

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
30 September 2019

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements

For the nine-month period ended 30 September 2019

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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 2019;
- the condensed consolidated interim statement of profit or loss for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2019;
- the condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2019; 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 2019 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited

Emilio Pera
Registration Number: 1146
Dubai, United Arab Emirates
Date: **16 OCT 2019**

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of financial position

As at 30 September 2019

		30 September 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
	Notes		
ASSETS			
Cash and balances with Central Bank	7	9,422,197	8,682,322
Due from banks, net	8	2,611,029	971,280
Loans and advances and Islamic financing, net	9	56,373,491	50,944,947
Investment securities, net	10	6,701,327	6,751,150
Investment in an associate		84,419	84,842
Investment properties, net		177,882	214,420
Property and equipment		309,072	343,093
Bankers acceptances		5,090,901	5,266,428
Other assets, net		1,769,141	843,064
TOTAL ASSETS		82,539,459	74,101,546
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		3,534,635	2,762,944
Customer deposits and Islamic customer deposits	11	59,066,211	53,165,030
Notes and medium term borrowings	12	3,230,618	2,609,944
Due for trade acceptances		5,090,901	5,266,428
Other liabilities		1,699,457	1,078,474
TOTAL LIABILITIES		72,621,822	64,882,820
EQUITY			
Share capital	13	2,802,734	2,802,734
Legal and statutory reserve		1,401,367	1,401,367
General reserve		1,328,025	1,328,025
Capital reserve		38,638	38,638
Fair value reserve		87,126	(137,060)
Retained earnings		4,259,747	3,785,022
TOTAL EQUITY		9,917,637	9,218,726
TOTAL LIABILITIES AND EQUITY		82,539,459	74,101,546

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 16 October 2019.

The attached notes from 1 to 21 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on pages 1 to 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 2019

	Notes	Nine-month period ended		Three-month period ended	
		30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)	30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)
Interest income and income from Islamic financing		2,412,397	2,076,310	821,258	725,832
Interest expense and distributions to Islamic depositors		(908,081)	(649,186)	(317,201)	(236,787)
Net interest income and net income from Islamic financing		1,504,316	1,427,124	504,057	489,045
Net fees and commission income		533,688	432,816	165,561	140,804
Net gains from foreign exchange and derivatives		145,106	103,764	52,833	41,372
Net gains from investments at fair value through profit or loss		1,146	472	428	776
Net gains from sale of debt investments at fair value through other comprehensive income		11,424	6,031	1,338	2,439
Share of profit of an associate		3,558	7,332	1,040	2,366
Dividend income		3,488	4,995	-	-
Other income		39,442	35,041	6,608	12,976
Total operating income		2,242,168	2,017,575	731,865	689,778
(Impairment) / reversal of allowance on due from banks	8	(2,306)	(4,198)	489	(4,218)
Impairment allowances on loans and advances and Islamic financing	9	(552,620)	(545,848)	(164,189)	(199,423)
Recoveries of loans and advances and Islamic financing		33,947	36,650	18,210	11,535
Impairment allowance on investment securities	10	(1,964)	(4,093)	(321)	(5,091)
Impairment allowance on investment properties		(3,322)	-	-	-
Impairment allowance on other assets		-	(22,730)	-	-
Total net income		1,715,903	1,477,356	586,054	492,581
Staff and other expenses		(600,939)	(590,435)	(206,315)	(195,344)
Depreciation and amortisation		(51,821)	(43,852)	(17,746)	(14,941)
Total operating expenses		(652,760)	(634,287)	(224,061)	(210,285)
Net profit for the period		1,063,143	843,069	361,993	282,296
Basic and diluted earnings per share	14	AED 0.38	AED 0.30	AED 0.13	AED 0.10

The attached notes from 1 to 21 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on pages 1 to 2.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of other comprehensive income

For the nine-month period ended 30 September 2019

	Nine-month period ended		Three-month period ended	
	30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)	30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)
Net profit for the period	1,063,143	843,069	361,993	282,296
Items that will not be reclassified to profit or loss:				
Realised gains on sale of equity investments held at FVOCI	3,172	1,384	-	-
Revaluation (loss) / gains of equity investments held at FVOCI	(16,492)	(5,126)	(1,002)	10,965
Items that may be subsequently reclassified to profit or loss:				
Changes in fair value of effective portion of cash flow hedge	6,135	2,211	4,543	1,040
Changes in fair value reserve of an associate	435	-	209	-
	6,570	2,211	4,752	1,040
Changes in investments held at FVOCI:				
Realised gain on sale of debt investments	(11,424)	(6,031)	(1,338)	(2,439)
Revaluation gain / (loss) on debt investments	245,532	(108,895)	52,419	18,817
Net change in investments held at FVOCI	234,108	(114,926)	51,081	16,378
Other comprehensive income / (loss) for the period	227,358	(116,457)	54,831	28,383
Total comprehensive income for the period	1,290,501	726,612	416,824	310,679

The attached notes from 1 to 21 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 2019

	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 2018	2,802,734	1,401,367	1,328,025	38,638	(10,956)	3,520,947	9,080,755
IFRS 9 adjustment	-	-	-	-	-	(397,495)	(397,495)
	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 Director's remuneration of an associate	-	-	-	-	-	(447)	(447)
Other comprehensive income							
Net profit for the period	-	-	-	-	-	843,069	843,069
Gain on sale of equity investments at fair value through other comprehensive income	-	-	-	-	(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	1,328,025	38,638	(128,797)	3,465,980	8,907,947
At 1 January 2019	2,802,734	1,401,367	1,328,025	38,638	(137,060)	3,785,022	9,218,726
Transactions with shareholders, recorded directly in equity							
Cash dividend for 2018 (20.7%)	-	-	-	-	-	(580,166)	(580,166)
Directors' remuneration for 2018	-	-	-	-	-	(11,000)	(11,000)
Share of Director's remuneration of an associate	-	-	-	-	-	(424)	(424)
Other comprehensive income							
Net profit for the period	-	-	-	-	-	1,063,143	1,063,143
Gain on sale of equity investments at fair value through other comprehensive income	-	-	-	-	(3,172)	3,172	-
Other comprehensive income for the period	-	-	-	-	227,358	-	227,358
Total other comprehensive income for the period	-	-	-	-	224,186	1,066,315	1,290,501
At 30 September 2019 (unaudited)	2,802,734	1,401,367	1,328,025	38,638	87,126	4,259,747	9,917,637

The attached notes from 1 to 21 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on pages 1 to 2.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of cash flows

For the nine-month period ended 30 September 2019

	Note	30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)
OPERATING ACTIVITIES			
Net profit for the period		1,063,143	843,069
Adjustments for:			
Depreciation and amortisation		51,821	43,852
(Profit) / loss on disposal of property and equipment		(19,332)	81
Amortisation of premium / discount on investments		27,662	38,286
Dividend income		(3,488)	(4,995)
Unrealized gains on investments at fair value through profit or loss		(7)	-
Loss on forex translation		14,541	3,423
Realised gains on sale of investments		(12,160)	(6,156)
Net unrealised gain on derivatives		(49,122)	(20,587)
Share of profit of an associate		(3,558)	(7,332)
Impairment allowance on loans and advances and Islamic financing		552,620	545,848
Impairment allowance on other assets		-	22,730
Impairment allowance on investment properties		3,322	-
Impairment allowance on investment securities		1,964	4,093
Impairment allowance on due from banks		2,306	4,198
Amortisation of transaction cost on notes and medium term borrowings		1,083	5,702
		<u>1,630,795</u>	<u>1,472,212</u>
Increase in statutory reserve with the Central Bank		(235,733)	(147,157)
(Increase) / decrease in negotiable Central Bank certificate of deposits with original maturity of more than three months		(1,400,000)	700,000
Decrease / (increase) in due from banks with original maturity of more than three months		43,757	(122,346)
Increase in loans and advances and Islamic financing		(5,981,164)	(3,462,277)
Increase in other assets		(443,029)	(85,701)
Increase in customer deposits and Islamic customer deposits		5,901,181	2,003,265
Increase in other liabilities		190,610	280,800
Increase in due to banks with original maturity of more than three months		1,271,670	356,548
Directors' remuneration paid		(11,000)	(11,000)
Net cash flow from operating activities		<u>967,087</u>	<u>984,344</u>
INVESTING ACTIVITIES			
Purchase of investments		(3,710,242)	(2,548,305)
Purchase of property and equipment		(14,127)	(34,978)
Dividend income		3,488	4,995
Proceeds from sale of investments		3,951,435	2,576,763
Dividend from an associate		3,992	3,992
Proceeds from sale of property and equipment		48,875	1,557
Net cash flow from investing activities		<u>283,421</u>	<u>4,024</u>
FINANCING ACTIVITIES			
Notes and medium term borrowings		619,591	(1,469,751)
Dividend paid		(580,166)	(490,478)
Net cash flow from / (used in) financing activities		<u>39,425</u>	<u>(1,960,229)</u>
Net increase / (decrease) in cash and cash equivalents		<u>1,289,933</u>	<u>(971,861)</u>
Cash and cash equivalents at 1 January		3,315,334	3,471,981
Cash and cash equivalents at end of the period	15	<u>4,605,267</u>	<u>2,500,120</u>

The attached notes from 1 to 21 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on pages 1 to 2.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2019

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 2019 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 British Virgin Islands. The SPE has been established for any future issuance of debt securities.
- e) CBD (Cayman II) Limited, which is a special purpose entity (SPE) registered in British Virgin Islands. The SPE has been established to transact and negotiate 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 condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. These condensed consolidated interim financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018.

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 2018, except for the adoption of IFRS 16 *Leases* for the first time.

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

2.2 Functional and presentation currency

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

2.3 Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Bank, its wholly owned subsidiaries (together referred to as "the Group"), which it controls and the Group's interest in an associate, as at 30 September 2019. 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.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2019

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of Significant Changes in Accounting Policies

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

3.1.1 Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'Operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The Financial Impact of adopting the standard is not material.

There were no leases previously classified as finance lease by the entity.

3.1.2 Group's leasing activities and how they are accounted for

Until the 2018 financial year, leases of office premises were classified as operating lease. Payments made under the operating leases (net of any incentives received from the lessor) were charged to profit and loss account on a straight line basis over the period of lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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.

Right-of-use assets are measured at cost comprising the following:

- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Critical judgments in determining the lease term:

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Summary of Significant Changes in Accounting Policies (continued)

3.1.2 Group's leasing activities and how they are accounted for (continued)

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Residual value guarantees:

The group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period.

3.2 Financial Assets

3.2.1 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, 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:

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial Assets (continued)

3.2.1 Classification (continued)

- o **Assessment whether contractual cash flows is solely payments of principal and interest (continued)**
 - contingent events that would change the amount and timing of cash flows;
 - 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).

3.2.2 Impairment of financial assets

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:

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 are 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.

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.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements

For the nine-month period ended 30 September 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial Assets (continued)

3.2.2 Impairment of financial assets (continued)

(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 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.

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.

(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

4 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 2018.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

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

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

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

	Effective for annual periods beginning on or after
(a) <i>Annual improvements 2015-2017 cycle</i>	1 January 2019
(b) Prepayment features with Negative Compensation - Amendments to IFRS 9	1 January 2019
(c) Long-term interests in Associates and Joint Ventures - Amendments to IAS 28	1 January 2019
(d) Plan Amendment, Curtailments or Settlement - Amendments to IAS 19	1 January 2019

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 Group's audited consolidated financial statements as at and for the year ended 31 December 2018.

7 CASH AND BALANCES WITH CENTRAL BANK

	30 September 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
Cash on hand	376,157	449,843
Balances with Central Bank U.A.E		
- Clearing account balances	959,876	732,048
- Statutory reserves	3,436,164	3,200,431
- Negotiable certificates of deposit	4,650,000	4,300,000
	<u>9,422,197</u>	<u>8,682,322</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. However, there are no expected credit losses and hence no provision has been recognised.

8 DUE FROM BANKS, NET

	30 September 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
Current and demand deposits	487,390	550,754
Overnight, call and short notice	1,863,247	114,071
Loans to banks	265,833	309,590
Gross due from banks	2,616,470	974,415
Allowances for impairment losses	(5,441)	(3,135)
Net due from banks	2,611,029	971,280
Within the U.A.E.	1,148,525	36,746
Outside the U.A.E.	1,462,504	934,534
	<u>2,611,029</u>	<u>971,280</u>

Due from banks is classified under stage 1 as per IFRS 9. The expected credit loss as at 30 September 2019 is AED 5,441 thousand (31 December 2018: AED 3,135 thousand).

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

9 LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

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

	30 September 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
Loans and advances		
Overdrafts	7,097,860	6,155,390
Loans	37,052,877	35,547,904
Advances against letters of credit and trust receipts	3,386,771	3,180,672
Bills discounted	2,074,174	1,456,452
Gross loans and advances	49,611,682	46,340,418
Islamic financing		
Murabaha and Tawaruq	4,086,071	2,792,472
Ijara	6,149,183	4,810,392
Others	82,367	114,658
Gross Islamic financing	10,317,621	7,717,522
Gross loans and advances and Islamic financing	59,929,303	54,057,940
Allowances for impairment losses	(3,555,812)	(3,112,993)
Net loans and advances and Islamic financing	56,373,491	50,944,947

	30 September 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
Concentration by sector:		
Manufacturing	1,956,302	2,359,918
Construction	4,321,025	3,677,834
Real estate	20,609,706	16,006,257
Trade	5,659,889	5,316,585
Transportation and storage	1,214,720	1,491,763
Services	5,538,402	4,305,056
Hospitality	2,484,706	2,652,430
Financial and insurance activities	7,581,060	7,311,952
Government entities	272,686	131,497
Personal - mortgage	3,068,411	2,835,784
Personal - schematic	4,308,785	4,924,986
Individual loans for business	1,714,035	2,032,242
Others	1,199,576	1,011,636
Gross loans and advances and Islamic financing	59,929,303	54,057,940
Allowances for impairment losses	(3,555,812)	(3,112,993)
Net loans and advances and Islamic financing	56,373,491	50,944,947

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

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

An analysis of changes in the ECL is as follows:

	30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)
ECL allowance at the beginning of the period	3,112,993	3,298,470
Net impairment charge	552,623	545,848
Interest not recognised	186,000	181,711
Recoveries	(57,725)	(24,884)
Amounts written off	(238,079)	(956,413)
ECL allowance at the end of the period	<u>3,555,812</u>	<u>3,044,732</u>

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:

	30 September 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	994,572	874,263
Less: Stage 1 and Stage 2 provisions under IFRS 9	<u>1,275,336</u>	<u>1,020,966</u>
General provision transferred to the impairment reserve*	-	-
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	2,266,499	2,084,734
Less: Stage 3 provisions under IFRS 9	<u>2,280,476</u>	<u>2,092,027</u>
Specific provision transferred to the impairment reserve*	-	-
Total provision transferred to the impairment reserve	<u>-</u>	<u>-</u>

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

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 154 million (31 December 2018: AED 166 million). Net positive fair value of the hedged component is AED 3,131 thousand (31 December 2018: AED 128 thousand).

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

10 INVESTMENT SECURITIES, NET

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
30 September 2019 (Unaudited)				
Held at fair value through profit or loss				
Fixed rate government securities	-	3,140	-	3,140
Fixed rate non-government securities	-	5,670	-	5,670
Held at fair value through other comprehensive income				
Quoted equity instruments	44,037	-	-	44,037
Unquoted equity instruments and fund	-	5,329	273,220	278,549
Fixed rate securities				
- Government	2,169,635	751,189	251,480	3,172,304
- Others	1,204,541	415,713	969,297	2,589,551
Floating rate non-government securities	330,714	-	277,362	608,076
	3,748,927	1,181,041	1,771,359	6,701,327
Allowances for impairment losses				-
Net investment securities				6,701,327
	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
31 December 2018 (Audited)				
Held at fair value through other comprehensive income				
Quoted equity instruments	72,324	-	-	72,324
Unquoted equity instruments and fund	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

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 1,433 million (31 December 2018: AED 1,383 million), pledged under repurchase agreements with banks (note 12.2).

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Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

11 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	30 September 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
Customer deposits		
Current and demand accounts	16,851,127	15,158,944
Savings accounts	2,472,669	2,422,298
Time deposits	25,362,071	23,393,862
	<u>44,685,867</u>	<u>40,975,104</u>
Islamic customer deposits		
Current and demand accounts	3,643,434	2,508,574
Mudaraba savings accounts	578,226	591,166
Investment and Wakala deposits	10,158,684	9,090,186
	<u>14,380,344</u>	<u>12,189,926</u>
Total customer deposits and Islamic customer deposits	<u>59,066,211</u>	<u>53,165,030</u>

12 NOTES AND MEDIUM TERM BORROWINGS

		31 December 2018 AED'000 (Audited)	Cash flow changes AED'000	Non cash flow changes AED '000	30 September 2019 AED'000 (Unaudited)
Syndicated loan	12.1	-	619,591	74	619,665
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	-	-	-	-
Euro medium term notes - II	12.3	1,466,703	-	1,009	1,467,712
Total		<u>2,609,944</u>	<u>619,591</u>	<u>1,083</u>	<u>3,230,618</u>
		31 December 2017 AED'000 (Audited)	Cash flow changes AED'000	Non cash flow changes AED '000	31 December 2018 AED'000 (Audited)
Syndicated loan	12.1	1,645,826	(1,652,850)	7,024	-
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	-	1,483	1,466,703
Total		<u>6,089,663</u>	<u>(3,489,350)</u>	<u>9,631</u>	<u>2,609,944</u>

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 maturing in June 2019. The arrangement was prepaid in December 2018.

In August 2019, the Group entered into a club deal of USD 170 million (AED 624.4 million) for a term of 5 years with an option to roll over on a semi-annual basis maturing in August 2024.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

12 NOTES AND MEDIUM TERM BORROWINGS (CONTINUED)

12.2 Repurchase agreements

In July 2012, the Group entered into Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 150.1 million (AED 551.4 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 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 30 September 2019, the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 1,433 million (USD 390.1 million) (2018: AED 1,383 million (USD 376.5 million) (note 10).

12.3 Euro medium term notes

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

In May 2013, CBD issued USD 500 million (AED 1,836.5 million) of conventional bonds. These notes were priced at 3.375 per cent fixed rate. 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 will mature on 17 November 2020.

13 EQUITY

Share capital

The fully paid up and authorised ordinary share capital as at 30 September 2019 comprised 2,802,733,968 ordinary shares of AED 1 each (31 December 2018: 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 AED 1,063,143 thousand (30 September 2018 AED 843,069 thousand) divided by the weighted average number of ordinary shares outstanding 2,802,733,968 (30 September 2018: 2,802,733,968).

Diluted earnings per share as of 30 September 2019 and 30 September 2018 are equivalent to basic earnings per share as no new shares have been issued that would impact earnings per share when executed.

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Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

15 CASH AND CASH EQUIVALENTS

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

	30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)
Cash on hand	376,157	369,299
Balances with the Central Bank U.A.E.	959,876	-
Negotiable certificates of deposit with the Central Bank U.A.E. with original maturity less than three months	1,550,000	1,200,000
Due from banks with original maturity of less than three months	2,350,637	2,373,889
	5,236,670	3,943,188
Due to banks with original maturity of less than three months	(631,403)	(1,320,402)
Balances due to the Central Bank U.A.E.	-	(122,666)
	4,605,267	2,500,120

16 CONTINGENT LIABILITIES AND UNDRAWN 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 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
Contingent liabilities:		
Letters of credit	1,880,583	1,221,648
Letters of guarantee	12,382,642	10,804,478
Total contingent liabilities	14,263,225	12,026,126
Undrawn commitments to extend credit:		
- irrevocable	4,491,400	3,737,846
- revocable	9,405,419	9,682,925
	13,896,819	13,420,771
Total contingent liabilities and undrawn commitments	28,160,044	25,446,897

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Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

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.
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 deals in 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	Personal banking AED'000	Treasury & investments AED'000	Total AED'000
30 September 2019 (Unaudited)					
Assets	<u>39,579,982</u>	<u>16,843,487</u>	<u>6,206,021</u>	<u>19,909,969</u>	<u>82,539,459</u>
Liabilities	<u>37,972,410</u>	<u>12,518,176</u>	<u>14,725,688</u>	<u>7,405,548</u>	<u>72,621,822</u>
31 December 2018 (Audited)					
Assets	<u>37,726,659</u>	<u>12,661,640</u>	<u>7,298,537</u>	<u>16,414,710</u>	<u>74,101,546</u>
Liabilities	<u>34,702,788</u>	<u>10,623,806</u>	<u>14,103,333</u>	<u>5,452,893</u>	<u>64,882,820</u>

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

17 SEGMENTAL REPORTING (CONTINUED)

	Corporate banking AED'000	Commercial banking AED'000	Personal banking AED'000	Treasury & investments AED'000	Total AED'000
30 September 2019 (Unaudited)					
Net interest income and net income from Islamic financing	580,230	405,387	330,209	188,490	1,504,316
Non-interest and other income	248,807	214,560	175,082	99,403	737,852
Total operating income	829,037	619,947	505,291	287,893	2,242,168
Expenses (note a)	164,698	172,187	309,148	6,727	652,760
Net provisions (note b)	232,654	193,524	94,803	5,284	526,265
	397,352	365,711	403,951	12,011	1,179,025
Net profit for the period	431,685	254,236	101,340	275,882	1,063,143
30 September 2018 (Unaudited)					
Net interest income and net income from Islamic financing	537,687	405,618	336,428	147,391	1,427,124
Non-interest and other income	165,604	184,606	136,972	103,269	590,451
Total operating income	703,291	590,224	473,400	250,660	2,017,575
Expenses (note a)	117,987	189,258	296,218	30,824	634,287
Net provisions (note b)	295,294	78,650	139,449	26,826	540,219
	413,281	267,908	435,667	57,650	1,174,506
Net profit for the period	290,010	322,316	37,733	193,010	843,069

(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	
	30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)	30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)
Corporate banking	907,664	810,720	(78,627)	(107,429)
Commercial banking	759,337	657,557	(139,390)	(67,333)
Personal banking	367,798	385,348	137,493	88,052
Treasury and investments	207,369	163,950	80,524	86,710
Total operating income	2,242,168	2,017,575	-	-

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Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

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:

	Fair value through profit or loss AED'000	Fair value through OCI AED'000	Amortised cost AED'000	Total carrying amount AED'000
30 September 2019 (Unaudited)				
Cash and balances with Central Bank	-	-	9,422,197	9,422,197
Due from banks, net	-	-	2,611,029	2,611,029
Loans and advances and Islamic financing, net	-	-	56,373,491	56,373,491
Investment securities, net	8,810	6,692,517	-	6,701,327
Bankers acceptances	-	-	5,090,901	5,090,901
Other assets, net	587,604	-	790,311	1,377,915
Total financial assets	596,414	6,692,517	74,287,929	81,576,860
Due to banks	-	-	3,534,635	3,534,635
Customer deposits and Islamic customer deposits	-	-	59,066,211	59,066,211
Notes and medium term borrowing	-	-	3,230,618	3,230,618
Due for trade acceptances	-	-	5,090,901	5,090,901
Other liabilities	512,913	-	1,108,713	1,621,626
Total financial liabilities	512,913	-	72,031,078	72,543,991
31 December 2018 (Audited)				
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

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.

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

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 2019 (Unaudited)					
Investments					
Equity instruments and funds	44,037	5,329	273,220	322,586	322,586
Fixed and floating rate securities	6,378,741	-	-	6,378,741	6,378,741
Positive market value of forward foreign exchange contracts and other derivatives					
Fair value through profit or loss	-	586,418	-	586,418	586,418
Held for fair value hedge	-	-	-	-	-
Held for cash flow hedge	-	1,186	-	1,186	1,186
Negative market value of forward foreign exchange contracts and other derivatives					
Fair value through profit or loss	-	(504,356)	-	(504,356)	(504,356)
Held for fair value hedge	-	(6,361)	-	(6,361)	(6,361)
Held for cash flow hedge	-	(2,196)	-	(2,196)	(2,196)
Liabilities at amortized cost					
Notes and medium term borrowings	(1,492,457)	(1,762,906)	-	(3,255,363)	(3,230,618)
	<u>4,930,321</u>	<u>(1,682,886)</u>	<u>273,220</u>	<u>3,520,655</u>	<u>3,545,400</u>
31 December 2018 (Audited)					
Investments					
Equity instruments and funds	72,324	4,598	5,176	82,098	82,098
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					
Fair value through profit or loss	-	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					
Fair value through profit or loss	-	(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)
	<u>5,277,041</u>	<u>(1,116,627)</u>	<u>5,176</u>	<u>4,165,590</u>	<u>4,169,483</u>

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 period / year, there were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the current or prior period.

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Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

19 RELATED PARTY TRANSACTIONS AND BALANCES

As at 30 September 2019 and 31 December 2018, 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	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018	30 September 2019	31 December 2018
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Loans and advances and Islamic financing, net	176,345	416,198	819,883	1,262,582	1,525,789	1,398,356
Due from banks, net	-	-	544,344	-	-	-
Investment securities, net	-	-	1,319,397	1,315,852	-	-
Bankers acceptances	-	-	-	-	7,233	12,715
Letters of credit	-	-	-	223	3,976	6,233
Letters of guarantee	-	-	212,975	323,525	155,519	226,869
Undrawn commitments to extend credit	24,045	28,424	330,830	529,246	317,018	463,374
Due to banks	-	-	-	180,170	-	-
Customer deposits and Islamic customer deposits	74,296	98,412	3,534,485	3,266,268	239,211	165,791
Interest income and commission income	7,449	15,792	33,759	60,828	63,938	51,127
Interest expense	644	398	73,521	66,148	2,787	1,212
Dividend from an associate	-	-	-	-	3,992	3,992

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 2019 amounted to AED 2.9 million (30 September 2018: AED 2.5 million).

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)

For the nine-month period ended 30 September 2019

19 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key management compensation

	30 September 2019 AED'000 (Unaudited)	30 September 2018 AED'000 (Unaudited)
Salaries	16,931	17,283
Post-employment benefits	684	768
Other benefits	20,087	15,107

20 CAPITAL ADEQUACY

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.

	30 September 2019 AED'000 (Unaudited)	31 December 2018 AED'000 (Audited)
Common equity tier 1 (CET1) capital		
Share capital	2,802,734	2,802,734
Legal and statutory reserve	1,401,367	1,401,367
General reserve	1,328,025	1,328,025
Retained earnings	4,259,747	3,193,854
Accumulated other comprehensive income	19,626	(138,543)
	9,811,499	8,587,437
Regulatory deductions and adjustments	(68,942)	(58,449)
Total CET1 capital	9,742,557	8,528,988
Tier 1 capital	9,742,557	8,528,988
Tier 2 capital		
Eligible general provision	828,810	728,552
Tier 2 capital	828,810	728,552
Total regulatory capital	10,571,367	9,257,540
Risk weighted assets (RWA)		
Credit risk	66,304,820	58,284,194
Market risk	483,304	425,881
Operational risk	4,893,229	4,893,229
Risk weighted assets	71,681,353	63,603,304
Tier 1 ratio	13.59%	13.41%
Tier 2 ratio	1.16%	1.15%
Capital adequacy ratio	14.75%	14.56%

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.