve*	<u>-</u>
Allowances for impairment losses: Specific	
Specific provisions under Circular 28/2010 of CBUAE	2,084,734
Less: Stage 3 provisions under IFRS 9	2,092,027
Specific provision transferred to the impairment reserve*	<u>-</u>
Total provision transferred to the impairment reserve	<u><u>-</u></u>

*In the case where provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

(vii) Allowances for impairment

As discussed above in the significant increase in credit risk section, under the Group’s monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

Assets carried at fair value through profit or loss is not subject to ECL, as the measure of fair value reflects the credit quality of each asset.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(vii) Allowances for impairment (continued)

The Group monitors concentrations of its impaired loans by sector and by geographic location. An analysis of concentrations of impaired (excluding restructured / under restructuring) loans by sector is shown below:

	Impaired loans AED'000	Collateral AED'000	Specific provision and interest in suspense AED'000
2018			
Manufacturing	173,215	87,048	117,628
Construction	218,897	43,580	219,611
Real estate	589,191	397,568	265,242
Trade	438,063	108,896	257,161
Transportation and storage	46,885	3,906	21,412
Services	71,789	14,138	41,330
Hospitality	433,478	420,066	40,758
Financial and insurance activities	1,067,582	341,346	561,683
Personal - mortgage	450,409	250,614	100,575
Personal - schematic	197,876	71,420	389,088
Individual loans for business	155,582	99,641	74,835
Others	3,374	-	2,704
Total carrying amount	3,846,341	1,838,223	2,092,027
	Impaired loans AED'000	Collateral AED'000	Specific provision and interest in suspense AED'000
2017			
Manufacturing	67,814	25,068	56,280
Construction	239,425	67,510	189,048
Real estate	510,848	344,668	127,006
Trade	1,016,868	102,970	790,750
Transportation and storage	50,570	13,766	37,649
Services	85,239	22,222	65,909
Hospitality	442,361	409,191	68,613
Financial and insurance activities	44,027	13,950	10,028
Personal - mortgage	352,589	193,550	214,039
Personal - schematic	197,352	515	148,890
Individual loans for business	269,139	127,085	201,850
Others	3,044	-	1,392
Total carrying amount	3,279,276	1,320,495	1,911,454

All impaired loans are located in one geographic area i.e. the United Arab Emirates. The value of collateral is restricted to lower of loan exposure or realisable value of the collateral.

The gross carrying value of unfunded exposures pertaining to impaired loans amounted to AED 43.8 million (2017: AED 90.7 million).

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(viii) Write - off policy

The Group writes off a loan / investment in debt security (and any related expected credit allowances) when the Group Investment and Credit Committee (ICC) determines that the loan / security is uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product-specific past due status.

(ix) Collateral

The Group holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored and updated on a periodic basis. Generally, collateral is not held against debt securities and amounts due from banks, and no such collateral was held at 31 December 2018 or 2017.

Analysis of collateral by type is presented in the following table:

	2018	2017
	AED'000	AED'000
Pledged deposits	3,035,516	2,067,227
Properties	23,322,055	21,297,734
Mortgages	1,145,029	1,142,902
Pledge of shares	905,261	911,179
Government and bank guarantees	220,956	132,543
Others	72,029	67,887
Total collaterals	<u>28,700,846</u>	<u>25,619,472</u>

The above represents collateral value restricted to the lower of loan balance or collateral value.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(x) Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The following tables set out the concentration of credit risk by sector, geography and currency.

Concentration of credit risk by sector for 2018:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Manufacturing	2,359,918	-	135,108	-	-	2,495,026	444,412	854,621
Construction	2,522,729	-	-	-	-	2,522,729	680,359	4,880,963
Real estate	17,161,362	-	179,909	5,761	-	17,347,032	4,258,297	1,987,675
Trade	5,316,585	-	-	-	-	5,316,585	1,548,004	6,988,899
Transportation and storage	1,491,763	-	321,992	4,400	-	1,818,155	136,077	200,102
Services	4,305,056	-	616,113	53,780	-	4,974,949	957,111	852,334
Hospitality	2,652,430	-	-	-	-	2,652,430	392,691	13,324
Financial and insurance activities	7,311,952	974,415	3,061,251	18,157	84,842	11,450,617	1,434,320	903,656
Government entities	131,497	-	1,925,823	-	8,232,479	10,289,799	161,219	16
Personal - mortgage	2,835,784	-	-	-	-	2,835,784	42,716	-
Personal - schematic	4,924,986	-	-	-	-	4,924,986	2,436,157	22,429
Individual loans for business	2,032,242	-	-	-	-	2,032,242	534,086	3,592
Others	1,011,636	-	435,117	-	1,917,131	3,363,884	395,322	584,943
Total carrying amount	54,057,940	974,415	6,675,313	82,098	10,234,452	72,024,218	13,420,771	17,292,554

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(x) Concentration (continued)

Concentration of credit risk by sector for 2017:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Manufacturing	3,063,164	-	50,094	-	-	3,113,258	521,474	783,525
Construction	2,076,674	-	-	-	-	2,076,674	803,080	4,483,183
Real estate	16,257,991	-	312,191	9,666	-	16,579,848	3,655,679	1,457,852
Trade	4,959,352	-	-	-	-	4,959,352	2,189,074	6,603,190
Transportation and storage	1,952,551	-	291,186	5,456	-	2,249,193	1,042,749	137,729
Services	3,710,102	-	761,103	60,714	-	4,531,919	1,009,001	812,515
Hospitality	2,929,679	-	-	-	-	2,929,679	432,022	15,037
Financial and insurance activities	4,668,691	2,834,710	3,012,066	30,479	81,053	10,626,999	1,373,668	841,380
Government entities	135,121	-	2,033,204	-	6,298,624	8,466,949	40,087	50
Personal - mortgage	2,627,582	-	-	-	-	2,627,582	42,645	-
Personal - schematic	4,544,506	-	-	-	-	4,544,506	2,104,916	8,521
Individual loans for business	2,282,999	-	-	-	-	2,282,999	549,855	7,765
Others	977,035	-	510,921	-	1,798,978	3,286,934	792,202	188,755
Total carrying amount	50,185,447	2,834,710	6,970,765	106,315	8,178,655	68,275,892	14,556,452	15,339,502

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(x) Concentration (continued)

Concentration of credit risk by geographic location for 2018:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
UAE	52,600,179	36,746	3,912,220	77,499	10,234,452	66,861,096	12,483,950	14,932,999
GCC	187,671	45,796	1,409,637	4,400	-	1,647,504	117,044	266,438
Middle East	305,022	108,498	-	-	-	413,520	420,403	105,305
Europe	194,606	370,318	243,552	199	-	808,675	87,581	722,060
USA	-	194,776	313,420	-	-	508,196	147	38,961
Asia	382,061	143,675	665,464	-	-	1,191,200	230,097	1,154,328
Others	388,401	74,606	131,020	-	-	594,027	81,549	72,463
Total carrying amount	54,057,940	974,415	6,675,313	82,098	10,234,452	72,024,218	13,420,771	17,292,554

Concentration of credit risk by geographic location for 2017:

UAE	49,032,668	991,877	4,574,590	94,506	8,178,655	62,872,296	14,451,692	11,425,070
GCC	256,469	482,438	1,666,464	11,611	-	2,416,982	49,305	45,651
Middle East	111,842	453	-	-	-	112,295	2,321	39,095
Europe	53,133	1,041,049	142,119	198	-	1,236,499	12,289	2,428,823
USA	-	158,909	109,258	-	-	268,167	-	64,209
Asia	101,172	80,320	431,722	-	-	613,214	40,845	1,336,654
Others	630,163	79,664	46,612	-	-	756,439	-	-
Total carrying amount	50,185,447	2,834,710	6,970,765	106,315	8,178,655	68,275,892	14,556,452	15,339,502

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(x) Concentration (continued)

Concentration of credit risk by currency for 2018:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
AED	44,788,595	16	-	77,499	9,777,069	54,643,179	11,293,339	10,485,900
Other currencies*	9,269,345	974,399	6,675,313	4,599	457,383	17,381,039	2,127,432	6,806,654
Total carrying amount	54,057,940	974,415	6,675,313	82,098	10,234,452	72,024,218	13,420,771	17,292,554

Concentration of credit risk by currency for 2017:

AED	42,644,739	200,016	-	94,505	7,647,226	50,586,486	12,324,987	8,796,483
Other currencies*	7,540,708	2,634,694	6,970,765	11,810	531,429	17,689,406	2,231,465	6,543,019
Total carrying amount	50,185,447	2,834,710	6,970,765	106,315	8,178,655	68,275,892	14,556,452	15,339,502

*Majority of assets denominated in other currencies are in USD to which AED is pegged.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Group's Internal Capital Adequacy Assessment Procedures (ICAAP) framework and Operational Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group Risk Management Department.

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at contracted maturities and rates and the inability to liquidate assets at reasonable prices and in the required timeframe and the inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

(i) Management of liquidity risk

Liquidity risk is managed by the Treasury and Asset and Liability management (ALM) department in line with the regulatory, internal policies and guidelines. The Group's approach to manage liquidity risk is to ensure that it has adequate funding from diversified sources at all times to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, money market instruments, subordinated debts and capital. The treasury and ALM department monitors the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions.

The Group's liquidity management process, as carried out within the Group and monitored by Group's treasury, includes:

- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met - these include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money market to facilitate funding activities;
- Maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Repurchase arrangements with various Banks which allow it to repo its fixed income investments to meet any liquidity needs that may arise.

(ii) Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which is 89.42% as at 31 December 2018 (2017: 88.59%). In addition, the Group also uses the following ratios / information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Basel III ratios (including LCR, NSFR, etc.) are also monitored internally and shared with the Board on quarterly basis.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

The following table summarizes the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. These do not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the residual period at the reporting date to the contractual maturity date.

The maturity profile of the assets and liabilities at 31 December 2018 was as follows:

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No Fixed Maturity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with Central Bank	8,682,322	3,132,048	600,000	1,300,000	-	-	3,650,274
Due from banks, net	971,280	664,825	18,925	182,245	105,285	-	-
Loans and advances and Islamic financing, net	50,944,947	8,407,073	3,255,143	3,962,118	13,406,666	21,913,947	-
Investment securities, net	6,751,150	-	23,793	952,836	4,622,677	1,069,746	82,098
Investment in associate	84,842	-	-	-	-	-	84,842
Investment properties, net	214,420	-	-	-	-	-	214,420
Property and equipment	343,093	-	-	-	-	-	343,093
Bankers acceptances	5,266,428	91,907	1,067,602	4,105,320	1,599	-	-
Other assets, net	843,064	732,268	-	-	-	-	110,796
Total assets	74,101,546	13,028,121	4,965,463	10,502,519	18,136,227	22,983,693	4,485,523
Liabilities and equity							
Due to banks	2,762,944	1,336,322	144,031	-	1,282,591	-	-
Customer deposits and Islamic customer deposits	53,165,030	27,130,021	8,861,068	16,559,281	614,124	536	-
Notes and medium term borrowings	2,609,944	-	-	-	2,609,944	-	-
Due for trade acceptances	5,266,428	91,907	1,067,602	4,105,320	1,599	-	-
Other liabilities	1,078,474	1,017,826	-	-	-	-	60,648
Total liabilities	64,882,820	29,576,076	10,072,701	20,664,601	4,508,258	536	60,648
Gap representing equity	9,218,726	(16,547,955)	(5,107,238)	(10,162,082)	13,627,969	22,983,157	4,424,875

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2017 was as follows:

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No Fixed Maturity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with Central Bank	6,808,539	1,526,463	300,000	1,450,000	-	-	3,532,076
Due from banks, net	2,834,710	2,682,648	-	22,038	130,024	-	-
Loans and advances and Islamic financing, net	47,275,725	6,961,910	2,197,444	3,460,068	12,669,861	21,986,442	-
Investment securities, net	7,077,080	116,805	312,379	528,801	4,561,725	1,408,951	148,419
Investment in associate	81,053	-	-	-	-	-	81,053
Investment properties, net	194,980	-	-	-	-	-	194,980
Property and equipment	383,704	-	-	-	-	-	383,704
Bankers acceptances	5,121,186	1,005,078	64,854	3,823,561	227,693	-	-
Other assets, net	637,080	431,606	-	-	-	-	205,474
Total assets	70,414,057	12,724,510	2,874,677	9,284,468	17,589,303	23,395,393	4,545,706
Liabilities and equity							
Due to banks	779,823	594,823	185,000	-	-	-	-
Customer deposits and Islamic customer deposits	48,411,192	26,480,743	7,684,519	12,869,486	1,375,961	483	-
Notes and medium term borrowings	6,089,663	-	-	1,835,376	4,254,287	-	-
Due for trade acceptances	5,121,186	1,005,078	64,854	3,823,561	227,693	-	-
Other liabilities	931,438	870,133	-	-	-	-	61,305
Total liabilities	61,333,302	28,950,777	7,934,373	18,528,423	5,857,941	483	61,305
Gap representing equity	9,080,755	(16,226,267)	(5,059,696)	(9,243,955)	11,731,362	23,394,910	4,484,401

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

The table below shows the maturity of the Group's contingent liabilities and credit commitments:

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
2018						
Contingent liabilities	12,026,126	2,160,628	4,915,539	4,376,682	572,715	562
Credit commitments	13,420,771	2,635,300	3,024,248	3,785,944	714,896	3,260,383
Total	25,446,897	4,795,928	7,939,787	8,162,626	1,287,611	3,260,945
2017						
Contingent liabilities	10,218,316	3,581,015	2,369,650	3,572,604	694,276	771
Credit commitments	14,556,452	3,617,670	1,393,436	4,992,164	949,407	3,603,775
Total	24,774,768	7,198,685	3,763,086	8,564,768	1,643,683	3,604,546

The tables below show undiscounted contractual cash flows on the Group's financial liabilities:

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000
2018					
Due to banks	2,913,440	1,343,023	155,366	36,490	1,378,561
Customer deposits and Islamic customer deposits	53,852,867	27,208,072	8,984,915	17,009,999	649,881
Notes and medium term borrowings	3,000,053	3,866	3,129	20,986	2,972,072
Due for trade acceptances	5,266,428	91,907	1,067,602	4,105,320	1,599
Other liabilities	500,401	500,401	-	-	-
Total liabilities	65,533,189	29,147,269	10,211,012	21,172,795	5,002,113
2017					
Due to banks	779,937	559,852	185,055	2,754	32,276
Customer deposits and Islamic customer deposits	48,839,135	26,529,184	7,763,603	13,112,397	1,433,951
Notes and medium term borrowings	6,468,286	-	16,972	1,908,278	4,543,036
Due for trade acceptances	5,121,186	1,005,078	64,854	3,823,561	227,693
Other liabilities	493,158	493,158	-	-	-
Total liabilities	61,701,702	28,587,272	8,030,484	18,846,990	6,236,956

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the Group's income and / or value of a financial instrument. The Group manages its market risk in order to achieve optimum returns while maintaining market risk exposures within set risk appetite.

(i) Management of market risk

The Board of Directors sets the risk appetite pertaining to market Risk which translates into risk limits which are closely monitored by Group Risk Management, reported daily to senior management and discussed monthly by the ALCO.

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested with the ALCO. The Group Risk Management department is responsible for the development of detailed risk management policies and for the day-to-day implementation, subject to review and approval by the ALCO.

(ii) Exposure to interest rate risk – non trading portfolio

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing bands. The Group Risk Management Department monitors compliance with these limits on a daily basis and is responsible for reporting breaches if any, to senior management. ALCO review reports on a monthly basis.

In addition the Group also assesses the impact of defined movement in interest yield curves on its net interest income and regulatory capital. The following is the impact of interest rate movement on net interest income and regulatory capital:

	2018		2017	
	50 b.p. AED'000	100 b.p. AED'000	50 b.p. AED'000	100 b.p. AED'000
Upward Parallel Shift	26,602	54,539	17,982	44,097
Downward Parallel Shift	(3,664)	(7,328)	(4,995)	(9,989)

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

A summary of the Group's interest rate sensitivity position based on contractual re-pricing arrangements or maturity dates, whichever dates are earlier is as follows:

	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 Year	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2018						
Assets						
Cash and balances with Central Bank	4,382,322	3,000,000	500,000	800,000	-	8,682,322
Due from banks, net	628,095	36,730	90,231	216,224	-	971,280
Loans and advances and Islamic financing	3,651,186	39,923,389	2,548,605	1,612,403	6,322,357	54,057,940
Expected credit losses	(3,112,993)	-	-	-	-	(3,112,993)
Investment securities, net	82,098	394,706	471,054	543,491	5,259,801	6,751,150
Investment in associate	84,842	-	-	-	-	84,842
Investment properties, net	214,420	-	-	-	-	214,420
Property and equipment	343,093	-	-	-	-	343,093
Bankers acceptances	5,266,428	-	-	-	-	5,266,428
Other assets, net	843,064	-	-	-	-	843,064
Total assets	12,382,555	43,354,825	3,609,890	3,172,118	11,582,158	74,101,546
Liabilities						
Due to banks	187,304	2,575,640	-	-	-	2,762,944
Customer deposits and Islamic customer deposits	16,819,512	19,171,577	9,464,268	7,095,013	614,660	53,165,030
Notes and medium term borrowings	-	1,143,241	-	-	1,466,703	2,609,944
Due for trade acceptances	5,266,428	-	-	-	-	5,266,428
Other liabilities	1,078,474	-	-	-	-	1,078,474
Total liabilities	23,351,718	22,890,458	9,464,268	7,095,013	2,081,363	64,882,820
Interest rate sensitivity gap	(10,969,163)	20,464,367	(5,854,378)	(3,922,895)	9,500,795	9,218,726
Cumulative interest rate sensitivity gap	(10,969,163)	9,495,204	3,640,826	(282,069)	9,218,726	
Represented by equity						9,218,726

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

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35 FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 Year	Total
31 December 2017	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with Central Bank	4,008,539	1,350,000	400,000	1,050,000	-	6,808,539
Due from banks, net	1,118,431	1,694,241	22,038	-	-	2,834,710
Loans and advances and Islamic financing	3,279,276	37,292,261	1,757,062	1,475,715	6,381,133	50,185,447
Allowance for impairment losses	(2,909,722)	-	-	-	-	(2,909,722)
Investment securities, net	148,419	594,739	100,507	327,281	5,906,134	7,077,080
Investment in associate	81,053	-	-	-	-	81,053
Investment properties, net	194,980	-	-	-	-	194,980
Property and equipment	383,704	-	-	-	-	383,704
Bankers acceptances	5,121,186	-	-	-	-	5,121,186
Other assets, net	637,080	-	-	-	-	637,080
Total assets	12,062,946	40,931,241	2,279,607	2,852,996	12,287,267	70,414,057
Liabilities						
Due to banks	228,802	551,021	-	-	-	779,823
Customer deposits and Islamic customer deposits	16,422,228	17,743,034	6,840,680	6,028,806	1,376,444	48,411,192
Notes and medium term borrowings	-	2,789,067	1,835,376	-	1,465,220	6,089,663
Due for trade acceptances	5,121,186	-	-	-	-	5,121,186
Other liabilities	931,438	-	-	-	-	931,438
Total liabilities	22,703,654	21,083,122	8,676,056	6,028,806	2,841,664	61,333,302
Interest rate sensitivity gap	(10,640,708)	19,848,119	(6,396,449)	(3,175,810)	9,445,603	9,080,755
Cumulative interest rate sensitivity gap	(10,640,708)	9,207,411	2,810,962	(364,848)	9,080,755	
Represented by equity						<u>9,080,755</u>

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

Overall interest rate risk positions are managed by the Treasury and ALM Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's activities. Interest rate risks are assumed by ALM from the businesses through fund transfer pricing process.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currencies	Net spot	Forward	Net exposure	
	Position	Position	2018	2017
	←	AED'000	→	→
US Dollar	3,120,427	(2,294,622)	825,805	(1,268,181)
GCC currencies	(2,249,459)	2,301,663	52,204	(76,282)
Great Britain Pound	(161,647)	161,878	231	246
Japanese Yen	8,822	(8,672)	150	30
Euro	(91,506)	92,982	1,476	(1,868)
Others	(661)	(2,202)	(2,863)	547

A summary of capital requirement for market risk under standardized approach of basel III is set out below:

	2018	2017
	AED'000	AED'000
Foreign currency risk	2,269	377
Interest rate risk	42,449	68,552
	44,718	68,929

f) Equity risk

The Group has defined in its trading book policy the instruments which the Group is allowed to trade. A limited trading activity takes place in the equity market, monitored by Risk Management and in line with investment committee (IC) recommendations. Daily stop loss limits as well as portfolio notional limits are monitored daily and reported to senior management. In addition, the Group has classified an equity portfolio as FVOCI.

Analysis of equity portfolio:

	2018	2017
	AED'000	AED'000
Publicly traded (quoted):		
Equity (note 11)	72,324	91,160
Privately held (unquoted):		
Funds of funds investments (note 11)	9,774	15,155
Total	82,098	106,315

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Equity risk (continued)

Analysis of gains or (losses) on equity investments:	2018 AED'000	2017 AED'000
Realised gains on sale	1,384	9,172
Unrealised loss	(12,391)	(27,036)

Analysis of capital requirement for equity investments under standardized approach of Basel III:

	2018 FVOCI AED'000	2017 FVOCI AED'000
Equity	7,594	9,572
Funds of funds investment	1,026	1,591
Total	8,620	11,163

g) Operational risk

Operational risk is defined by basel as “The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this includes legal risk but excludes strategic and reputation risks”.

The Group’s objective is to manage operational risk, so as to balance the avoidance of financial losses and damage to the Group’s reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative, innovativeness and creativity.

The primary responsibility for the overseeing the establishment of sound operational risk management framework and monitoring the operational risk profile of the Group vests with the senior management of the Group, The Group has set up a cross functional committee named Operational Risk Management Committee (ORMC) of senior management personnel to formalize this responsibility and closely monitor key Operational Risks on a pan bank basis to support timely execution of action plans.

Accountability and responsibility is further assigned to the heads of individual units, departments or branches. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions to eliminate scenarios involving any conflict of interest;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures pertaining to all activities of the bank;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action to avoid its future recurrence;
- Development of contingency plans to ensure continuity of business under all circumstances;
- Training and professional development of employees at all levels so as to increase their awareness of the subject;
- Ethical and business standards (through the Group’s approved and functional Code of Ethics);
- Risk mitigation, including insurance wherever this is effective; and
- Whistle Blowing and Incident Reporting Policies are channels available to all staff for reporting of any loss events or other wrongdoings.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Operational risk (continued)

The Group has an approved framework for end-to-end management of its operational risks, which involves the active participation of the employees at all levels. The Operational Risk Management plan places an equal emphasis on the identification, assessment, control and reporting of operational risks and on quantification of potential risks and resultant losses therein, if any. Reports are produced covering Operational Risk dashboards, heat-maps, loss matrices, Operational Risk register and loss databases.

The Group has in place an operational risk management system to collate operational risk information in an automated environment; this has enabled the bank to build operational risk databases to support migration to more complex approaches for computation of operational risk capital in the future.

Group Risk Management continued its efforts towards increasing bank-wide awareness about the ORM concept, by organizing workshops, seminars and training courses on the subject, for the employees, throughout the year. On an ongoing basis, Risk and Control Self Assessments (RCSA) are being carried out by all branches and units to identify the operational risks and assess the effectiveness of existing controls, so as to plan any remedial actions (if required) and minimize recurrence of loss events.

Moreover, the Group conducts an assessment of disaster recovery and business continuity position, as well as detailed system risk assessments of all new / upgraded IT systems and assessment of Operational Risk elements in any new products to be launched or procedures to be implemented. Compliance with policies and procedures is supported by periodic reviews undertaken by Internal Audit. A review of the insurance coverage available to the Group is undertaken to maintain oversight of adequacy of insurance as necessitated by the Basel guidelines. Regular updates are provided to the senior management and the Board Risk Committee (BRC) to support their mandate to maintain adequate oversight of the Group's operational risk framework and status of operational risks across all areas of the Group.

36 CAPITAL MANAGEMENT

36.1 Regulatory capital

The Group's regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and optimize returns for shareholders;
- Comply with regulatory capital requirements set by the Central Bank of the UAE.

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

36 CAPITAL MANAGEMENT (CONTINUED)

36.1 Regulatory capital (continued)

The Central Bank of UAE ('CBUAE') supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Group's regulatory capital is analysed into two tiers:

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. The minimum capital adequacy requirements as set out by the Central Bank are as follows:

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

Additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced over and above the minimum CET1 requirement of 7%.

For 2018, CCB is effective in transition arrangement and is required to be kept at 1.88% of the Capital base and from 2019 it will be required to be kept at 2.5% of the Capital base. CCyB is not in effect and is not required to be kept for 2018.

The Group has complied with all the externally imposed capital requirements.

36.2 Capital resources and 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:

	2018 AED'000	2017 AED'000
Capital base		
Tier 1 capital	8,528,988	8,522,287
Tier 2 capital	728,552	678,434
Total capital base	9,257,540	9,200,721
Risk weighted assets (RWA) Pillar 1		
Credit risk	58,284,194	55,411,527
Market risk	425,881	656,467
Operational risk	4,893,229	4,660,438
Risk weighted assets	63,603,305	60,728,432
Tier 1 ratio	13.41%	14.03%
Tier 2 ratio	1.15%	1.12%
Capital adequacy ratio	14.56%	15.15%

Tier 1 capital for 2017 has been adjusted as per the approved dividend at 17.5%.

Capital adequacy ratio calculation is after netting off proposed dividend distribution from capital base.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

36 CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

Risk weighted capital requirement

The Group has adopted the standardized approach for credit risk and market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operational risk are given below:

(i) Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the Central Bank of UAE Basel III Capital Adequacy Framework covering the standardized approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

- **Funded exposure**

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable external credit assessment institutions (ECAIs), except that, for all GCC sovereigns a 0% weight has been applied.

Claims on non-commercial public sector entities (PSEs)

Domestic currency claims on GCC non-commercial PSEs were treated as claims on GCC sovereigns if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favourable than its sovereign i.e. 20% risk weights were applied. Claims on other foreign non-commercial PSEs were treated one grade less favourable than its sovereign.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with each bank's credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favourable risk weighting.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate and government related entities portfolio

Claims on corporate and government related entities (entities with greater than 50% government ownership) are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated corporate and government related entities.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

36 CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

(i) Risk weights for credit risk (continued)

• **Funded exposure (continued)**

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except meet for past due loans), if they meet the criteria mentioned in the Central Bank of the UAE Basel III guidelines.

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million to a single borrower and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property

100% risk weight was applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of loan;
- 100% risk weight when specific provisions are greater than 20% of the outstanding amount of loan.

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%. The aggregate investments in insurance companies (including investment in associate held as per equity accounting) amounting to AED 84,842 thousand (2017: AED 85,404 thousand) have been risk weighted in accordance with Basel III.

Other exposures

These are risk weighted at 100%.

• **Unfunded exposure**

For credit-related contingent items, the nominal value is converted to an exposure through the application of Credit Conversions Factors (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

Undrawn commitments to extend credit represent commitments that have not been drawn down or utilized at the reporting date. The nominal amount provides the calculation base to which the CCF is applied for calculating the exposure. CCF range between 20% and 50% for commitment with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

36 CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

(i) *Risk weights for credit risk (continued)*

Asset classes	On & off balance sheet	Credit risk mitigation (CRM)		On & off balance sheet	Risk weighted assets
	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion factors (CCF)	
2018	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	10,383,296	10,383,296	-	10,382,776	201,422
Claims on non-commercial Public Sector Enterprises (PSEs)	220,213	220,213	-	220,213	-
Claims on banks	7,591,907	7,591,907	-	7,264,611	3,750,924
Claims on corporates and government related enterprises	61,797,891	61,794,816	8,315,663	38,446,271	37,702,934
Claims included in the regulatory retail portfolio	4,876,277	4,876,273	27,018	3,884,383	2,995,128
Claims secured by residential property	2,131,564	2,131,564	3,045	2,110,667	1,024,441
Claims secured by commercial real estate	9,236,518	9,236,518	210,081	7,754,982	7,754,982
Past due loans	5,182,795	3,093,849	31,859	2,982,811	3,688,647
Other assets	1,479,957	1,468,261	-	1,468,261	1,165,717
TOTAL CLAIMS	102,900,418	100,796,697	8,587,666	74,514,974	58,284,194
TOTAL CREDIT RISK					58,284,194
2017					
Claims on sovereigns	8,435,810	8,435,810	-	8,394,898	220,311
Claims on non-commercial Public Sector Enterprises (PSEs)	840,203	840,203	-	289,253	-
Claims on banks	7,841,780	7,841,780	125	7,310,303	3,531,542
Claims on corporates and government related enterprises	60,217,614	60,048,176	6,993,025	36,973,233	36,247,285
Claims included in the regulatory retail portfolio	4,408,688	4,408,688	134,236	4,054,154	3,157,354
Claims secured by residential property	2,259,013	2,259,013	8,494	2,213,710	1,000,481
Claims secured by commercial real estate	8,212,054	8,212,054	131,227	7,112,811	7,112,811
Past due loans	4,204,176	2,292,723	16,967	2,233,926	2,649,592
Other assets	2,015,289	1,922,590	-	1,922,590	1,492,151
TOTAL CLAIMS	98,434,627	96,261,037	7,284,074	70,504,878	55,411,527
TOTAL CREDIT RISK					55,411,527

Commercial Bank of Dubai PSC

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2018

36 CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

(i) Risk weights for credit risk (continued)

The Group uses the following external credit assessment institutions (ECAIs): Standard & Poor's, Moody's and Fitch. The external rating of ECAI is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings. The Group also uses various CRM techniques. The total exposure to Banks before CRM includes AED 5,576 million (2017: AED 7,619 million) rated exposure.

Risk weighted assets as per standardized approach is set out below:

	2018		2017	
	Exposure	Risk weighted assets	Exposure	Risk weighted assets
	AED'000	AED'000	AED'000	AED'000
Exposure prior to CRM	83,102,640	66,877,912	77,788,952	62,671,495
Less: Eligible financial collateral	8,587,666	8,593,718	7,284,074	7,259,968
Net exposure after CRM	<u>74,514,974</u>	<u>58,284,194</u>	<u>70,504,878</u>	<u>55,411,527</u>

(ii) Risk weights for market risk

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analysed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

(iii) Risk weight for operation risk

Capital requirement for operation risk is calculated using basic indicator approach. This capital charge was computed using basic indicator approach by multiplying the three years average gross income by a predefined beta factor.

37 COMPARATIVE FIGURES

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