Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
30 September 2018

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements

For the nine-month period ended 30 September 2018

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

The Shareholders
Commercial Bank of Dubai PSC

Introduction

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

- the condensed consolidated interim statement of financial position as at 30 September 2018;
- the condensed consolidated interim statement of profit or loss for the three-month and nine-month periods ended 30 September 2018;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2018;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2018;
- the condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2018; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2017 and for the nine month period ended 30 September 2017 were audited/reviewed by another auditor who expressed an unmodified audit / review opinion on those statements on 22 February 2018 and 18 October 2017 respectively.

KPMG Lower Gulf Limited

Emilio Pera
Registration Number: 1146
Dubai, United Arab Emirates
Date: 17 OCT 2018

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of financial position

As at 30 September 2018

	Notes	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
ASSETS			
Cash and balances with Central Bank	*7*	**6,439,489**	6,808,539
Due from banks, net	*8*	**2,643,915**	2,834,710
Loans and advances and Islamic financing, net	*9*	**49,803,406**	47,275,725
Investment securities, net	*10*	**6,884,209**	7,077,080
Investment in an associate		**82,700**	81,053
Investment properties		**180,702**	194,980
Property and equipment		**387,474**	383,704
Bankers acceptances		**5,273,276**	5,121,186
Other assets		**741,841**	637,080
TOTAL ASSETS		**72,437,012**	70,414,057
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**1,983,266**	779,823
Customer deposits and Islamic customer deposits	*11*	**50,414,457**	48,411,192
Notes and medium term borrowings	*12*	**4,625,614**	6,089,663
Due for trade acceptances		**5,273,276**	5,121,186
Other liabilities		**1,232,452**	931,438
TOTAL LIABILITIES		**63,529,065**	61,333,302
EQUITY			
Share capital	*13*	**2,802,734**	2,802,734
Legal reserve		**1,401,367**	1,401,367
Capital reserve		**38,638**	38,638
General reserve		**1,328,025**	1,328,025
Fair value reserve		**(128,797)**	(10,956)
Retained earnings		**3,465,980**	3,520,947
TOTAL EQUITY		**8,907,947**	9,080,755
TOTAL LIABILITIES AND EQUITY		**72,437,012**	70,414,057

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 17 October 2018.

The attached notes on pages 8 to 27 form part of these condensed consolidated interim financial statements.

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

Mr. Humaid Al Qutami
Chairman

Dr. Bernd van Linder
Chief Executive Officer

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of profit or loss

For the nine-month period ended 30 September 2018

	Notes	Nine-month period ended 30 September 2018 AED'000 (Unaudited)	Nine-month period ended 30 September 2017 AED'000 (Unaudited)	Three-month period ended 30 September 2018 AED'000 (Unaudited)	Three-month period ended 30 September 2017 AED'000 (Unaudited)
Interest income and income from Islamic financing		**2,076,310**	1,853,195	**725,832**	649,537
Interest expense and distributions to Islamic depositors		**(649,186)**	(499,762)	**(236,787)**	(181,316)
Net interest income and net income from Islamic financing		**1,427,124**	1,353,433	**489,045**	468,221
Net fees and commission income		**432,816**	424,439	**140,804**	140,362
Net gains from foreign exchange and derivatives		**103,764**	91,543	**41,372**	42,645
Net gains from investments at fair value through profit or loss		**472**	5,225	**776**	1,141
Net gains from sale of equity investments at fair value through other comprehensive income		**-**	7,943	**-**	3,163
Net gains from sale of debt investments at fair value through other comprehensive income		**6,031**	7,478	**2,439**	5,075
Share of profit of an associate		**7,332**	5,640	**2,366**	2,362
Dividend income		**4,995**	61,013	**-**	130
Other income		**35,041**	30,673	**12,976**	11,024
Total operating income		**2,017,575**	1,987,387	**689,778**	674,123
Impairment allowances on due from banks	*8*	**(4,198)**	-	**(4,218)**	-
Impairment allowances on loans and advances and Islamic financing	*9*	**(545,848)**	(679,177)	**(199,423)**	(149,715)
Recoveries		**36,650**	51,215	**11,535**	28,432
Impairment allowances on investment securities	*10*	**(4,093)**	(2,102)	**(5,091)**	-
Impairment allowance on other assets		**(22,730)**	(22,730)	**-**	-
Total net income		**1,477,356**	1,334,593	**492,581**	552,840
Staff and other expenses		**(590,435)**	(628,888)	**(195,344)**	(206,871)
Depreciation and amortisation		**(43,852)**	(41,054)	**(14,941)**	(13,768)
Total operating expenses		**(634,287)**	(669,942)	**(210,285)**	(220,639)
Net profit for the period		**843,069**	664,651	**282,296**	332,201
Basic and diluted earnings per share	*14*	**AED 0.30**	AED 0.24	**AED 0.10**	AED 0.12

The attached notes on pages 8 to 27 form part of these condensed consolidated interim financial statements.

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

Commercial Bank of Dubai PSC

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

For the nine-month period ended 30 September 2018

	Nine-month period ended		Three-month period ended	
	30 September 2018 AED'000 (Unaudited)	30 September 2017 AED'000 (Unaudited)	**30 September 2018 AED'000 (Unaudited)**	30 September 2017 AED'000 (Unaudited)
Net profit for the period	**843,069**	664,651	**282,296**	332,201
Items that will not be reclassified to profit or loss:				
Realised gains on sale of equity investments held at FVOCI	**1,384**	-	**-**	-
Revaluation (loss) / gain of equity investments held at FVOCI	**(5,126)**	-	**10,965**	-
Items that may be subsequently reclassified to profit or loss:				
Changes in fair value of effective portion of cash flow hedge	**2,211**	(6,760)	**1,040**	(306)
Realised loss on sale of equity investments	**-**	(7,943)	**-**	(3,163)
	2,211	(14,703)	**1,040**	(3,469)
Changes in investments held at FVOCI:				
Realised loss on sale of debt investments	**(6,031)**	(7,478)	**(2,439)**	(5,075)
Revaluation (loss) / gain on debt investments	**(108,895)**	47,577	**18,817**	10,785
Revaluation loss on equity investments	**-**	(15,195)	**-**	(46,934)
Net change in investments held at FVOCI	**(114,926)**	24,904	**16,378**	(41,224)
Other comprehensive (loss) / income for the period	**(116,457)**	10,201	**28,383**	(44,693)
Total comprehensive income for the period	**726,612**	674,852	**310,679**	287,508

The attached notes on pages 8 to 27 form part of these condensed consolidated interim financial statements.

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Commercial Bank of Dubai PSC

Condensed consolidated interim statement of changes in equity

For the nine-month period ended 30 September 2018

	Share capital AED'000	Legal reserve AED'000	Capital reserve AED'000	General reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2017	2,802,734	1,401,367	38,638	1,328,025	18,014	3,090,845	8,679,623
Transactions with shareholders, recorded directly in equity							
Cash dividend for 2016 (20%)	-	-	-	-	-	(560,547)	(560,547)
Directors' remuneration for 2016	-	-	-	-	-	(11,000)	(11,000)
Share of Director's remuneration of an associate	-	-	-	-	-	(269)	(269)
Other comprehensive income							
Net profit for the period	-	-	-	-	-	664,651	664,651
Other comprehensive income for the period	-	-	-	-	10,201	-	10,201
Total other comprehensive income for the period	-	-	-	-	10,201	664,651	674,852
At 30 September 2017 (unaudited)	2,802,734	1,401,367	38,638	1,328,025	28,215	3,183,680	8,782,659
At 1 January 2018	**2,802,734**	**1,401,367**	**38,638**	**1,328,025**	**(10,956)**	**3,520,947**	**9,080,755**
IFRS 9 adjustment (refer note 5)	**-**	**-**	**-**	**-**	**-**	**(397,495)**	**(397,495)**
	2,802,734	**1,401,367**	**38,638**	**1,328,025**	**(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 Director's remuneration of an associate	**-**	**-**	**-**	**-**	**-**	**(447)**	**(447)**
Other comprehensive income							
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**843,069**	**843,069**
Transfer on disposal of equity investments at FVTOCI	**-**	**-**	**-**	**-**	**(1,384)**	**1,384**	**-**
Other comprehensive loss for the period	**-**	**-**	**-**	**-**	**(116,457)**	**-**	**(116,457)**
Total other comprehensive income for the period	**-**	**-**	**-**	**-**	**(117,841)**	**844,453**	**726,612**
At 30 September 2018 (unaudited)	**2,802,734**	**1,401,367**	**38,638**	**1,328,025**	**(128,797)**	**3,465,980**	**8,907,947**

The attached notes on pages 8 to 27 form part of these condensed consolidated interim financial statements.

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

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of cash flows

For the nine-month period ended 30 September 2018

	Note	30 September 2018 AED'000 (Unaudited)	30 September 2017 AED'000 (Unaudited)
OPERATING ACTIVITIES			
Net profit for the period		**843,069**	664,651
Adjustments for:			
Depreciation and amortisation		**43,852**	41,054
Amortisation of premium / discounts on investments		**38,286**	40,900
Dividend income		**(4,995)**	(61,013)
Loss / (gain) on forex translation		**3,423**	(12,094)
Realised gains on sale of investments		**(6,156)**	(20,490)
Net unrealised gain on derivatives		**(20,587)**	(9,660)
Net unrealised gain on investments at FVPL		**-**	(156)
Impairment allowance on investments securities		**4,093**	2,102
Impairment allowance on due from banks		**4,198**	-
Share of profit of an associate		**(7,332)**	(5,640)
Amortisation of transaction cost on notes and medium term borrowings		**5,702**	6,832
Loss / (gain) on disposal of property and equipment		**81**	(107)
Impairment allowance on other assets		**22,730**	22,730
		926,364	669,109
Increase in statutory reserve with the Central Bank		**(147,157)**	(245,013)
Decrease / (increase) in negotiable Central Bank certificate of deposits with original maturity of more than three months		**700,000**	(1,100,000)
(Increase) / decrease in due from banks with original maturity of more than three months		**(122,346)**	393,684
Increase in loans and advances and Islamic financing, net		**(2,916,429)**	(5,499,009)
Increase in other assets		**(85,701)**	(78,095)
Increase in customer deposits and Islamic customer deposits		**2,003,265**	3,698,994
Increase in other liabilities		**280,800**	137,079
Increase / (decrease) in due to banks with original maturity of more than three months		**356,548**	(3,080)
Directors' remuneration paid		**(11,000)**	(11,000)
Net cash flow from / (used in) operating activities		**984,344**	(2,037,331)
INVESTING ACTIVITIES			
Purchase of investments		**(2,548,305)**	(4,776,323)
Purchase of property and equipment		**(34,978)**	(57,929)
Dividend received		**4,995**	61,013
Proceeds from sale of investments		**2,576,763**	5,083,726
Dividend from an associate		**3,992**	3,195
Proceeds from sale of property and equipment		**1,557**	853
Net cash flow from investing activities		**4,024**	314,535
FINANCING ACTIVITIES			
Notes and medium term borrowings		**(1,469,751)**	-
Dividend paid		**(490,478)**	(560,547)
Net cash flow used in financing activities		**(1,960,229)**	(560,547)
Net decrease in cash and cash equivalents		**(971,861)**	(2,283,343)
Cash and cash equivalents at 1 January		**3,471,981**	5,558,692
Cash and cash equivalents at end of the period	*15*	**2,500,120**	3,275,349

The attached notes on pages 8 to 27 form part of these condensed consolidated interim financial statements.

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

1 LEGAL STATUS AND ACTIVITIES

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

The condensed consolidated interim financial statements of the Group for the nine month period ended 30 September 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) 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.
c) CBD (Cayman) Limited is a special purpose entity (SPE) registered in the British Virgin Islands. The SPE has been established for any issuance of debt securities.
d) 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.
e) National General Insurance Co. (PSC) is an associate of the Bank and is listed on the Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds 17.8% interest in the associate. The management believes that it has significant influence on the associate by virtue of having representation on the board of directors of the associate.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

2.3 Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Bank, its wholly owned subsidiaries (together referred to as the "Group"), which it controls and the Group’s interest in an associate, as at 30 September 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

3 SUMMARY OF SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

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

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

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

3.1 Financial assets

a) Classification and measurement of financial instruments

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

(i) Amortised cost;

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

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

(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 they are held within a business model where the objective is to hold financial assets in order to collect contractual cash flows.

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

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

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

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

Dividend income on equity investments at FVOCI is recognised in the condensed consolidated interim statement of profit or loss.

(iii) Financial asset 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. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and is presented in the profit or loss statement within 'Net gains from investments at FVPL' in the period in which it arises.

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

Interest income from these financial assets is included in 'Net gains from investments at FVPL' using the effective interest rate method.

3 SUMMARY OF SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.1 Financial assets (continued)

a) Classification and measurement of financial instruments (continued)

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

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

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

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

o ***Business model assessment***

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the 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.

b) Impairment of financial assets

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

- loans and advances, islamic financing and other financial assets;
- loan commitments; and
- financial guarantee contracts.

The measurement of ECL reflects:

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

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

3 SUMMARY OF SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.1 Financial assets (continued)

b) Impairment of financial assets (continued)

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

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

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

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

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

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

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the expected exposure in the event of a default and the potential changes to the current amount allowed under the contract including amortisation.
- LGD – The loss given default is an estimate of the loss arising in case a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

(i) Assessment of significant increase in credit risk

Assessment of significant increase in credit risk 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.

(ii) Improvement in credit risk profile

The Group has defined below criteria to assess any improvement in the credit risk profile which will result into 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 have been made or 12 months curing period is met, if the repayments frequency are longer than monthly or quarterly installments.

(iii) Default definition

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.1 Financial assets (continued)

b) Impairment of financial assets (continued)

(iii) Default definition (continued)

- ***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.

- ***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.

(iv) Incorporation of forward-looking information

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

- GDP growth rates
- UAE Central Bank base rate

3.2 Use of estimates and judgments

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

3.2.1 Financial asset classification

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

3.2.2 Impairment of financial instruments

The measurement of the ECL allowance for financial assets measured at amortised cost and debt instrument at FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).
A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

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

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

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

	Effective for annual periods beginning on or after
• Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28 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 sharebased payment transactions	1 January 2018
• Amendments to IFRS 7 'Financial Instruments' related to disclosures about the initial application of IFRS 9	1 January 2018
• Amendments to IFRS 4 'Insurance Contracts'	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.

4.2 Relevant new and revised IFRS in issue 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:

	Effective for annual periods beginning on or after
• IFRS 16 Leases	1 January 2019
• Amendment to IAS 19 Employee Benefits	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
• IFRS 17 Insurance Contracts	1 January 2021
• 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 condensed consolidated interim 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.

5 Summary of impact analysis as per IFRS 9

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

	Original classification as per IAS 39	New classification as per IFRS 9	Original carrying amount AED'000	ECL under IFRS 9 AED'000	New carrying amount AED'000
Financial assets					
Cash and balances with Central Bank	Other amortised cost	Amortised cost	6,808,539	-	6,808,539
Due from banks, net	Other amortised cost	Amortised cost	2,834,710	184	2,834,526
Loans and advances and Islamic financing, net	Loans and receivables	Amortised cost	47,275,725	388,748	46,886,977
Investment securities - Debt	FVPL	FVPL	42,104	-	42,104
Investment securities - Debt	AFS	FVOCI	6,810,574	7,177	6,803,397
Investment securities - Debt	HTM	Amortised cost	133,242	140	133,102
Equity securities	AFS	FVOCI	91,160	-	91,160
Other assets	FVPL	FVPL	69,675	-	69,675
Other assets	Other amortised cost	Amortised cost	326,825	-	326,825
Total financial assets			**64,392,554**	**396,249**	**63,996,305**
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	Other amortised cost	Amortised cost	779,823	-	779,823
Customer deposits and Islamic customer deposits	Other amortised cost	Amortised cost	48,411,192	-	48,411,192
Notes and medium term borrowings	Other amortised cost	Amortised cost	6,089,663	-	6,089,663
Other liabilities	FVPL	FVPL	73,984	-	73,984
Other liabilities	Other amortised cost	Amortised cost	740,665	-	740,665
Total financial liabilities			**56,095,327**	**-**	**56,095,327**

6 RISK GOVERNANCE AND FINANCIAL RISK MANAGEMENT

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

7 CASH AND BALANCES WITH CENTRAL BANK

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Cash in hand	**369,299**	509,915
Balances with U.A.E Central Bank		
- Clearing account balances	**-**	475,591
- Statutory reserves	**3,170,190**	3,023,033
- Negotiable certificates of deposit	**2,900,000**	2,800,000
	6,439,489	6,808,539

Statutory reserves are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the Central Bank and accordingly is not considered as part of cash and cash equivalent. 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. However, there are no expected credit losses and hence no provision has been recognised.

8 DUE FROM BANKS, NET

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Current and demand deposits	**701,161**	1,084,783
Overnight, call and short notice	**1,672,728**	1,597,865
Loans to banks	**274,408**	152,062
Gross due from banks	**2,648,297**	2,834,710
Allowances for impairment losses	**(4,382)**	-
Net due from banks	**2,643,915**	2,834,710
Within the U.A.E.	**579,696**	991,877
Outside the U.A.E.	**2,064,219**	1,842,833
	2,643,915	2,834,710

Due from banks is classified under stage 1 as per IFRS 9. The expected credit loss as at 30 September 2018 is AED 4,382 thousand (1 January 2018: AED 184 thousand).

9 LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

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

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Loans and advances		
Overdrafts	**5,463,107**	4,659,635
Loans	**35,150,815**	35,277,114
Advances against letters of credit and trust receipts	**3,094,393**	1,473,914
Bills discounted	**1,246,600**	1,711,513
Gross loans and advances	**44,954,915**	43,122,176
Islamic financing		
Murabaha and Tawaruq	**3,032,190**	2,630,365
Ijara	**4,753,152**	4,314,252
Others	**107,881**	118,654
Gross Islamic financing	**7,893,223**	7,063,271
Gross loans and advances and Islamic financing	**52,848,138**	50,185,447
Allowances for impairment losses	**(3,044,732)**	(2,909,722)
Net loans and advances and Islamic financing	**49,803,406**	47,275,725

Concentration by sector	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Manufacturing	**3,162,893**	3,063,164
Construction	**2,531,328**	2,076,674
Real estate	**16,125,796**	16,257,991
Trade	**5,084,417**	4,959,352
Transportation and storage	**1,711,113**	1,952,551
Services	**4,062,962**	3,710,102
Hospitality	**2,670,294**	2,929,679
Financial and insurance activities	**6,932,339**	4,668,691
Government entities	**195,483**	135,121
Personal-mortgage	**2,815,593**	2,627,582
Personal-schematic	**4,550,841**	4,544,506
Individual loans for business	**2,018,505**	2,282,999
Others	**986,574**	977,035
Gross loans and advances and Islamic financing	**52,848,138**	50,185,447
Allowances for impairment losses	**(3,044,732)**	(2,909,722)
Net loans and advances and Islamic financing	**49,803,406**	47,275,725

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

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

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying as at 1 January 2018	41,515,604	3,819,155	4,850,688	**50,185,447**
Net transfers between stages	(4,406,154)	4,323,726	82,428	**-**
Net additions / (repayments)	3,801,916	(234,969)	52,157	**3,619,104**
Amounts written off	-	-	(956,413)	**(956,413)**
At 30 September 2018	**40,911,366**	**7,907,912**	**4,028,860**	**52,848,138**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowance as at 1 January 2018	934,633	282,946	2,080,891	**3,298,470**
Net transfers between stages	(29,398)	(10,602)	40,000	**-**
Net (reversals) / impairment charge	(293,769)	102,885	736,732	**545,848**
Interest not recognised	-	-	181,711	**181,711**
Recoveries	-	-	(24,884)	**(24,884)**
Amounts written off	-	-	(956,413)	**(956,413)**
At 30 September 2018	**611,466**	**375,229**	**2,058,037**	**3,044,732**

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

The Group has hedged the fair value of certain fixed rate loans and advances and Islamic financing. The carrying value of these loans and advances and Islamic financing was AED 241 million (31 December 2017: AED 271 million). Positive fair value of the hedged component was AED 1.7 million (31 December 2017: net positive fair value AED 1.8 million).

10 INVESTMENT SECURITIES, NET

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
30 September 2018 (Unaudited)				
Held at fair value through other comprehensive income				
Equities	**79,179**	**-**	**-**	**79,179**
Fund of funds	**5,176**	**4,534**	**5,340**	**15,050**
Fixed rate securities				
- Government	**2,332,987**	**1,041,682**	**363,175**	**3,737,844**
- Others	**1,561,627**	**485,535**	**590,933**	**2,638,095**
Floating rate non-government securities	**175,714**	**-**	**224,756**	**400,470**
Held at amortised cost				
Fixed rate non-government securities	**24,981**	**-**	**-**	**24,981**
	4,179,664	**1,531,751**	**1,184,204**	**6,895,619**
Allowances for impairment losses				**(11,410)**
Net investment securities				**6,884,209**

10 INVESTMENT SECURITIES, NET (CONTINUED)

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

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

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying as at 1 January 2018	7,077,080	-	-	**7,077,080**
Net transfers between stages	(471,473)	471,473	-	**-**
Net additions / (disposals)	99,127	(280,588)	-	**(181,461)**
At 30 September 2018	**6,704,734**	**190,885**	**-**	**6,895,619**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowance as at 1 January 2018	7,317	-	-	**7,317**
Net transfers between stages	(3,253)	3,253	-	**-**
Net (reversals) / impairment charge	(84)	4,177	-	**4,093**
At 30 September 2018	**3,980**	**7,430**	**-**	**11,410**

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 1,374 million (31 December 2017: AED 1,393 million), pledged under repurchase agreements with banks (note 12).

As at 30 September 2018, the fair value of investments held at amortised cost is AED 24.9 million (31 December 2017: AED 133.2 million). The fair value represents level 1 of the fair value hierarchy.

10.1 Fund of funds investments

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

11 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

Customer deposits	**30 September 2018 AED'000 (Unaudited)**	31 December 2017 AED'000 (Audited)
Current and demand accounts	**14,968,704**	15,255,996
Savings accounts	**2,299,411**	1,739,286
Time deposits	**22,462,236**	23,630,424
	39,730,351	40,625,706
Islamic customer deposits		
Current and demand accounts	**1,937,665**	1,574,694
Mudaraba savings accounts	**565,711**	615,517
Investment and Wakala deposits	**8,180,730**	5,595,275
	10,684,106	7,785,486
Total customer deposits and Islamic customer deposits	**50,414,457**	48,411,192

12 NOTES AND MEDIUM TERM BORROWINGS

		31 December 2017 AED'000 (Audited)	**Cash flow changes AED'000**	**Non cash flow changes AED '000**	**30 September 2018 AED'000 (Unaudited)**
Syndicated loan	12.1	1,645,826	**-**	**3,532**	**1,649,358**
Repurchase agreements - I	12.2	551,442	**-**	**-**	**551,442**
Repurchase agreements - II	12.2	591,799	**-**	**-**	**591,799**
Euro medium term notes - I	12.3	1,835,376	**(1,836,500)**	**1,124**	**-**
Euro medium term notes - II	12.3	1,465,220	**-**	**1,044**	**1,466,264**
Term Loan	12.4	-	**366,749**	**2**	**366,751**
Total		6,089,663	**(1,469,751)**	**5,702**	**4,625,614**

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

12.1 *Syndicated loan*

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

12 NOTES AND MEDIUM TERM BORROWINGS (CONTINUED)

12.2 *Repurchase agreements*

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

In June 2016, the Group entered into additional repurchase 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 30 September 2018, the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 1,374 million (USD 374 million) (31 December 2017: AED 1,393 million (USD 379.3 million)) (note 10).

12.3 *Euro medium term notes*

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

In May 2013, CBD had 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.

12.4 *Term loan*

In September 2018, the Group entered into a deal of USD 100 million (AED 367 million) for a term of 3 years. This arrangement carries interest at the rate of 3 months LIBOR plus 120 basis points payable on quarterly basis.

13 SHARE CAPITAL

The fully paid up and authorised ordinary share capital as at 30 September 2018 comprised 2,802,733,968 ordinary shares of AED 1 each (31 December 2017: 2,802,733,968 shares of AED 1 each). There was no movement in authorised ordinary share capital during the period.

14 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit divided by the weighted average number of ordinary shares outstanding 2,802,733,968 (30 September 2017: 2,802,733,968).

Diluted earnings per share as of 30 September 2018 and 30 September 2017 are equivalent to basic earnings per share as no new shares have been issued that would impact earnings per share when executed.

15 CASH AND CASH EQUIVALENTS

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

	30 September 2018 AED'000 (Unaudited)	30 September 2017 AED'000 (Unaudited)
Cash in hand	**369,299**	412,993
Balances with the U.A.E. Central Bank	**-**	201,901
Negotiable certificates of deposit with the U.A.E. Central Bank with original maturity less than three months	**1,200,000**	800,000
Due from banks with original maturity of less than three months	**2,373,889**	2,624,323
	3,943,188	4,039,217
Due to banks with original maturity of less than three months	**(1,320,402)**	(763,868)
Balances due to the U.A.E. Central Bank	**(122,666)**	-
	2,500,120	3,275,349

16 CONTINGENT LIABILITIES AND COMMITMENTS

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

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Contingent liabilities:		
Letters of credit	**1,431,682**	1,021,104
Letters of guarantee	**10,278,515**	9,197,212
Total contingent liabilities	**11,710,197**	10,218,316
Undrawn commitments to extend credit		
- irrevocable	**2,670,203**	1,998,263
- revocable	**9,968,842**	12,558,189
	12,639,045	14,556,452
Total contingent liabilities and undrawn commitments	**24,349,242**	24,774,768

17 SEGMENTAL REPORTING

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

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

Business segments

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

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

Geographical

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

	Corporate banking AED'000	**Commercial banking AED'000**	**Business banking AED'000**	**Personal banking AED'000**	**Treasury & investments AED'000**	**Total AED'000**
30 September 2018 (Unaudited)						
Assets	**37,642,290**	**10,887,918**	**995,616**	**6,897,061**	**16,014,127**	**72,437,012**
Liabilities	**32,871,244**	**7,296,822**	**2,838,822**	**13,772,639**	**6,749,538**	**63,529,065**
31 December 2017 (Audited)						
Assets	34,085,609	11,002,219	1,250,458	7,058,784	17,016,987	70,414,057
Liabilities	32,723,429	6,301,319	2,393,169	12,946,641	6,968,744	61,333,302

17 SEGMENTAL REPORTING (CONTINUED)

	Corporate banking AED'000	Commercial banking AED'000	Business banking AED'000	Personal banking AED'000	Treasury & investments AED'000	Total AED'000
30 September 2018 (Unaudited)						
Net interest income and net income from Islamic financing	**537,687**	**299,014**	**106,604**	**336,428**	**147,391**	**1,427,124**
Non-interest & other income	**165,604**	**120,805**	**63,801**	**136,972**	**103,269**	**590,451**
Total operating income	**703,291**	**419,819**	**170,405**	**473,400**	**250,660**	**2,017,575**
Expenses *(note a)*	**117,987**	**107,574**	**81,684**	**296,218**	**30,824**	**634,287**
Net provisions *(note b)*	**295,294**	**38,150**	**40,500**	**139,449**	**26,826**	**540,219**
	413,281	**145,724**	**122,184**	**435,667**	**57,650**	**1,174,506**
Net profit for the period	**290,010**	**274,095**	**48,221**	**37,733**	**193,010**	**843,069**
30 September 2017 (Unaudited)						
Net interest income and net income from Islamic financing	503,357	306,690	136,125	272,871	134,390	1,353,433
Non-interest & other income	162,677	119,938	73,073	104,646	173,620	633,954
Total operating income	666,034	426,628	209,198	377,517	308,010	1,987,387
Expenses *(note a)*	123,928	113,949	99,108	305,456	27,501	669,942
Net provisions *(note b)*	(14,795)	353,907	128,801	160,299	24,582	652,794
	109,133	467,856	227,909	465,755	52,083	1,322,736
Net profit / (loss) for the period	556,901	(41,228)	(18,711)	(88,238)	255,927	664,651

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

(b) This includes impairment allowances on loans and advances and Islamic financing, investment securities, banks 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**	
	30 September 2018 AED'000 (Unaudited)	30 September 2017 AED'000 (Unaudited)	**30 September 2018 AED'000 (Unaudited)**	30 September 2017 AED'000 (Unaudited)
Corporate banking	**810,720**	750,705	**(107,429)**	(84,671)
Commercial banking	**516,278**	491,141	**(96,459)**	(64,513)
Business banking	**141,279**	186,231	**29,126**	22,967
Personal banking	**385,348**	354,744	**88,052**	22,773
Treasury & investments	**163,950**	204,566	**86,710**	103,444
Total operating income	**2,017,575**	1,987,387	-	-

18 FINANCIAL ASSETS AND LIABILITIES

18.1 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:

	Fair value through Profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount
	AED'000	AED'000	AED'000	AED'000
30 September 2018 (Unaudited)				
Cash and balances with Central Bank	**-**	**-**	**6,439,489**	**6,439,489**
Due from banks, net	**-**	**-**	**2,643,915**	**2,643,915**
Loans and advances and Islamic financing, net	**-**	**-**	**49,803,406**	**49,803,406**
Investment securities, net	**-**	**6,859,228**	**24,981**	**6,884,209**
Bankers acceptances	**-**	**-**	**5,273,276**	**5,273,276**
Other assets	**111,465**	**-**	**590,581**	**702,046**
Total financial assets	**111,465**	**6,859,228**	**64,775,648**	**71,746,341**
Due to banks	**-**	**-**	**1,983,266**	**1,983,266**
Customer deposits and Islamic customer deposits	**-**	**-**	**50,414,457**	**50,414,457**
Notes and medium term borrowing	**-**	**-**	**4,625,614**	**4,625,614**
Due for trade acceptances	**-**	**-**	**5,273,276**	**5,273,276**
Other liabilities	**94,198**	**-**	**1,023,670**	**1,117,868**
Total financial liabilities	**94,198**	**-**	**63,320,283**	**63,414,481**
31 December 2017 (Audited)				
Cash and balances with Central Bank	-	-	6,808,539	6,808,539
Due from banks, net	-	-	2,834,710	2,834,710
Loans and advances and Islamic financing, net	-	-	47,275,725	47,275,725
Investment securities, net	42,104	6,901,734	133,242	7,077,080
Bankers acceptances	-	-	5,121,186	5,121,186
Other assets	69,675	-	326,825	396,500
Total financial assets	111,779	6,901,734	62,500,227	69,513,740
Due to banks	-	-	779,823	779,823
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

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

18.2 Fair value measurement – Fair value hierarchy:

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

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

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

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

Level 3: Valuation technique using significant unobservable inputs.

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

18 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Carrying value AED'000
30 September 2018 (Unaudited)					
Investments					
Equities	**79,179**	**-**	**-**	**79,179**	**79,179**
Fund of funds	**-**	**15,050**	**-**	**15,050**	**15,050**
Fixed and floating rate securities	**6,801,355**	**-**	**-**	**6,801,355**	**6,801,390**
Positive market value of forward foreign exchange contracts and other derivatives					
FVPL	**-**	**110,471**	**-**	**110,471**	**110,471**
Held for fair value hedge	**-**	**994**	**-**	**994**	**994**
Held for cash flow hedge	**-**	**-**	**-**	**-**	**-**
Negative market value of forward foreign exchange contracts and other derivatives					
FVPL	**-**	**(84,385)**	**-**	**(84,385)**	**(84,385)**
Held for fair value hedge	**-**	**-**	**-**	**-**	**-**
Held for cash flow hedge	**-**	**(9,813)**	**-**	**(9,813)**	**(9,813)**
Liabilities at amortized cost					
Notes and medium term borrowings	**(1,476,987)**	**(3,159,350)**	**-**	**(4,636,337)**	**(4,625,614)**
	5,403,547	**(3,127,033)**	**-**	**2,276,514**	**2,287,272**

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

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

19 RELATED PARTY TRANSACTIONS AND BALANCES

As at 30 September 2018 and 31 December 2017, Investment Corporation of Dubai ("ICD") owns 20% share capital of the Bank. ICD is wholly owned by the Government of Dubai (the "Government").

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

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

	Directors and key management personnel		**Government related parties**		**Other related parties**	
	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)	**30 September 2018 AED'000 (Unaudited)**	31 December 2017 AED'000 (Audited)	**30 September 2018 AED'000 (Unaudited)**	31 December 2017 AED'000 (Audited)
Loans and advances and Islamic financing, net	**428,437**	474,640	**1,723,850**	1,804,980	**1,456,571**	1,207,730
Due from banks, net	**-**	-	**220,380**	771,404	**-**	-
Investment securities, net	**-**	-	**1,314,505**	1,466,632	**-**	-
Bankers acceptances	**-**	-	**64,391**	-	**10,520**	149,886
Letters of credit	**-**	-	**32,455**	-	**2,920**	12,606
Letters of guarantee	**-**	-	**360,375**	323,531	**267,053**	624,380
Undrawn commitments to extend credit	**9,383**	26,167	**51,200**	1,238,827	**202,586**	589,391
Due to banks	-	-	**18,231**	11,926	**-**	-
Customer deposits and Islamic customer deposits	**135,711**	72,656	**3,097,918**	4,495,314	**139,165**	1,235,327

	30 September 2018 AED'000 (Unaudited)	30 September 2017 AED'000 (Unaudited)	**30 September 2018 AED'000 (Unaudited)**	30 September 2017 AED'000 (Unaudited)	**30 September 2018 AED'000 (Unaudited)**	30 September 2017 AED'000 (Unaudited)
Interest income and commission income	**15,792**	13,617	**60,828**	48,165	**51,127**	45,896
Interest expense	**398**	106	**66,148**	70,680	**1,212**	17,122
Dividend from an associate	**-**	**-**	**-**	-	**3,992**	3,194

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

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

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

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 nine month period ended 30 September 2018 amounted to AED 2.5 million (30 September 2017: AED 2 million).

19 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key management compensation

	30 September 2018 AED'000 (Unaudited)	30 September 2017 AED'000 (Unaudited)
Salaries	**17,283**	12,962
Post-employment benefits	**768**	579
Other benefits	**15,107**	17,751

20 CAPITAL ADEQUACY

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

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Tier 1 capital	**8,812,177**	8,522,287
Tier 2 capital	**740,283**	678,434
Total regulatory capital	**9,552,460**	9,200,721
Risk weighted assets (RWA)		
Credit risk	**59,222,621**	55,411,527
Market risk	**339,355**	656,467
Operational risk	**4,660,438**	4,660,438
Risk weighted assets	**64,222,414**	60,728,432
Tier 1 ratio	**13.72%**	14.03%
Tier 2 ratio	**1.15%**	1.12%
Capital adequacy ratio	**14.87%**	15.15%

Tier 1 capital for 2017 has been adjusted as per the approved dividend at 17.5% (Board of directors had proposed for 20% dividend).

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

21 COMPARATIVE FIGURES

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