

Ajman Bank PJSC

**Report and consolidated financial statements
for the year ended 31 December 2019**

These audited consolidated financial statements are subject to adoption by shareholders at the annual general meeting.

Ajman Bank PJSC

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Ajman Bank PJSC
Ajman
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Ajman Bank PJSC** (the "Bank") and its **subsidiary** (together "the Group"), **Ajman, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matter

How the matter was addressed in our audit

Impairment of carrying value of Islamic financing and investing assets in accordance with IFRS 9

<p>The audit of the impairment of Islamic financing and investing assets is a key area of focus because of its size (representing 72 % of total assets) and due to the significance of the estimates made and judgments applied in classifying Islamic financing and investing assets into various stages, determining related allowance requirements, including the allowance for Expected Credit Losses (ECLs). Refer to Note 4 to the consolidated financial statements for the accounting policy, Note 5 for critical judgements and estimates used by management and Note 6 for disclosures about credit risk.</p> <p>The Group recognizes allowances for ECLs at an amount equal to 12-month ECLs (Stage 1) or full lifetime ECLs (Stage 2). A loss allowance for full lifetime ECLs is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition.</p> <p>ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective profit rate. The Group employs statistical models for ECL calculations and the key variables used in these calculations are probability of default (PD), loss given default (LGD) and exposure at default (EAD), which are defined in Note 4 to the consolidated financial statements.</p> <p>The Corporate portfolio of Islamic Financing and Investing assets is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging override in accordance with the Group's policies.</p>	<p>We obtained a detailed understanding of the Group's Islamic financing and investing assets business processes and the accounting policies of IFRS 9 Financial Instruments including the critical accounting estimates and judgments used. We have involved our subject matter experts to assist us in auditing the IFRS 9 ECL models as at 31 December 2019.</p> <p>We tested the design, implementation and operating effectiveness of the relevant controls which included testing:</p> <ul style="list-style-type: none"> • System-based and manual controls over the timely recognition of impaired Islamic financing and investing assets and advances; • Controls over the ECL calculation models; • Controls over collateral valuation estimates; and • Controls over governance and approval process related to impairment provisions and ECL Models including continuous reassessment by the management. <p>We understood and evaluated the principles used in the ECL model by utilizing our subject matter experts to ensure its compliance with the minimum requirements of IFRS 9. We tested the mathematical integrity of the ECL model by performing recalculations. We assessed the consistency of various inputs and assumptions used by the Group's management to determine impairment.</p> <p>For allowances against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Group's methodology in this area and assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. We also assessed the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages., We checked the appropriateness of the Group's staging of its exposures on a sample basis.</p>
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Independent Auditor's Report to the Shareholders of Ajman Bank PJSC (continued)**Key audit matters (continued)****Key audit matter****How the matter was addressed in our audit****Impairment of carrying value of Islamic financing and investing assets in accordance with IFRS 9 (continued)**

<p>The measurement of ECLs for retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention. However, it is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period. Retail exposures are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Group in accordance with the original contractual terms.</p> <p>Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral. The impairment loss is calculated based on the shortfall in the Islamic financing and investing assets carrying value compared to the net present value of future cash flows using the original effective profit rate. The factors considered when determining impairment losses on individually assessed accounts include the customer's aggregate borrowings, risk rating, value of the collateral and probability of successful repossession and the costs involved to recover the debts.</p> <p>As at 31 December 2019, the Group's gross Islamic financing and investing assets amounted to AED 17 billion and the related impairment allowances amounted to AED 870 million, comprising AED 130 million of provision against Stage 1 and 2 exposures and AED 740 million against exposures classified under Stage 3.</p>	<p>For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information.</p> <p>We selected samples of Islamic financing and investing assets and verified the accuracy of the Exposure at Default (EAD), appropriateness of the Probability of Default (PD) and calculations of the Loss Given Default (LGD) used by management in their ECL calculations.</p> <p>For exposures determined to be individually impaired, we tested samples of Islamic financing and investing assets and examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant allowance calculations. Further, we challenged the estimates and assumptions used by management around the LGD calculation for individually impaired exposures by testing the enforceability and adequacy of valuation of underlying collaterals and estimated recovery on default.</p> <p>We assessed the disclosures in the financial statements to determine if they were in compliance with IFRSs.</p>
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Independent Auditor's Report to the Shareholders of Ajman Bank PJSC (continued)

Other Information

The Board of Directors and management are responsible for the other information. The other information comprises the Board of Directors' report. We obtained the Board of Directors' report prior to the date of this auditor's report. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

The Board of Directors and Board Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Group's Board Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report to the Shareholders of Ajman Bank PJSC (continued)

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. (2) of 2015, we report that:

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Bank has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Bank's books of account;
- note 12 to the consolidated financial statements of the Bank discloses its investments in equity instruments during the financial year ended 31 December 2019;
- note 32 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and
- note 37 to the consolidated financial statements discloses social contributions made during the financial year ended 31 December 2019.

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

Deloitte & Touche (M.E.)



Musa Ramahi
Registration No. 872
11 February 2020
Dubai
United Arab Emirates

**Consolidated statement of financial position
as at 31 December 2019**

	Notes	2019 AED'000	2018 AED'000
ASSETS			
Cash and balances with the Central Bank	9	2,546,097	2,558,366
Due from banks and other financial institutions	10	658,044	761,711
Islamic financing and investing assets, net	11	17,110,570	16,304,026
Islamic investments securities at fair value	12	2,018,901	1,892,608
Investment in associate	13	74,282	-
Investment properties	14	783,362	658,131
Property and equipment	15	136,210	120,822
Other Islamic assets	16	298,324	349,061
Total assets		23,625,790	22,644,725
LIABILITIES AND EQUITY			
Liabilities			
Islamic customers' deposits	17	14,922,760	17,203,533
Due to banks and other financial institutions	18	5,733,478	2,648,722
Other liabilities	19	457,233	345,622
Total liabilities		21,113,471	20,197,877
Equity			
Share capital	20	2,100,000	2,100,000
Statutory reserve	21	253,168	244,728
Investment fair value reserve		(7,256)	(64,325)
General impairment reserve	22	111,583	-
Retained earnings		54,824	166,445
Total equity		2,512,319	2,446,848
Total liabilities and equity		23,625,790	22,644,725



H.H. Sheikh Ammar Bin Humaid Al Noaimi
Chairman



Mohamed Abdulrahman Amiri
Chief Executive Officer

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

**Consolidated income statement
for the year ended 31 December 2019**

	Notes	2019 AED'000	2018 AED'000
Operating income			
Income from Islamic financing and investing assets	24	989,570	847,322
Income from Islamic investments securities at fair value	25	152,063	69,825
Fees, commission and other income	26	130,124	124,924
Share of results of associate	13	2,462	-
		<hr/>	<hr/>
Total operating income before depositors' share of profit		1,274,219	1,042,071
Depositors' share of profits		(638,183)	(495,199)
		<hr/>	<hr/>
Net operating income		636,036	546,872
		<hr/>	<hr/>
Expenses			
Staff costs	27	(202,581)	(187,815)
General and administrative expenses	28	(55,880)	(56,257)
Depreciation of property and equipment	15	(16,945)	(16,296)
Impairment charge for financial assets	29.2	(276,228)	(112,616)
Impairment charge for non-financial assets	16	-	(3,854)
		<hr/>	<hr/>
Total expenses		(551,634)	(376,838)
		<hr/>	<hr/>
Profit for the year		84,402	170,034
		<hr/>	<hr/>
Earnings per share (AED)	30	0.039	0.097
		<hr/>	<hr/>

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

**Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2019**

	2019 AED'000	2018 AED'000
Profit for the year	84,402	170,034
Other comprehensive income/(loss):		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Movement in investment fair value reserve for equity instruments at FVTOCI	(8,820)	-
	(8,820)	-
<i>Items that may be reclassified subsequently to profit or loss</i>		
Fair value gain/(loss) on investments securities at FVTOCI	110,264	(45,407)
Reclassification adjustments relating to investments securities at FVTOCI	(44,375)	3,328
	65,889	(42,079)
Other comprehensive income/(loss) for the year	57,069	(42,079)
Total comprehensive income for the year	141,471	127,955

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

**Consolidated statement of changes in equity
for the year ended 31 December 2019**

	Share capital AED'000	Statutory reserve AED'000	Investment fair value reserve AED'000	General impairment reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2018	1,680,323	227,725	(65,206)	-	267,616	2,110,458
Impact of adopting IFRS 9 at 1 January 2018	-	-	42,960	-	(190,481)	(147,521)
Restated balance at 1 January 2018	1,680,323	227,725	(22,246)	-	77,135	1,962,937
Profit for the year	-	-	-	-	170,034	170,034
Other comprehensive loss	-	-	(42,079)	-	-	(42,079)
Total comprehensive income for the year	-	-	(42,079)	-	170,034	127,955
Transfer to statutory reserve	-	17,003	-	-	(17,003)	-
Issuance of share capital	419,677	-	-	-	-	419,677
Issuance cost of share capital	-	-	-	-	(2,410)	(2,410)
Dividends (Note 23)	-	-	-	-	(58,811)	(58,811)
Directors' remuneration (Note 23)	-	-	-	-	(2,500)	(2,500)
At 31 December 2018	2,100,000	244,728	(64,325)	-	166,445	2,446,848
Profit for the year	-	-	-	-	84,402	84,402
Other comprehensive income	-	-	57,069	-	-	57,069
Total comprehensive income for the year	-	-	57,069	-	84,402	141,471
Transfer to statutory reserve	-	8,440	-	-	(8,440)	-
Transfer to general impairment reserve (Note 22)	-	-	-	111,583	(111,583)	-
Dividends (Note 23)	-	-	-	-	(73,500)	(73,500)
Directors' remuneration (Note 23)	-	-	-	-	(2,500)	(2,500)
At 31 December 2019	2,100,000	253,168	(7,256)	111,583	54,824	2,512,319

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

**Consolidated statement of cash flows
for the year ended 31 December 2019**

	2019 AED'000	2018 AED'000
Cash flows from operating activities		
Profit for the year	84,402	170,034
<i>Adjustments for:</i>		
Depreciation of property and equipment	16,945	16,296
Impairment charge on financial assets	276,228	112,616
Impairment of property and equipment	28	545
Impairment charge on other non-financial assets	-	3,854
Income from Islamic investments securities	(108,209)	(67,278)
Fair value adjustment of investment properties	3,194	(3,595)
Realized (gain)/loss on disposal of Islamic investments securities	(43,854)	2,133
Gain on disposal of property and equipment	-	(25)
Operating cash flows before changes in operating assets and liabilities	228,734	234,580
<i>Changes in operating assets and liabilities:</i>		
Increase in Islamic financing and investing assets	(1,086,357)	(1,338,354)
Decrease in due from banks and other financial institutions	80,579	945
Increase in statutory deposit with the Central Bank	(22,862)	(65,179)
Increase in International murabahat with the Central Bank	(1,380,000)	-
Decrease/(increase) in other assets	49,755	(117,867)
(Decrease)/increase in Islamic customers' deposits	(2,280,773)	2,879,654
Increase/(decrease) in due to banks and other financial institutions	3,084,756	(713,980)
Increase in other liabilities	115,465	99,471
Cash (used in)/generated from operations	(1,210,703)	979,270
Payment of directors' remuneration	(2,500)	(2,500)
Net cash (used in)/generated from operating activities	(1,213,203)	976,770
Cash flows from investing activities		
Purchase of Islamic investments securities	(3,207,463)	(479,172)
Proceeds from sale of Islamic investments securities	3,181,408	407,209
Acquisition of investment in associate	(74,282)	-
Purchase of property and equipment	(32,361)	(32,470)
Proceeds from disposal of property and equipment	-	76
Profit income on Islamic investments securities	109,414	88,588
Additions to investment properties	(455,425)	(43,088)
Proceeds from disposal of investment properties	327,000	-
Net cash used in investing activities	(151,709)	(58,857)
Cash flows from financing activities		
Issuance of share capital	-	419,677
Issuance cost of share capital	-	(2,410)
Dividends paid	(73,500)	(58,811)
Net cash (used in)/generated from financing activities	(73,500)	358,456
Net (decrease)/increase in cash and cash equivalents	(1,438,412)	1,276,369
Cash and cash equivalents at the beginning of the year	2,248,127	971,758
Cash and cash equivalents at the end of the year (Note 31)	809,715	2,248,127

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

Notes to the consolidated financial statements for the year ended 31 December 2019

1. General information

Ajman Bank PJSC (the “Bank”) was incorporated as a Public Joint Stock Company. The Bank and its subsidiary is collectively referred to as the “Group”. The registered address of the Bank is P.O. Box 7770, Ajman, United Arab Emirates (“UAE”). The Bank was legally incorporated on 17 April 2008 and was registered with the Securities and Commodities Authority (“SCA”) on 12 June 2008 and obtained a license from the Central Bank of the UAE to operate as a Head Office on 14 June 2008. On 1 December 2008, the Bank obtained a branch banking license from UAE Central Bank and commenced its operations on 22 December 2008.

In addition to its Head office in Ajman, the Bank operates through nine branches and two pay office in the UAE. The consolidated financial statements combine the activities of the Bank’s head office and its branches.

The principal activities of the Bank are to undertake banking, financing and investing activities through various Islamic financing and investment products such as Murabaha, Mudarba, Musharika, Wakala, Sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Sharia’a principles and within the provisions of its Memorandum and Articles of Association. The detail of the Bank subsidiary is included in Note 36 to the consolidated financial statement.

2. Application of new and revised International Financial Reporting Standards (“IFRS”)

2.1 *New and revised IFRS applied with no material effect on the consolidated financial statements*

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these consolidated financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.
- IFRIC 23 *Uncertainty over Income Tax Treatments*: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
 - Whether tax treatments should be considered collectively;
 - Assumptions for taxation authorities' examinations;
 - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
 - The effect of changes in facts and circumstances.
- IFRS 16 *Leases* specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
- Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

2.1 New and revised IFRS applied with no material effect on the consolidated financial statements (continued)

- Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Amendments to IAS 19 *Employee Benefits* regarding plan amendments, curtailments or settlements.

2.2 New and revised IFRS in issue but not yet effective

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 1 <i>Presentation of financial statements</i> regarding the definition of material.	1 January 2020
Amendments to IFRS 3 <i>Business Combinations</i> to clarify the definition of a business	1 January 2020
<p>The International Accounting Standards Board (IASB) has published its revised 'Conceptual Framework for Financial Reporting'. Included are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure.</p> <p>Together with the revised Conceptual Framework, the IASB has also issued amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.</p>	
IFRS 17 <i>Insurance Contracts</i>	1 January 2022
<p>IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.</p>	
Amendments to IFRS 10 <i>Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****3. Definitions**

The following terms are used in the consolidated financial statements with the meaning specified:

Murabaha

Is a contract whereby the Group (the “Seller”) sells an asset to its customer (the “Purchaser”), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre-agreed profit amount. Murabaha profit is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding. The Murabaha sale price is paid by the Purchaser to the Seller on an installment basis over the period of the Murabaha as stated in the contract.

Wakala

Is an agreement between two parties whereby one party is a fund provider (the “Muwakkil”) who provides a certain amount of money (the “Wakala Capital”) to an agent (the “Wakeel”), who invests the Wakala Capital in a Sharia’a compliant manner and according to the feasibility study or investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the “Wakala Fee”) as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle the Wakala profit is distributed on declaration or distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally distributed on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

Istisna’a

Is a sale contract between two parties whereby the Group (the “Sani” or “Seller”) undertakes to construct, for its customer (the “Mustasni” or “Purchaser”), a specific asset or property (being “Al-Masnoo”) according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount. The work undertaken is not restricted to be accomplished by the Sani’ alone and the whole or part of the construction or development can be undertaken by third parties under the control and responsibility of the Sani’. Under an Istisna’a contract the Group could be the Sani’ or the Mustasni’. Istisna’a profit (difference between the sale price of Al-Masnoo to the customer and the Group’s total Istisna’a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****3. Definitions (continued)****Mudaraba**

Is a contract between two parties whereby one party is a fund provider (the “Rab Al Mal”) who would provide a certain amount of funds (the “Mudaraba Capital”), to the other party (the “Mudarib”). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity. In principle the Mudaraba profit is distributed on declaration or distribution by the Mudarib. However, since the Mudaraba profit is always reliably estimated it is internally distributed on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal, provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Musharaka

Is an agreement between the Group and its customer, whereby both parties contribute towards the capital of the Musharaka (the “Musharaka Capital”). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement. In principle Musharaka profit is distributed on declaration or distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally distributed on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner’s negligence, breach or default, the Group receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

Ijarah

Is an agreement whereby the Group (the “Lessor”) leases an asset to its customer (the “Lessee”) (after purchasing or acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer’s request and based on his promise to lease), against certain rental payments for specific lease term or periods, payable on fixed or variable rental basis.

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

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

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

Sukuk

These comprise asset backed, Sharia’a compliant trust certificates.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****4. Summary of significant accounting policies****(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws, including the UAE Federal Law No.2 of 2015 and Decretal Federal Law No.14 of 2018.

(b) Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than that quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

(c) Basis of consolidation

The principal accounting policies are set out below:

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

- power over the investee,
- exposure, or has rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****4. Significant accounting policies (continued)****(c) Basis of consolidation (continued)**

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to shareholders of the Parent.

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in the consolidated statement of comprehensive income and accumulated in equity, the amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central and other Banks and highly liquid financial assets with original maturities of less than three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value, and are used by the Group in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(e) Due from banks

Due from banks are stated at cost less any amounts written-off and allowance for impairment, if any

(f) Financial instruments

Financial assets and liabilities are recognised when a Group's entity becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit 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 is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- 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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

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

- (i) financing instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- (ii) financing instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);
- (iii) all other financing instruments (e.g. instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:
- (iv) the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
- (v) the Group may irrevocably designate a financing instruments that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Islamic financing and investing assets

Islamic financing and investing assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financing and receivables (including cash and cash equivalents, Islamic finance receivables, due from banks and other financial institutions, and other receivables) are measured at amortised cost using the effective profit method, less any impairment.

Profit income is recognised by applying the effective profit rate, except for short-term receivables when the effect of discounting is immaterial.

(i) Financing instruments at amortised cost or at FVTOCI

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(i) Financing instruments at amortised cost or at FVTOCI (continued)

Contractual cash flows that are SPPI are consistent with a basic financing arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

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

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

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

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

(ii) Financial assets at FVTPL

Financial assets at FVTPL are:

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

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****4. Summary of significant accounting policies (continued)****(f) Financial instruments (continued)***Financial assets (continued)***(ii) Financial assets at FVTPL (continued)***Fair value option*

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an “accounting mismatch”). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued. Financial assets designated as FVTPL are recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in investment income.

(iii) Reclassifications

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

(iv) Impairment

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions
- Islamic investments securities at FVTOCI
- Islamic financing and investing assets
- Other Islamic assets
- Off balance sheet exposures subject to credit risk

No impairment loss is recognised on Islamic equity investments.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(iv) Impairment (continued)

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.
- ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EPR.
- for undrawn financial commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the finance and the cash flows that the Group expects to receive if the finance is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed financing instrument less any amounts that the Group expects to receive from the holder, the customer or any other party.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(v) Credit-impaired financial assets

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

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event;
- the financier of the customer, for economic or contractual reasons relating to the customer's financial difficulty, having granted to the customer a concession that the financier would not otherwise consider;
- the financier of the customer has downgraded the ratings because of deterioration in financial condition of the customer; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(vii) Definition of default

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

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

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

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Further, the cases where the criteria of 90 days overdue are rebutted using reasonable information. When assessing if the customer is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate financing a qualitative indicator used is the 'watchlist flag', which is not used for retail financing. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

(viii) Significant increase in credit risk

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(viii) Significant increase in credit risk (continued)

For corporate financing, forward-looking information includes the future prospects of the macroeconomic indicators like Crude Oil price, obtained from regulatory guidelines, economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, financing forward looking information includes the same economic forecasts as corporate financing with additional forecasts of local economic indicators.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Group considers the credit risk upon initial recognition of asset and whether there has been a significant increase in it on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customer; and
- Macroeconomic information: in its models, the Group relies on a broad range of forward looking information as economic inputs, such as: average oil prices, real estate Dubai and Abu Dhabi, inflation, ECI, hotel room occupancy etc. along with various transformations of the same. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate financing there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

For retail financing, 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(ix) Modification and derecognition of financial assets

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

The Group renegotiates finances to customers in financial difficulty to maximise collection and minimise the risk of default. A finance forbearance is granted in cases where although the customer made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the customer is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the finance, changes to the timing of the cash flows of the finance (principal and profit payment), reduction in the amount of cash flows due (principal and profit forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail financing.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms.

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

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

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised financing for the proceeds received.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(ix) Modification and derecognition of financial assets (continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

(x) Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a payment plan with the company. The company categorises a finance or receivable for write off after almost all possible avenues of payments have been exhausted. However where finences or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial liabilities

(i) Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: the classification is applied to Islamic derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and financial commitments.

Effective profit method

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial liabilities (continued)

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original financier of financing instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective profit rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as, currency that the instrument is denominated in, changes in the type of profit rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of financing instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred as recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts

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

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

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Islamic derivative financial instruments

Islamic derivative financial instruments are primarily used in trading activities. These are also used to manage our exposure to profit, currency, credit and other market risks. All Islamic derivative financial instruments are recorded in consolidated statement of financial position at fair value.

When Islamic derivative financial instruments are used in trading activities, the realized and unrealized gains and losses on these Islamic derivative financial instruments are recognized in other income. Islamic derivative financial instruments with positive fair values are presented as asset and Islamic derivative financial instruments with negative fair values are reported as liabilities. In accordance with our policy for offsetting financial assets and financial liabilities, the net fair value of certain derivative assets and liabilities are reported as an asset or liability, as appropriate. Valuation adjustments are included in the fair value of Islamic derivative assets and Islamic derivative liabilities. Premiums paid and premiums received are part of Islamic derivative assets and Islamic derivative liabilities, respectively. When derivatives are used to manage our own exposures, we determine for each derivative whether hedge accounting can be applied.

(g) Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date is regarded as its fair value on initial recognition in accordance with IFRS 9.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(g) Investment in associate (continued)

The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. Gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the associate.

Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

(h) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the consolidated income statement as incurred.

Depreciation

Depreciation is recognised in statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Years
Leasehold improvements	7
Computers equipment and software	3 to 7
Furniture, fitting and equipment	5
Vehicles	5
Right-of-use assets	2 to 5
Buildings	25

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(h) Property and equipment (continued)

Depreciation (continued)

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Gain and losses on disposals are determined by comparing proceeds with the carrying amount. The differences are included in the consolidated income statement.

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the Group's accounting policies.

(i) Investment properties

Investment properties is held to earn rental income and/or capital appreciation. Investment properties includes cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties is reported at valuation based on fair value at the end of the reporting period. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment properties are included in the consolidated income statement in the period in which these gains or losses arise.

All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred. The fair value of Investment properties is based on the nature, location and condition of the specific asset.

(j) Assets acquired in settlement of Islamic financing and investing assets

The Group occasionally acquires real estate and other collateral in settlement of Islamic financing and investing assets. Such real estate and other collateral are stated at the lower of the net realisable value of Islamic financing and investing assets and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated income statement.

(k) Islamic customer deposits, due to bank and other financial institutions and other liabilities

Islamic customer deposits, due to bank and other financial institutions and other liabilities are initially recognised at fair value and subsequently measured at amortised cost.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****4. Summary of significant accounting policies (continued)****(l) Provisions and contingent liabilities**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements.

(m) Acceptances

Acceptances are recognised as financial liabilities in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments with respect to acceptances have been accounted for as financial assets and financial liabilities.

(n) Revenue recognition

Income from Islamic financing and investing assets and Islamic investments securities, including fees which are considered an integral part of the effective profit of a financial instrument, are recognized in the consolidated income statement using the effective profit rate method.

(o) Fees and other income

Fees and other income from banking services provided by the Group are recognized on an accrual basis when the service has been provided.

(p) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(q) Employees' benefits

The Group provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****4. Summary of significant accounting policies (continued)****(r) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

(s) Foreign currency transactions

Transactions denominated in foreign currencies are translated into AED at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the foreign exchange rates ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into AED at the foreign exchange rates ruling on the date of the transaction. Realised and unrealised exchange gains and losses have been dealt within the consolidated income statement.

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Group has determined the Executive Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

(u) Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group's consolidated financial statements as they are not assets of the Group.

(v) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Branches intend to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

4. Summary of significant accounting policies (continued)

(x) Fair value measurement principles

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the consolidated income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, using the present value from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****5. Critical accounting judgments and key sources of estimation of uncertainty**

The Group's consolidated financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial situation due to their materiality.

Critical judgments in applying the Group's accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in consolidated financial statements:

Business model assessment

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk

Significant increase of credit risk: As explained in Note 6, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, credit risk, stage classification etc.). The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

5. Critical accounting judgments and key sources of estimation of uncertainty (continued)

Critical judgments in applying the Group's accounting policies (continued)

Re-segmentation of portfolios and movement between portfolios

Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

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

a) Classification of and measurement of financial assets and liabilities

The Group classifies financial instruments, or its component parts, at initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of the instruments. The substance of the financial instrument, rather than the legal form, governs its reclassification in the consolidated statement of financial position.

The Group determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this designation at every consolidated statement of financial position date.

In measuring financial assets and liabilities, some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

b) Fair value measurement

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

5. Critical accounting judgments and key sources of estimation of uncertainty (continued)

Critical judgments in applying the Group's accounting policies (continued)

Models and assumptions used (continued)

c) Islamic derivative financial instruments

Subsequent to initial recognition, the fair values of Islamic derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- (i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- (ii) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Determining whether it is reasonably certain that an extension or termination option in a lease agreement will be exercised

Extension and termination options are included in a number of tenancy lease agreement entered into the Group. These terms are used to maximise operational flexibility in terms of managing contracts. 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. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****5. Critical accounting judgments and key sources of estimation of uncertainty (continued)****Key sources of estimation uncertainty (continued)**

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Determination of appropriate rate to discount the lease payments:
The determination of the Group's lease liability depends on certain assumptions, including selection of appropriate discount rate. These determination of discount rate is considered to be a key source of estimation uncertainty as relatively small changes in discount rate may have a significant effect on the carrying amounts of lease liabilities and right to use asset.

6. Financial risk management

The Group's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business, and the operational risks are an inevitable consequence of being in business. The Group's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, and is subject to risk limits and other controls.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realizable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk Management Framework

Risk management is carried out by the Risk Management Division under policies that are approved by the Board of Directors. The Risk Management Division is responsible for the independent review of risk management and the control environment. The most important types of risks that the Group is exposed to are, credit and concentrations risk, market risk and liquidity risk. Market risk includes profit rate risk, currency risk and price risk. The Group is also subject to operational risks. The independent risk control process does not however, monitor business risks such as changes in the environment, technology and industry. These risks are monitored through the Group's strategic planning process.

6.1 Risk management structure

Board of directors bears the ultimate responsibility for risk management within the Group through board approved risk management policy. However all the necessary organizational structures are created to facilitate the effectiveness of proper risk management function. Separate independent bodies are responsible for managing and monitoring risks of the Group

Board of Directors

The Board of Directors are responsible for the overall risk management approach and for approving the risk management strategies and principles. Board ensure appropriate risk management framework, internal control, compliance and reporting systems are in place and operating efficiently.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****6. Financial risk management (continued)****6.1 Risk management structure (continued)***Executive committee*

Executive committee acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives.

Audit committee

The Audit committee consists of independent Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

Sharia Board

The Sharia Board is responsible for Sharia governance in terms of overview and approval of products and documentation in relation to Sharia compatibility and overall Sharia compliance.

Risk Committee of the Board ("RC")

The RCC assists the Board of Directors in discharging the responsibilities with respect to ensuring that bank activities comply with established risk appetite framework along with statutory law and regulations, the system of internal control over financial reporting and with the Group's code of conduct.

Compliance Committee of the Board ("CC")

Compliance Committee assist the Board in its oversight of the Group's compliance with laws and regulation issued by CBUAE. Oversee the Group's policies, procedures, and training relating to compliance and simultaneously evaluate the reports of examination, and ongoing communication from CBUAE.

Credit Committee

Credit committee manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the financing portfolio and the sufficiency of provisions thereof.

Asset and Liability Committee ("ALCO")

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****6. Financial risk management (continued)****6.1 Risk management structure (continued)***Remuneration committee*

Remuneration committee manages the resources, performance and requirement of individuals required by Group on time to time basis.

Risk Management Division (“RMD”)

The RMD is responsible for implementing and maintaining risk related procedure to ensure independent control process. Department monitor portfolio credit risk, market & liquidity risk, operational risk against the risk appetite framework established for the Group.

Internal Audit

Management processes at the Group are audited periodically by the internal audit function, which examines both the adequacy of the procedures and the Group’s compliance with the procedures. Internal audit discusses the results of its assessments with management, and reports its findings and recommendations directly to the Audit Committee.

6.1.1 Risk measurement and reporting systems

The Group measures credit risk using current IFRS-9 regulations, where macro-economic models are used to do the early recognition of impairment. Whereas market, liquidity and operational risks are measured using standards currently enforced under regulatory guidelines. Further, the Group uses quantitative analysis and methods to estimate business risk and revise risk strategies based on risk appetite. These analysis and methods reflect the expected loss likely to arise in normal course of business where as Group also estimate unexpected losses which might occur due to unforeseen events based on statistical techniques and probabilities associated with it. Group also runs multiple stress scenarios based on extreme macroeconomic events which are likely to occur, as well as idiosyncratic risk factors which are specific to Group. This helps the Group in doing its own internal assessment of the capital requirement and in turn establish the risk appetite framework of the Group.

Monitoring and controlling risks is primarily performed in relation to limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries.

6.1.2 Credit risk and concentrations of risk

Credit risk is defined as the risk that the Group’s customers, clients or counter parties fail to perform or are unwilling to pay profit, repay the principal or otherwise to fulfil their contractual obligations under finance agreements or other credit facilities, thus causing the Group to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Group, thereby resulting in the value of the assets to fall. As credit risk is the Group’s most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Group.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****6. Financial risk management (continued)****6.1.2 Credit risk and concentrations of risk (continued)***Credit risk measurement*

The Group's Risk Management Framework assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. The Framework has been developed internally which combines statistical analysis with credit officer judgment. The models are validated periodically.

The Group's exposure to credit risk is measured on an individual counterparty basis, as well as by group of counterparties that share similar attributes. To reduce the potential of risk concentration, credit limits have been established and are monitored in the light of changing counterparty and market conditions.

Management of credit risk

The Group's Credit Risk Management Framework includes:

- Establishment of an authorization structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with the authorization structure and limits, prior to facilities being sanctioned to customers; renewals and reviews of facilities are subject to the same review process;
- Diversification of financing and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the Group's risk management strategy and market trends.

6.1.3 Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to adequately assess the credit exposure profile, the Group has acquired a globally acclaimed system for obligor and facility internal risk rating. It facilitates the analysis of credit proposals by putting a robust risk rating system as well as structurally supports the Group in estimating various elements of risk. The system is comprised of 22 notch obligor risk rating in ten scales from 1 to 10. Such a credit risk grades are defined using both quantitative and qualitative factors that are indicative of default. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.1.3 Significant increase in credit risk (continued)

Internal credit risk ratings (continued)

Group's credit risk grades	Agency rating	Description
1	AAA	Very Low credit risk
2	AA+ to AA-	Very Low credit risk
3	A+ to A-	Low credit risk
4	BBB+ to BBB-	Moderate credit risk
5	BB+ to BB-	Substantial credit risk
6	B+ to B-	High credit risk
7	CCC+ to C	Very High credit risk
8	DDD	Substandard
9	DD	Doubtful
10	D	Impaired

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

The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behavior, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

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

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

6. Financial risk management (continued)

6.1.4 Measurement of ECL

The key elements used in the computation of ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These elements are derived from our internally developed statistical models based on our historical data and the data provided by the Central Bank of UAE. They are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate at certain point in time which is derived based on model output of regression of historical observed default rates against macro-economic variables. These outputs are calibrated against through the cycle (TTC) PD which is currently used by the Group, and assessed using rating tools tailored to various categories of counterparties and exposures. It helps the Group to avoid procyclicality i.e. underestimation and overestimation if there is one of outlier data. These statistical models are based on market data, as well as internal data comprising both quantitative as well as qualitative factors. PD's are estimated considering the contractual maturities of exposures by building term structure of default using the cumulative survival probability.

LGD is an estimate of the loss magnitude arising on in case the customer defaults. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original effective profit rate (EPR) of the finance.

EAD represent the expected exposures in the event of a default. The Group derives the EAD from the current exposures to the counterparty and the potential changes to the current amount allowed under the contract including amortization. The EAD for the on balance sheet items are its gross carrying amount whereas for off balance sheet items such as letters of credits, financial and general guarantees undrawn non-cancellable finance commitments are estimated by applying credit conversion factors on the committed exposures.

The measurement of loss allowance is done on individual basis for corporate portfolio where as it is measured on collective basis for retail portfolio (measurement on collective basis is more practical for retail portfolio where portfolio constituents share similar portfolio attributes). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.1.4 Measurement of ECL (continued)

Groupings based on shared risks characteristics:

When ECL are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The Group has in place policies, which govern the determination of eligibility of various collaterals, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigating. The Group's major collaterals are mortgaged properties, investments, vehicles and deposits under lean.

The collateral is valued periodically, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

Maximum exposure to credit risk before collateral held or other credit enhancements:

	2019	2018
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and balances with Central Bank	2,456,169	2,470,923
Due from banks and other financial institutions	658,291	762,151
Islamic financing and investing assets	17,980,956	17,042,068
Islamic investments securities at FVTOCI	1,783,110	1,692,478
Other Islamic assets	163,410	144,337
	23,041,936	22,111,957
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	1,039,543	1,827,477

Risks relating to credit-related commitments

The Group makes available to its customers, guarantees and letters of credit which require that the Group makes payments in the event that the customer fails to fulfil certain obligations to other parties. These instruments expose the Group to a similar risk to financing and investing assets and these are monitored by the same control processes and policies.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The Group monitors concentrations of credit risk by industry sectors and geographic location. Identified concentration of credit risk is controlled and managed accordingly.

Concentration of credit risk

By geographic location

Based on the domicile of the counterparties, the following table sets out the Group's main credit exposures at their carrying amounts, categorized by geographical region:

On balance sheet items

	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
2019				
Cash and balances with Central Bank	2,456,169	-	-	2,456,169
Due from banks and other financial institutions	471,527	49,017	137,747	658,291
Islamic financing and investing assets:				
- Retail	3,790,196	-	-	3,790,196
- Corporate	12,590,991	62,155	779,107	13,432,253
- Treasury	705	-	-	705
- Investments	757,802	-	-	757,802
Islamic investments securities at FVTOCI	1,438,849	339,833	4,428	1,783,110
Other assets	158,492	262	4,656	163,410
Total	21,664,731	451,267	925,938	23,041,936

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Concentration of credit risk (continued)

By geographic location (continued)

On balance sheet items

2018	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
Cash and balances with Central Bank	2,470,923	-	-	2,470,923
Due from banks and other financial institutions	630,716	124,185	7,250	762,151
Islamic financing and investing assets:				
- Retail	4,060,412	-	-	4,060,412
- Corporate	11,784,769	86,626	328,355	12,199,750
- Treasury	2,703	-	-	2,703
- Investments	779,203	-	-	779,203
Islamic investments securities at FVTOCI	860,708	792,534	39,236	1,692,478
Other assets	132,001	9,750	2,586	144,337
Total	20,721,435	1,013,095	377,427	22,111,957

Off balance sheet items

2019	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
Commitments	653,780	-	7,400	661,180
Letters of credit and guarantee	378,363	-	-	378,363
Total	1,032,143	-	7,400	1,039,543

2018	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
Commitments	1,138,858	215,117	16,542	1,370,517
Letters of credit and guarantee	456,960	-	-	456,960
Total	1,595,818	215,117	16,542	1,827,477

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Credit risk exposure per class of financial asset, internal rating and stage

An analysis of the Group's credit risk exposure per class of financial asset (subject to impairment), internal rating and stage without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. These amounts in the table represent gross carrying amounts. For financial commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

• **Due from banks and other financial institutions**

	2019				2018	
	Stage 1 12 months ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	POCI Life time ECL AED'000	Total AED'000	Total AED'000
Normal	125,039	533,252	-	-	658,291	762,151
Watchlist	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Gross carrying amount	125,039	533,252	-	-	658,291	762,151
Impairment allowance	89	158	-	-	247	440
Carrying amount	124,950	533,094	-	-	658,044	761,711

• **Islamic financing and investing assets**

	2019				2018	
	Stage 1 12 months ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	POCI Life time ECL AED'000	Total AED'000	Total AED'000
Normal	10,869,740	4,927,850	-	-	15,797,590	15,893,407
Watchlist	-	386,717	-	-	386,717	264,929
Substandard	-	-	432,081	-	432,081	48,832
Doubtful	-	-	579,390	-	579,390	194,531
Loss	-	-	785,178	-	785,178	640,369
Gross carrying amount	10,869,740	5,314,567	1,796,649	-	17,980,956	17,042,068
Impairment allowance	49,621	81,158	739,607	-	870,386	738,042
Carrying amount	10,820,119	5,233,409	1,057,042	-	17,110,570	16,304,026

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Credit risk concentrations (continued)

• **Islamic investments securities at FVTOCI**

	Stage 1	Stage 2	2019	POCI		2018
	12 months	Life time	Stage 3	Life time	Total	Total
	ECL	ECL	Life time	ECL	AED'000	AED'000
	AED'000	AED'000	ECL	AED'000		AED'000
			AED'000	AED'000		
Normal	1,780,211	-	-	-	1,780,211	1,690,099
Watchlist	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	54,506	-	54,506	54,506
Gross carrying amount	1,780,211	-	54,506	-	1,834,717	1,744,605
Impairment allowance	1,529	-	50,078	-	51,607	52,127
Carrying amount	1,778,682	-	4,428	-	1,783,110	1,692,478

• **Other financial assets**

	Stage 1	Stage 2	2019	POCI		2018
	12 months	Life time	Stage 3	Life time	Total	Total
	ECL	ECL	Life time	ECL	AED'000	AED'000
	AED'000	AED'000	ECL	AED'000		AED'000
			AED'000	AED'000		
Normal	125,698	-	-	-	125,698	139,342
Watchlist	-	8,824	-	-	8,824	4,843
Substandard	-	-	43	-	43	36
Doubtful	-	-	88	-	88	79
Loss	-	-	28,757	-	28,757	27,896
Gross carrying amount	125,698	8,824	28,888	-	163,410	172,196
Impairment allowance	106	1	28,734	-	28,841	27,859
Carrying amount	125,592	8,823	154	-	134,569	144,337

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

• **Financial commitments and financial guarantees**

	2019				Total AED'000	2018 Total AED'000
	Stage 1 12 months ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	POCI Life time ECL AED'000		
Normal	1,017,315	-	-	-	1,017,315	1,798,501
Watchlist	4,037	-	-	-	4,037	13,019
Substandard	-	-	-	-	-	-
Doubtful	-	-	12,425	-	12,425	15,957
Loss	-	-	5,765	-	5,765	-
Gross carrying amount	1,021,325	-	18,190	-	1,039,542	1,827,477
Impairment allowance	2,235	-	9,447	-	11,682	15,536
Carrying amount	1,019,117	-	8,743	-	1,027,860	1,811,941

Expected credit loss allowance

This table summarises the ECL allowance at the end of reporting period by class of financial asset.

	2019 AED'000	2018 AED'000
Due from banks and other financial institutions	247	440
Islamic financing and investing assets	870,386	738,042
Islamic investments securities at FVTOCI*	51,607	52,127
Other Islamic financial assets	28,841	27,859
Financial commitments and financial guarantees	11,682	15,536
Total	962,763	834,004

* Impairment allowance is recognised under "Revaluation reserve of investments designated at FVTOCI"

The tables below analyse the movement of the ECL allowance during the year per class of financial assets.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Due from banks and other financial institutions

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2018	403	37	-	440
New financial assets recognized	89	158	-	247
Financial assets derecognized	(403)	(37)	-	(440)
Impairment allowance as at 31 December 2019	89	158	-	247

Islamic financing and investing assets

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2018	60,896	144,885	532,261	738,042
Changes in the loss allowance				
- Transfer to stage 1	7,047	(7,047)	-	-
- Transfer to stage 2	(6,401)	6,401	-	-
- Transfer to stage 3	(439)	(55,615)	56,054	-
Change in credit risk	(28,905)	(13,522)	301,850	259,423
New financial assets recognized	24,335	30,587	613	55,535
Financial assets derecognized	(6,912)	(24,531)	(3,702)	(35,145)
Write-offs	-	-	(147,469)	(147,469)
Loss allowance as at 31 December 2019	49,621	81,158	739,607	870,386

Islamic investments securities at FVTOCI

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2018	2,049	-	50,078	52,127
Change in credit risk	8	-	-	8
New financial assets recognised	763	-	-	763
Financial assets derecognized	(1,291)	-	-	(1,291)
Loss allowance as at 31 December 2019	1,529	-	50,078	51,607

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Financial commitments and financial guarantees

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2018	7,994	-	7,541	15,535
Changes in the loss allowance				
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	-	-	-
- Transfer to stage 3	(6)	-	6	-
Change in credit risk	(3,476)	-	1,900	(1,576)
New financial assets recognised	624	-	-	624
Financial assets derecognized	(2,901)	-	-	(2,901)
Loss allowance as at 31 December 2019	2,235	-	9,447	11,682

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

	2019		2018	
	Gross carrying amount AED'000	ECL AED'000	Gross carrying amount AED'000	ECL AED'000
Normal or Past due up to 30 days	15,577,017	190,044	15,244,136	114,136
Past due 31 - 60 days	377,586	11,321	325,600	35,273
Past due 61 - 90 days	347,169	5,266	584,752	56,372
Past due 91 - 180 days	223,848	13,656	247,211	97,523
Past due of more than 180 days	1,455,336	650,099	640,369	434,738
	17,980,956	870,386	17,042,068	738,042

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The Group holds financial instrument of AED 3.05 billion for which no loss allowance is recognised because of collateral at 31 December 2019 (31 December 2018 AED 2.83 billion).

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Mortgage financing

The Group holds residential and commercial properties as collateral for the mortgage financing it grants to its customers. The Group monitors its exposure to retail mortgage financing using the LTV ratio, which is calculated as the ratio of the gross amount of the finance, or the amount committed for financing commitments, to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. At 31 December 2019 the carrying amount of credit impaired mortgage financing was AED 148 million (2018: AED 93 million) and the value of the respective collateral was AED 239 million (2018: AED 142 million).

Personal financing

The Group's personal financing portfolio consists of unsecured financing and credit cards.

Corporate financing

The Group requests collateral and guarantees for corporate financing. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. The valuation of collateral is closely monitored especially if the performance of financing deteriorates.

For credit-impaired financing the Group obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2019 the net carrying amount of credit impaired Islamic financing and investing assets to corporate customers was AED 953 million (2018: AED 523 million) and the value of the respective collateral was AED 1,424 million (2018: AED 1,039 million).

Islamic investments securities

Islamic investments securities

Islamic investments securities comprise of investment in Sukuk and equity shares.

The table below presents analysis of investments by external rating agency at 31 December 2019 and 2018:

	2019 AED'000	2018 AED'000
AA to AA-	-	-
A+ to A-	488,171	486,471
BBB+ to BBB-	197,405	338,940
BB+ to BB	90,488	410,554
B+ to B-	200,445	34,808
CCC	-	-
Unrated	1,042,392	621,835
	<u>2,018,901</u>	<u>1,892,608</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Assets obtained by taking possession of collateral

The Group obtained the following financial and non-financial assets during the year by taking possession of collateral held as security against Islamic financing and investing assets and held at the year end. The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

	2019 AED'000	2018 AED'000
Property	8,050	9,212
Total assets obtained by taking possession of collateral	8,050	9,212

6.3 Market risk

Market risk arises from changes in market rates such as market price, foreign exchange and profit rate. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, currency rates and price movements. The Group uses appropriate models, based on standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management.
- Independent mark-to-market valuations, reconciliation of positions and tracking of stop-losses for trading positions are performed on a timely basis.

The policies, procedures and the trading limits are set to ensure the effective implementation of the Group's market risk policies. These policies are reviewed periodically to ensure they remain in line with the Group's overall market risk policies.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period.

The Group is exposed to the effects of fluctuations in the prevailing levels of profit rates which arise from the Islamic financing and investing assets amounting to AED 17,111 million (2018: AED 16,304 million), Islamic investments securities amounting to AED 1,783 million (2018: AED 1,692 million), International Murabaha with Central Bank AED 1,820 million (2018: AED 1,800 million), Due from banks and financial institutions AED 556 million (2018: AED 762 million), customer deposits amounting to AED 12,137 million (2018: AED 14,757 million) and AED 5,538million (2018: AED 2,619 million) from due to banks and other financial institutions.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.3 Market risk (continued)

Profit rate risk (continued)

Sensitivity analysis

The amount mentioned in the table below reflect an equal but opposite potential effect on profit or loss based on assumed 50 basis point negative or positive movement in profit rates with all other variables being constant.

	2019		2018	
	Total AED'000	Effect on profit/(loss) AED'000	Total AED'000	Effect on profit/(loss) AED'000
Profit bearing asset	<u>21,269,674</u>	<u>67,275</u>	<u>20,518,620</u>	<u>58,369</u>
Profit bearing liabilities	<u>17,675,039</u>	<u>41,229</u>	<u>17,375,782</u>	<u>48,171</u>

Currency risk

The Group is not significantly exposed to movements in foreign currency exchange rates as its asset and liabilities are mainly denominated in AED, GCC currency or USD.

Price risk

Price risk is the possibility that investment pricing will fluctuate, affecting the fair value of investments and other instruments that derive their value from a particular instrument or index of price.

The Group manages the price risk by maintaining a diversified portfolio in terms of geographical and industry distribution.

The amount mentioned in the table below reflect an equal but opposite potential effect on profit before tax and investments based on assumed 5% strengthening or weakening prices with all other variable constant.

	Benchmark	<i>Impact on profit/(loss)</i>	
		2019 AED'000	2018 AED'000
Islamic investments securities at FVTPL	± 5%	<u>-</u>	<u>10,006</u>

	Benchmark	<i>Impact on equity</i>	
		2019 AED'000	2018 AED'000
Islamic investments securities at FVTOCI	± 5%	<u>100,945</u>	<u>84,624</u>

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

6. Financial risk management (continued)

6.4 Liquidity risk management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and availability of high quality liquid asset which could be used as collateral to secure additional funding, if required.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

Maturity profile:

The maturity profile of the assets and liabilities at 31 December 2019 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Undated AED'000	Total AED'000
Assets							
Cash and balances with central bank	2,546,097	-	-	-	-	-	2,546,097
Due from banks and other financial institutions	359,199	127,971	170,874	-	-	-	658,044
Islamic financing and investing assets, net	2,664,612	959,284	2,029,651	4,582,292	6,874,731	-	17,110,570
Islamic investments securities at fair value	-	-	30,000	1,178,744	810,157	-	2,018,901
Investment in associates	-	-	-	-	-	74,282	74,282
Investment properties	-	-	-	-	-	783,362	783,362
Property and equipment	-	-	-	-	-	136,210	136,210
Other Islamic assets	249,106	49,218	-	-	-	-	298,324
Total assets	5,819,014	1,136,473	2,230,525	5,761,036	7,684,888	993,854	23,625,790
Liabilities and equity							
Islamic customers' deposits	3,624,709	3,464,051	4,280,108	3,553,892	-	-	14,922,760
Due to banks and other financial institutions	1,680,974	1,396,106	2,595,380	61,018	-	-	5,733,478
Other liabilities	385,639	71,594	-	-	-	-	457,233
Equity	-	-	-	-	-	2,512,319	2,512,319
Total liabilities and equity	5,691,322	4,931,751	6,875,488	3,614,910	-	2,512,319	23,625,790

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.4 Liquidity risk management (continued)

Maturity profile:

The maturity profile of the assets and liabilities at 31 December 2018 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Undated AED'000	Total AED'000
Assets							
Cash and balances with central bank	2,558,366	-	-	-	-	-	2,558,366
Due from banks and other financial institutions	381,941	150,638	155,715	73,417	-	-	761,711
Islamic financing and investing assets, net	3,626,874	769,989	639,503	4,767,127	6,500,533	-	16,304,026
Islamic investments securities at fair value	-	-	-	628,883	1,263,725	-	1,892,608
Investment properties	-	-	-	-	-	658,131	658,131
Property and equipment	-	-	-	-	-	120,822	120,822
Other Islamic assets	260,655	49,390	-	-	-	39,016	349,061
Total assets	6,827,836	970,017	795,218	5,469,427	7,764,258	817,969	22,644,725
Liabilities and equity							
Islamic customers' deposits	7,294,106	3,015,010	4,340,225	2,554,192	-	-	17,203,533
Due to banks and other financial institutions	48,040	1,028,273	462,446	1,109,963	-	-	2,648,722
Other liabilities	307,622	38,000	-	-	-	-	345,622
Equity	-	-	-	-	-	2,446,848	2,446,848
Total liabilities and equity	7,649,768	4,081,283	4,802,671	3,664,155	-	2,446,848	22,644,725

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.4 Liquidity risk (continued)

During the year, the key measure used by the Group for managing liquidity risk is the ratio prescribed by Central Bank. For this purpose, only high quality liquid assets were considered, which include cash and cash equivalents, Murabaha with Central Bank and debt securities (Sukuk) with 0% risk weight with a liquid market. Denominator comprise of total liabilities excluding provisions from total liabilities. This prescribed ratio was more stringent and comprehensive in managing the Groups liquidity positions. The liquidity ratio at the reporting dates were as follows:

	2019	2018
At 31 December	15%	17%

6.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

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

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk and Compliance Committee identifies and manages operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

6.6 Capital management

In February 2017, the Central Bank of the UAE adopted 'Basel III' and published enhanced regulatory capital requirements rules vide notifications 52 and 60/2017. In addition minimum capital requirements, Basel III introduces capital conservation buffer (CCB) and countercyclical buffers (CCyB) to induce banking organizations to hold capital in excess of regulatory minimums.

After adoption of Basel III, the regulatory capital is computed under the following items:

- (i) Tier 1 capital, which is composed of;
 - a - Common equity tier 1 (CET 1) - comprise of share capital, statutory reserves, retained earnings and accumulated other comprehensive income reserves,
 - b - Additional tier 1 (AT 1)- comprise of any instrument which is not included in CET1.
- (ii) Tier 2 capital, which includes general provisions (after implementation of IFRS - 9, the ECL classified that is classified under stage 1 and 2).

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.6 Capital management (continued)

In addition to the above, all banks are required to maintain a capital conservation buffer (CCB) to encourage the banks to hold capital over and above the minimum requirements.

As per the notification of Central Bank of UAE, banks are required to maintain CCB in a transitional arrangements commencing from January 2017 through January 2019 i.e. over a period of 3 years.

Minimum capital required under each of the above items including CCB is as below;

Capital element	2017	2018	2019
Minimum common equity tier 1 (CET 1) ratio	7%	7%	7%
Minimum Tier I capital ratio	8.5%	8.5%	8.5%
Minimum capital adequacy ratio	10.5%	10.5%	10.5%
Capital conservation buffer (CCB)	1.25%	1.875%	2.5%

The Group's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk and market risk includes both on and off-balance sheet risks. Credit risk is defined as the risk of default on a debt that may arise from a customer failing to make required payments. Such risk includes loss of principal and profit, disruption to cash flows, and increased collection costs. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

For Central Bank reporting purposes, the Group is currently following the standardised measurement approach for credit, market and operational risk, as per Pillar 1 of Basel II.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

6. Financial risk management (continued)

6.6 Capital management (continued)

The Group is required to report capital resources and risk-weighted assets under the Basel III Pillar 1 framework, as shown in the following table:

	2019	2018
	AED'000	AED'000
Tier 1 capital		
Share capital	2,100,000	2,100,000
Reserves	300,736	345,567
	2,400,736	2,445,567
Tier 2 capital		
General provision and fair value reserve	205,399	179,785
Total regulatory capital	2,606,135	2,625,352
Risk weighted assets		
Credit risk	16,431,951	14,382,738
Market-risk	587	158,760
Operation risk	1,092,872	1,011,148
Total risk weighted assets	17,525,410	15,552,646
Capital adequacy ratio on regulatory capital	14.87%	16.88%
Capital adequacy ratio on Tier 1 capital	13.70%	15.72%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by the optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Group's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

7. Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December:

	At fair value AED'000	Amortised cost AED'000	Total AED'000
2019			
Financial assets:			
Cash and balances with the central banks	-	2,546,097	2,546,097
Due from banks and other financial institutions	-	658,044	658,044
Islamic financing and investing assets	-	17,110,570	17,110,570
Islamic investments securities at fair value	2,018,901	-	2,018,901
Other Islamic assets	3,150	134,569	137,719
Total	2,022,051	20,449,280	22,471,331
Financial liabilities:			
Islamic customers' deposits	-	14,922,760	14,922,760
Due to banks and other financial institutions	-	5,733,478	5,733,478
Other Islamic liabilities	-	328,610	328,610
Total	-	20,984,848	20,984,848
2018			
Financial assets:			
Cash and balances with the central banks	-	2,558,366	2,558,366
Due from banks and other financial institutions	-	761,711	761,711
Islamic financing and investing assets	-	16,304,026	16,304,026
Islamic investments securities at fair value	1,892,608	-	1,892,608
Other Islamic assets	-	144,337	144,337
Total	1,892,608	19,768,440	21,661,048
Financial liabilities:			
Islamic customers' deposits	-	17,203,533	17,203,533
Due to banks and other financial institutions	-	2,648,722	2,648,722
Other Islamic liabilities	1,209	181,189	182,398
Total	1,209	20,033,444	20,034,653

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)****8. Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding Islamic derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of Islamic derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency Waad contracts are measured using quoted forward exchange rates and yield curves derived from quoted profit rates matching maturities of the contracts. Profit rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted profit rates.

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

8. Fair value measurement (continued)

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2019				
Financial assets				
Islamic investments securities at FVTOCI	1,819,242	-	199,659	2,018,901
Positive fair value of Islamic derivative financial instruments	3,150	-	-	3,150
	<u>1,822,392</u>	<u>-</u>	<u>199,659</u>	<u>2,022,051</u>
At 31 December 2018				
Financial assets				
Islamic investments securities at FVTPL	79,380	-	120,750	200,130
Islamic investments securities at FVTOCI	1,658,050	-	34,428	1,692,478
	<u>1,737,430</u>	<u>-</u>	<u>155,178</u>	<u>1,892,608</u>
Financial liabilities at FVTPL				
Negative fair value of Islamic derivative financial instruments	1,209	-	-	1,209

There were no transfers between Level 1 and 2 during the year.

Below is reconciliation of Level 3 fair value measurement of financial assets:

	2019 AED'000	2018 AED'000
Balance at 1 January	155,178	159,320
Purchases during the year	77,667	20,750
Fair valuation loss in other comprehensive income	-	(24,892)
Disposals during the year	(33,186)	-
Total	<u>199,659</u>	<u>155,178</u>

The effect of unobservable input on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used by $\pm 10\%$ to reasonably possible alternative assumptions would have the following effects.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

8. Fair value measurement (continued)

The effect of unobservable input on fair value measurement (continued)

	Effect on profit or loss		Effect on OCI	
	Favorable AED'000	Unfavorable AED'000	Favorable AED'000	Unfavorable AED'000
31 December 2019	-	-	19,966	(19,966)
31 December 2018	12,075	(12,075)	3,443	(3,443)

- In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to its fair value.
- In respect of Islamic investments securities, management has used the quoted price when available to assess fair value or used a present value calculation (PVC) based on market observable inputs.
- Islamic financing and investing assets are fair valued based on PVC which takes into account original underlying cash financing credit grading and expected prepayments. These features are used to estimate the present value of the expected cash flows and using risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted rate, and different assumptions and inputs would yield different results.
- Fair values of deposits from banks and customers are estimated using the PVC methodology, applying the applicable rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

9. Cash and balances with the Central Bank

- (a) The analysis of the Group's cash and balances with the Central Bank as at 31 December 2019 and 2018 is as follows:

	2019 AED'000	2018 AED'000
Cash on hand	89,928	87,443
Balances with the Central Bank:		
Current accounts	4,075	61,691
Reserve requirements with the Central Bank (note 9 (b))	632,094	609,232
International murabahat with the Central Bank	1,820,000	1,800,000
Total	2,546,097	2,558,366

The cash and balances with the Central Bank as at 31 December 2019 and 2018 were held within the U.A.E.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

9. Cash and balances with the Central Bank (continued)

- (b) The reserve requirements are kept with the Central Bank in the respective local currency and US Dollar. These 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 reserve required changes every month in accordance with the requirements of the respective Central Banks' directives. However, as per notice 4310/2008, the Central Bank has allowed banks to finance up to 100% of their AED and US\$ reserve requirement limit. As at 31 December 2019, the statutory reserve with the Central Bank amounted to AED 632 million (31 December 2018: AED 609 million).

10. Due from banks and other financial institutions

- (a) The analysis of the Group's due from banks and financial institutions as at 31 December 2019 and 2018 is as follows:

	2019 AED'000	2018 AED'000
Current accounts	102,049	14,513
Islamic deposits with banks and financial institutions	556,242	747,638
	658,291	762,151
Less: Impairment loss allowance (Note 29)	(247)	(440)
Total	658,044	761,711

- (b) The geographical analysis of the due from banks and financial institutions as at 31 December 2019 and 2018 is as follows:

	2019 AED'000	2018 AED'000
Within the U.A.E.	471,662	630,276
Outside the U.A.E.	186,382	131,435
Total	658,044	761,711

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

11. Islamic financing and investing assets, net

(a) The analysis of the Group's Islamic financing and investing assets, net, as at 31 December 2019 and 2018 is as follows:

	2019 AED'000	2018 AED'000
Islamic financing assets		
Vehicles murabahat	95,548	151,894
Commodities murabahat	8,140,391	6,853,468
Total murabahat	8,235,939	7,005,362
Ijarahs	9,570,549	9,267,637
Istisna'a	25,178	35,826
Islamic credit cards	27,489	39,400
	17,859,155	16,348,225
Deferred income	(879,669)	(990,670)
Total Islamic financing assets	16,979,486	15,357,555
Islamic investing Assets		
Mudaraba	133,513	932,807
Wakalat	867,957	751,706
Total Islamic investing assets	1,001,470	1,684,513
Total Islamic financing and investing assets	17,980,956	17,042,068
Less: Impairment loss allowance (Note 29)	(870,386)	(738,042)
Total Islamic financing and investing assets, net	17,110,570	16,304,026

(b) The Group, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with Islamic financing and investing assets. The collaterals include mortgage on land and buildings and lien on savings and investment deposits and equity. The estimated value of collaterals for Islamic financing and investing assets other than retail assets which are mainly asset based financing, is as follows:

	2019 AED'000	2018 AED'000
Property and mortgages	8,749,994	6,374,829
Deposits and equities	3,531,320	2,896,733

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

11. Islamic financing and investing assets, net (continued)

(c) Analysis of Islamic financing and investing assets, net by industry group and geography as at 31 December 2019 and 2018 are as follows:

	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
2019			
Economic sector			
Government	1,897,007	477,425	2,374,432
Manufacturing and services	4,761,598	34,886	4,796,484
Trade	1,015,062	11,682	1,026,744
Real estate	6,270,782	317,270	6,588,052
Consumer home finance	1,668,831	1,426	1,670,257
Consumer financing	1,524,987	-	1,524,987
	<u>17,138,267</u>	<u>842,689</u>	<u>17,980,956</u>
Provision for impairment (Note 11(a))			<u>(870,386)</u>
Total			<u><u>17,110,570</u></u>
2018			
Economic sector			
Government	526,085	311,844	837,929
Manufacturing and services	4,228,629	34,886	4,263,515
Trade	2,240,133	16,511	2,256,644
Real estate	5,912,613	51,740	5,964,353
Consumer home finance	1,892,315	-	1,892,315
Consumer financing	1,827,312	-	1,827,312
	<u>16,627,087</u>	<u>414,981</u>	<u>17,042,068</u>
Provision for impairment (Note 11(a))			<u>(738,042)</u>
Total			<u><u>16,304,026</u></u>

12. Islamic investments securities at fair value

	2019 AED'000	2018 AED'000
Islamic investments securities measured at FVTOCI – sukuk instruments	1,783,110	1,692,478
Islamic investments securities measured at FVTOCI – equity instruments	235,791	-
Islamic investments securities measured at FVTPL	-	200,130
	<u>2,018,901</u>	<u>1,892,608</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

12. Islamic investments securities at fair value (continued)

(a) The geographical analysis of the Islamic investments securities at fair value as at 31 December 2019 and 2018 is as follows:

	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the World AED'000	Total AED'000
2019				
Sukuk instruments at FVTOCI				
Quoted	1,408,849	339,833	-	1,748,682
Unquoted	30,000	-	4,428	34,428
	<u>1,438,849</u>	<u>339,833</u>	<u>4,428</u>	<u>1,783,110</u>
Equity instruments at FVTOCI				
Quoted	70,560	-	-	70,560
Unquoted	125,000	40,231	-	165,231
	<u>195,560</u>	<u>40,231</u>	<u>-</u>	<u>235,791</u>
Total	<u><u>1,634,409</u></u>	<u><u>380,064</u></u>	<u><u>4,428</u></u>	<u><u>2,018,901</u></u>
2018				
Sukuk instruments at FVTOCI				
Quoted	830,708	792,534	34,808	1,658,050
Unquoted	30,000	-	4,428	34,428
	<u>860,708</u>	<u>792,534</u>	<u>39,236</u>	<u>1,692,478</u>
Equity instruments at FVTPL				
Quoted	79,380	-	-	79,380
Unquoted equity instruments	120,750	-	-	120,750
	<u>200,130</u>	<u>-</u>	<u>-</u>	<u>200,130</u>
Total	<u><u>1,060,838</u></u>	<u><u>792,534</u></u>	<u><u>39,236</u></u>	<u><u>1,892,608</u></u>

(b) On initial application of IFRS 9 on 1 January 2018, the Group classified certain Islamic investment securities amounting to AED 191.3 million as those measured at FVTPL based on the Group's business model assessment. However, these Islamic investment securities should have never been classified at FVTPL as they did not meet the Group's business model and should have been designated at FVTOCI on initial application of IFRS 9. Therefore during the current year the Group has now reclassified these Islamic investment securities to FVTOCI. This reclassification does not have a material impact on the comparative information included within these consolidated financial statements and therefore the Group has not restated the comparative financial information.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

12. Islamic investments securities at fair value (continued)

- (c) Analysis of Islamic investments securities at fair value by industry group as at 31 December 2019 and 2018 is as follows:

	2019 AED'000	2018 AED'000
Government	896,991	1,258,093
Manufacturing and services	154,147	118,010
Real estate	232,521	129,380
Financial institutions	735,242	387,125
Total	2,018,901	1,892,608

- (d) During the year ended 31 December 2019, the Group recognized fair value gain on Islamic investments securities at FVTOCI of AED 110 million in the investment fair value reserve (31 December 2018: fair value loss AED 45 million).
- (e) Included in Islamic investments securities at FVTOCI is an amount of AED Nil (31 December 2018: AED 803 million), pledged under collateralized Murabaha with financial institutions.

13. Investment in associate

During the year, the Group acquired 48% of the share capital in Makaseb Real Estate Investment SPV Limited.

Information about the associate and the nature of the investment is shown below:

Name	Nature of Business	Country of incorporation	% Interest held	Measurement method
Makaseb Real Estate Investment SPV Limited	Real Estate Investments	United Arab Emirates	48%	Equity

Movement in investment in associate is as follows:

	2019 AED'000	2018 AED'000
At beginning of the year	-	-
Additions during the year	73,500	-
Share of results during the year	2,462	-
Distributions received during the year	(1,680)	-
Balance at the end of the year	74,282	-

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

14. Investment properties

- (a) Movement in investment properties during the years ended 31 December 2019 and 2018 is as follows:

	Properties under construction AED'000	Other real estate AED'000	Total AED'000
2019			
Balance at 1 January 2019	145,643	512,488	658,131
Additions during the year	-	455,425	455,425
Transfers	(145,643)	145,643	-
Disposals during the year (Note 14 (d))	-	(327,000)	(327,000)
Decrease in fair value during the year	-	(3,194)	(3,194)
Balance at 31 December 2019	-	783,362	783,362
2018			
Balance at 1 January 2018	55,970	524,478	580,448
Additions during the year	43,078	10	43,088
Transfer from property and equipment	31,000	-	31,000
Increase/(decrease) in fair value during the year	15,595	(12,000)	3,595
Balance at 31 December 2018	145,643	512,488	658,131

- (b) Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2019 and 31 December 2018 are as follows:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Fair value AED'000
31 December 2019	-	-	783,362	783,362
31 December 2018	-	-	658,131	658,131

All of the Group's investment properties are held under free hold interest and located in the U.A.E.

- (c) The valuations were carried out by professional valuers not related to the Group who held recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued.
- (d) The Group sold investment properties for a consideration of AED 327 million to a related party (Note 32 (b)).

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

15. Property and equipment

	Leasehold improvements AED'000	Furniture, fittings and equipment AED'000	Vehicles AED'000	Computer equipment and software AED'000	Right-of-use assets AED'000	Capital work in progress AED'000	Land and buildings AED'000	Total AED'000
Cost								
At 1 January 2018	59,318	35,684	1,175	66,845	-	6,382	99,315	268,719
Additions	193	409	471	1,822	-	29,575	-	32,470
Transfers	563	1,078	-	7,235	-	(8,876)	-	-
Transfer to investment property	-	-	-	-	-	-	(31,000)	(31,000)
Disposals	-	-	(400)	-	-	-	-	(400)
Write off	(2,963)	-	-	-	-	-	-	(2,963)
At 31 December 2018	57,111	37,171	1,246	75,902	-	27,081	68,315	266,826
Additions	179	256	-	2,340	17,610	11,976	-	32,361
Transfers	7,207	10,798	-	6,617	-	(24,622)	-	-
Write off	(2,734)	-	-	-	-	-	-	(2,734)
At 31 December 2019	61,763	48,225	1,246	84,859	17,610	14,435	68,315	296,453
Accumulated depreciation								
At 1 January 2018	45,991	25,900	972	55,399	-	-	4,213	132,475
Charge for year	3,270	3,541	194	7,798	-	-	1,493	16,296
Disposals	-	-	(349)	-	-	-	-	(349)
Write off	(2,418)	-	-	-	-	-	-	(2,418)
At 31 December 2018	46,843	29,441	817	63,197	-	-	5,706	146,004
Charge for year	3,386	3,643	123	6,277	2,023	-	1,493	16,945
Write off	(2,706)	-	-	-	-	-	-	(2,706)
At 31 December 2019	47,523	33,084	940	69,474	2,023	-	7,199	160,243
Net book value								
At 31 December 2019	14,240	15,141	306	15,385	15,587	14,435	61,116	136,210
At 31 December 2018	10,268	7,730	429	12,705	-	27,081	62,609	120,822

* Capital work in progress comprises cost incurred on IT projects.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

16. Other Islamic assets

	2019 AED'000	2018 AED'000
Accrued income on Islamic financing and investing assets	92,501	110,621
Acceptances (Note 19)	67,599	102,678
Assets acquired in settlement of Islamic financing and investing assets*	47,066	39,016
Accrued income on Islamic investments securities	25,218	21,940
Prepaid expenses	6,307	18,217
Staff advances (Soft finance)	14,382	12,212
Foreign currency forward contracts	3,150	-
Other	70,942	72,236
	<u>327,165</u>	<u>376,920</u>
Less: Impairment loss allowance	(28,841)	(27,859)
	<u><u>298,324</u></u>	<u><u>349,061</u></u>

(*) During 2018, the Group charged an impairment allowance of AED 3,854 million against Assets acquired in settlement of Islamic financing and investing assets.

17. Islamic customers' deposits

(a) The analysis of the Islamic customers' deposits as at 31 December 2019 and 2018 is as follows:

	2019 AED'000	2018 AED'000
Current accounts	2,605,119	2,686,661
<i>Mudarba deposits:</i>		
Savings accounts	212,607	202,408
Term deposits	64,434	60,209
	<u>2,882,160</u>	<u>2,949,278</u>
Wakala deposits	11,859,899	13,998,041
Escrow accounts	143,365	191,404
Margin accounts	37,336	64,810
	<u><u>14,922,760</u></u>	<u><u>17,203,533</u></u>

All Islamic customers' deposits as at 31 December 2019 and 2018 were held within the U.A.E.

During the year, certain Islamic customers' deposits were reclassified to Due to banks and other financial institutions.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

18. Due to banks and other financial institutions

(a) The analysis of the due to banks and other financial institutions as at 31 December 2019 and 2018 is as following:

	2019 AED'000	2018 AED'000
Current accounts	195,379	29,678
Investment deposits	5,538,099	2,619,044
Total	5,733,478	2,648,722

(b) The geographical analysis of the Group's due to banks and other financial institutions as at 31 December 2019 and 2018 is as follows:

	2019 AED'000	2018 AED'000
Within the U.A.E.	1,945,324	1,948,679
Outside the U.A.E.	3,788,154	700,043
Total	5,733,478	2,648,722

19. Other liabilities

	2019 AED'000	2018 AED'000
Accrued profit on Islamic customers' deposits and placements by banks	286,818	152,519
Provisions for staff salaries and benefits	21,113	19,690
Managers' cheques	27,068	26,701
Acceptances (Note 16)	67,599	102,678
Lease liability	12,312	-
Impairment loss allowance	11,682	15,536
Other	30,641	28,498
	457,233	345,622

20. Share capital

	2019 AED'000	2018 AED'000
Issued and fully paid:		
2,100,000,000 (31 December 2018: 2,100,000,000) shares of AED 1 each	2,100,000	2,100,000

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

21. Statutory reserve

The U.A.E. Commercial Companies Law and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

22. General impairment reserve

In accordance with the requirements of the Central Bank of the U.A.E. the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance calculated under IFRS 9 is transferred to 'General impairment reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends. Had the Bank taken this excess provision through income statement, the profit for the period would have been lower by AED 111.6 million.

23. Dividends paid

At the Annual General Meeting of the shareholders held on 4 March 2019, the shareholders approved cash dividend in respect of the year ended 31 December 2018 at 3.5% (31 December 2017: 3.5%) of the share capital amounting to AED 73.5 million (31 December 2017: AED 58.8 million). Further AED 2.5 million as Directors' remuneration was also approved (31 December 2017: AED 2.5 million).

24. Income from Islamic financing and investing assets

	2019 AED'000	2018 AED'000
Income from Ijarah	520,878	444,811
Income from Murabaha	419,230	324,263
Income from Mudaraba	18,911	37,803
Income from Wakala	28,978	38,426
Income from Istisna financing	1,573	2,019
	989,570	847,322

25. Income from Islamic investments securities at fair value

	2019 AED'000	2018 AED'000
Dividend income from Islamic investments securities at FVTPL	-	9,002
Unrealized loss on revaluation of Islamic investments securities at FVTPL	-	(12,240)
Income from Islamic investments securities at FVTOCI	108,209	75,196
Realized gain /(loss) on disposal of Islamic investments securities at FVTOCI	43,854	(2,133)
Total	152,063	69,825

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

26. Fees, commission and other income

	2019 AED'000	2018 AED'000
Processing and evaluation fees	41,051	37,692
Arrangement fee	18,673	10,331
Foreign exchange income	14,949	6,761
Trade related commission and fees	4,606	6,115
Investment agent fees	20,615	1,304
Deposit and credit card fees	4,958	4,040
Income from investment properties	6,143	39,881
Other	19,129	18,800
Total	130,124	124,924

27. Staff costs

	2019 AED'000	2018 AED'000
Salaries and allowances	126,614	119,560
Other staff related cost	75,967	68,255
	202,581	187,815

28. General and administrative expenses

	2019 AED'000	2018 AED'000
Rental expenses	4,614	13,136
Communication expenses	3,518	2,576
Software license	2,420	1,283
Premises and equipment maintenance costs	8,457	6,506
Legal and professional fees	3,764	3,051
Security services including cash in transit services	3,229	3,012
Marketing, designing and product development expenses	915	3,079
Consultancy expenses	3,329	2,128
Printing and stationary	1,052	2,077
Finance lease charges	342	-
Other	24,240	19,409
	55,880	56,257

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

29. Impairment allowance

29.1 Allocation of impairment allowance is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
31 December 2019				
Due from banks and financial institutions	89	158	-	247
Islamic financing and investing assets	49,621	81,158	739,607	870,386
Islamic investments securities at FVTOCI	1,529	-	50,078	51,607
Other Islamic financial assets	106	1	28,734	28,841
Financial commitments and financial guarantees	2,235	-	9,447	11,682
Total	53,580	81,317	827,866	962,763
31 December 2018				
Due from banks and financial institutions	403	37	-	440
Islamic financing and investing assets	60,896	144,885	532,261	738,042
Islamic investments securities at FVTOCI	2,049	-	50,078	52,127
Other Islamic financial assets	-	1	27,858	27,859
Financial commitments and financial guarantees	7,994	-	7,542	15,536
Total	71,342	144,923	617,739	834,004

29.2 The movement in impairment allowance by financial asset category is as follows:

	Opening balance restated AED'000	Net charge during the year AED'000	Other movement during the period AED'000	Closing balance AED'000	Net charge 31 December 2018 AED'000
Due from banks and financial institutions	440	(193)	-	247	(60)
Islamic financing and investing assets (Note 11)	738,042	279,813	(147,469)	870,386	94,191
Islamic investments securities at FVTOCI*	52,127	(520)	-	51,607	1,195
Other Islamic financial assets	27,859	982	-	28,841	12,391
Financial commitments and financial guarantees	15,536	(3,854)	-	11,682	4,899
Total	834,004	276,228	(147,469)	962,763	112,616

(*). Impairment allowance is recognised under "Revaluation reserve of investments designated at FVTOCI".

The credit impairment provisions calculated in accordance with CBUAE requirements were in excess of ECL allowance calculated under IFRS 9 as explained in note 22.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

30. Earnings per share

Earnings per share are computed by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2019	2018
<i>Earnings per share</i>		
Profit for the year ended (AED'000)	84,402	170,034
Directors' remuneration (AED'000)	(2,500)	(2,500)
	<u>81,902</u>	<u>167,534</u>
Profit for the year after Directors' remuneration	<u>81,902</u>	<u>167,534</u>
Number of shares outstanding at 1 January (in thousands)	2,100,000	1,680,323
Effect of right issue of shares (in thousands)		
New shares issued (weighted average)	-	50,591
	<u>2,100,000</u>	<u>1,730,914</u>
Weighted average number of shares outstanding at 31 December (in thousands)	<u>2,100,000</u>	<u>1,730,914</u>
Earnings per share (AED)	<u><u>0.039</u></u>	<u><u>0.097</u></u>

As at 31 December 2019 and 2018, there were no potential dilutive shares outstanding.

31. Cash and cash equivalents

	2019 AED'000	2018 AED'000
Cash and balances with the Central Banks (Note 9)	2,546,097	2,558,366
Due from banks and other financial institutions (original maturity less than three months)	275,712	298,993
	<u>2,821,809</u>	<u>2,857,359</u>
Less: Statutory deposit with Central Banks (Note 9)	(632,094)	(609,232)
Less: International murabahat with the Central Bank (original maturity more than three months)	(1,380,000)	-
	<u><u>809,715</u></u>	<u><u>2,248,127</u></u>

32. Related parties transactions

- (a) Certain "related parties" (such as directors, key management personnel and major shareholders of the Bank and companies of which they are principal owners) are customers of the Bank in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

32. Related parties transactions (continued)

- (b) The Group is controlled by Ajman Government who own 26% (2018: 26%) of the issued and paid capital.

Transactions

Transactions with related parties are shown below:

	Major shareholders AED'000	2019 Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	2018 Director and other related parties AED'000	Total AED'000
Depositors' share of profit	<u>97,496</u>	<u>1,368</u>	<u>98,864</u>	<u>75,815</u>	<u>1,303</u>	<u>77,118</u>
Income from Islamic financing and investing assets	<u>58,608</u>	<u>10,054</u>	<u>68,662</u>	<u>46,205</u>	<u>4,952</u>	<u>51,157</u>
Other	<u>-</u>	<u>327,000</u>	<u>327,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

Balances

Balances with related parties at the reporting date are shown below:

	Major shareholders AED'000	2019 Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	2018 Director and other related parties AED'000	Total AED'000
Islamic financing and investing assets	<u>1,965,234</u>	<u>282,085</u>	<u>2,247,319</u>	<u>1,944,144</u>	<u>130,116</u>	<u>2,074,260</u>
Customers' deposits	<u>3,266,742</u>	<u>103,721</u>	<u>3,370,463</u>	<u>3,122,996</u>	<u>109,023</u>	<u>3,232,019</u>

Compensation of management personnel

Key management compensation is as shown below:

	2019 AED'000	2018 AED'000
Short term employment benefits	<u>19,176</u>	<u>19,754</u>
Terminal benefits	<u>1,162</u>	<u>1,368</u>
Total	<u><u>20,338</u></u>	<u><u>21,122</u></u>

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

33. Contingencies and commitments

Capital commitments

At 31 December 2019, the Group had outstanding capital commitments of AED 18 million (31 December 2018: AED 70 million), which will be funded within the next twelve months.

Credit related commitments and contingencies

Credit related commitments include commitments to extend credit which are designed to meet the requirements of the Group's customers.

The Group had the following credit related commitments and contingent liabilities:

	2019	2018
	AED'000	AED'000
Commitments to extend credit	661,180	1,370,517
Letters of credit	21,119	11,630
Letters of guarantee	357,244	445,330
	1,039,543	1,827,477

34. Segment analysis

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Executive Committee (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group has three main business segments:

- Consumer banking - incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, personal finance and house mortgage;
- Corporate banking - incorporating transactions with corporate bodies including government and public bodies and comprising of Islamic financing and investing assets, deposits and trade finance transactions; and
- Treasury - incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the Central Bank of the UAE, none of which constitute a separately reportable segment.

As the Group's segment operations are all financial with a majority of revenues deriving income from Islamic financing and investing assets and the Executive Committee relies primarily on net income to assess the performance of the segment, the total income and expense for all reportable segments is presented on a net basis.

The Group's management reporting is based on a measure of operating profit comprising income from Islamic financing and investing assets, impairment charges on Islamic financing and investing assets, net fee and commission income, other income and expenses.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

34. Segment analysis

Segment results of operations

The segment information provided to the Board for the reportable segments is as follows:

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Other AED'000	Total AED'000
At 31 December 2019						
Net income from Islamic financing and investing assets	90,038	250,130	(13,421)	24,640	-	351,387
Income from Islamic investments securities at fair value	-	-	144,172	7,891	-	152,063
Share of results of associate	-	-	-	2,462	-	2,462
Reversal of/(impairment) charges on financial assets	5,660	(284,548)	2,844	(184)	-	(276,228)
Fees, commission and other income	19,344	74,322	12,523	21,804	2,131	130,124
Staff costs	(55,760)	(13,990)	(4,095)	(7,570)	(121,166)	(202,581)
General and administrative expenses	(28,462)	(7,738)	(1,393)	(379)	(17,908)	(55,880)
Depreciation of property and equipment	-	-	-	-	(16,945)	(16,945)
Operating profit/(loss)	30,820	18,176	140,630	48,664	(153,888)	84,402
Segment assets	3,790,053	13,848,112	3,383,815	1,990,660	613,150	23,625,790
Segment liabilities	3,799,579	13,046,535	2,179,223	1,440,053	648,081	21,113,471

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

34. Segment analysis (continued)

Segment results of operations (continued)

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Other AED'000	Total AED'000
At 31 December 2018						
Net income from Islamic financing and investing assets	90,835	264,766	(24,171)	20,693	-	352,123
Income from Islamic investments securities at fair value	-	-	73,062	(3,237)	-	69,825
Impairment charges on financial assets	(20,980)	(87,682)	(2,480)	(1,474)	(3,854)	(116,470)
Fees, commission and other income	20,025	55,494	5,551	41,811	2,043	124,924
Staff costs	(55,132)	(14,964)	(3,611)	(7,079)	(107,029)	(187,815)
General and administrative expenses	(26,101)	(5,313)	(2,216)	(3,498)	(19,129)	(56,257)
Depreciation of property and equipment	-	-	-	-	(16,296)	(16,296)
Operating profit/(loss)	8,647	212,301	46,135	47,216	(144,265)	170,034
Segment assets	4,056,545	12,337,147	3,752,223	1,990,431	508,379	22,644,725
Segment liabilities	3,294,304	13,508,213	1,662,429	1,345,786	387,145	20,197,877

Revenue from major products and services

Revenue from major products and services are disclosed in Note 24 in the consolidated financial statements.

Information about major customers

No single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2019 and 2018.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

35. Maturity profile of financial liabilities

	2019		Total AED'000
	Up to 1 year AED'000	1 - 5 years AED'000	
Islamic customers' deposits	11,368,868	3,553,892	14,922,760
Due to banks and other financial institutions	5,672,460	61,018	5,733,478
Other liabilities	328,610	-	328,610
	<u>17,369,938</u>	<u>3,614,910</u>	<u>20,984,848</u>
Commitments and contingent liabilities	<u>339,069</u>	<u>700,474</u>	<u>1,039,543</u>
		2018	
	Up to 1 year AED'000	1 - 5 years AED'000	Total AED'000
Islamic customers' deposits	14,649,341	2,554,192	17,203,533
Due to banks and other financial institutions	1,538,759	1,109,963	2,648,722
Other liabilities	182,398	-	182,398
	<u>16,370,498</u>	<u>3,664,155</u>	<u>20,034,653</u>
Commitments and contingent liabilities	<u>1,116,857</u>	<u>710,620</u>	<u>1,827,477</u>

36. Special purpose entities

On 5 December 2019, the Bank acquired 100% shares in a Special Purpose Entity, Makaseb 2 Real Estate Investments SPV Limited, a Company incorporated in U.A.E and engaged in real estate investments. Subsequent to the year end, the Bank has disposed of 57% of shares in Makaseb 2 Real Estate Investments SPV Limited and consequently ceases to control the entity.

37. Social contributions

The social contribution (including donations and charities) made during the year amounted to AED 0.05 million (2018: AED 0.1 million).

38. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 11 February 2020.