United Arab Bank P.J.S.C.

FINANCIAL STATEMENTS

31 DECEMBER 2019

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF UNITED ARAB BANK PJSC

Report on the audit of the financial statements

Opinion
We have audited the financial statements of United Arab Bank PJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of income, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis of 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 financial statements* section of our report. We are independent of the Bank in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards* ("IESBA Code") together with ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF UNITED ARAB BANK PJSC (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
(a) Expected credit losses ("ECL") for loans and advances and Islamic financing receivables *Refer note 7 of the financial statements.*	
The balance of loss allowances on loans and advances and Islamic financing receivables represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9"). Management first assesses whether the credit risk of loans and advances and Islamic financing receivables to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL.	We obtained an understanding of management's assessment of impairment of loans and advances and Islamic financing receivables, the Bank's internal rating model, the Bank's credit impairment provision policy and the ECL modelling methodology. We performed process walkthroughs to identify the controls over ECL process. We have tested design and operational effectiveness of the following internal processes relating to the measurement of ECL: - Review and approval of classification of loans and advances and Islamic financing receivables facilities. - The management's regular monitoring of: i) staging and ECL for loans and advances and Islamic financing receivables. ii) identification of loans displaying indicators of impairment (including more than 90 days past due) under stage 3. iii) Macroeconomic variables and forecast iv) performance of ECL models - The review and approval of management overlays and the governance process around such overlays.

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
(a) Expected credit losses ("ECL") for loans and advances and Islamic financing receivables (continued) *Refer note 7 of the financial statements. (continued)* We considered ECL for loans and advances and Islamic financing receivables as a key audit matter as the determination of ECL involves significant management judgement such as categorisation of loans and advances and Islamic financing receivables into stages 1, 2 or 3; assumptions used in the ECL model such as expected future cash flows, macro-economic factors etc., and additional overlays to reflect current or future external factors. These judgments have a material impact on the financial statements of the Bank.	We have performed the following substantive audit procedures: - Tested the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This typically included challenging key assumptions/judgements relating to significant increase in credit risk, definition of default, probability of default, loss given default, recovery rates, cure rate, and discount rate. - For selected samples, we performed procedures to determine whether significant increase in credit risk have been correctly identified. - For forward-looking measurements, tested management's selection of economic indicators, scenarios and application of weightings; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis. For selected samples, we examined key data inputs into the ECL models. - We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy. - We assessed adequacy of disclosure in the financial statements.

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
(b) Impairment review of property, equipment and capital work-in-progress *Refer note 9 of the financial statements.*	
The Bank assesses indicators of impairment on its property on an ongoing basis due to the potential volatility in market prices. The Bank uses valuations carried out by third party valuers to ascertain the fair value of the properties. The valuation of the properties involves significant estimation and assumptions. Any variation in the assumption / estimation used for the valuation of the property could have a material impact on the financial statements of the Bank. The existence of significant estimation uncertainty warrants significant audit attention in the area as the amounts involved are significant.	We involved our internal real estate valuation specialists to review the valuation reports for selected properties and assessed whether the valuation approach and methods used are in accordance with the established standards for valuation of the properties and suitable for use in determining the fair value for assessment of impairment loss. Our internal specialists also assessed the assumptions used by third party valuers in the valuation process. We have assessed the qualifications and expertise of the valuers. We have considered the reasonableness of the other assumptions that are not so readily comparable with published benchmarks, such as discount rates, rate of return etc. Where assumptions were outside the expected range or otherwise unusual, and/or valuations showed unexpected movements, we extended our audit procedures and, when necessary, held further discussions with the management.

Report on the audit of the financial statements (continued)

Other information

Management is responsible for the other information. Other information consists of the information included in the Bank's 2019 Annual Report, other than the financial statements and our auditor's report thereon. We obtained the Director's report, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, and in doing so, consider whether the other information is materially inconsistent with the 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.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the 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.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF UNITED ARAB BANK PJSC (continued)

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the 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 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 those charged with governance, we determine those matters that were of most significance in the audit of the 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.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF UNITED ARAB BANK PJSC (continued)

Report on other legal and regulatory requirements

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

- the Bank has maintained proper books of account;
- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;
- the financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- investments in shares and stocks during the year ended 31 December 2019 are disclosed in note 8 to the financial statements;
- note 24 reflects material related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the 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 Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and
- note 31 reflects the social contributions made during the year.

Further, as required by 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.

Other matter

The financial statements of the Bank for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those financial statements on 21 February 2019.

For Ernst & Young

TS. Hari Gopal

Signed by:
Thodla Hari Gopal
Partner
Registration No. 689

26 February 2020

Dubai, United Arab Emirates

Statement of financial position
As at 31 December 2019

	Notes	As at 31 December 2019 AED'000	2018 AED'000
Assets			
Cash and balances with UAE Central Bank	5	**2,184,497**	1,890,767
Due from other banks	6	**739,337**	520,172
Loans and advances and Islamic financing receivables	7	**11,563,490**	12,759,101
Investments and Islamic instruments	8	**3,502,796**	3,824,134
Property, equipment and capital work-in-progress	9	**430,570**	578,355
Other assets	10	**704,231**	938,488
Total assets		**19,124,921**	20,511,017
Liabilities and shareholders' equity			
Liabilities			
Due to banks	11	**1,877,717**	2,151,448
Customers' deposits and Islamic customer deposits	12	**12,685,568**	14,038,959
Medium term borrowings	13	**1,487,363**	954,850
Other liabilities	14	**913,959**	836,300
Total liabilities		**16,964,607**	17,981,557
Shareholders' equity			
Share capital	15	**2,062,550**	2,062,550
Special reserve	15	**422,116**	422,116
Statutory reserve	15	**504,671**	504,671
General reserve	15	**9,311**	9,311
Revaluation reserve	15	**555**	593
Cumulative changes in fair values		**58,974**	(42,855)
Accumulated losses		**(897,863)**	(426,926)
Net shareholders' equity		**2,160,314**	2,529,460
Total liabilities and shareholders' equity		**19,124,921**	20,511,017

The financial statements were approved by the Board of Directors on 26 February 2020 and signed on its behalf by:

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Ahmad Abu Eideh
Chief Executive Officer

The attached notes 1 to 34 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 1 – 7.

Statement of income
For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 AED'000	2018 AED'000
Interest income and profit from Islamic instruments		**888,580**	894,780
Income from Islamic financing receivables		**35,774**	38,288
Total interest income and income from Islamic financing products	16	**924,354**	933,068
Interest expense		**(366,750)**	(305,692)
Distribution to depositors – Islamic products		**(166,638)**	(139,149)
Total interest expense and distribution to depositors	17	**(533,388)**	(444,841)
Net interest income and income from Islamic products net of distribution to depositors		**390,966**	488,227
Net fees and commission income	18	**75,063**	76,297
Foreign exchange income	19	**23,742**	29,531
Other operating income	20	**54,993**	53,416
Total operating income		**544,764**	647,471
Employee benefit expenses		**(191,000)**	(218,031)
Depreciation		**(39,441)**	(29,357)
Other operating expenses	21	**(83,619)**	(80,961)
Total operating expenses		**(314,060)**	(328,349)
Profit before impairment losses		**230,704**	319,122
Net impairment losses	22	**(701,457)**	(241,895)
Net (loss) / profit for the year		**(470,753)**	77,227
Earnings per share (basic and diluted in AED)	23	**(0.23)**	0.04

The attached notes 1 to 34 form an integral part of these financial statements.
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Statement of comprehensive income
For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	AED'000	AED'000
Net (loss) / profit for the year	**(470,753)**	77,227
Other comprehensive income		
Items that are or may be reclassified subsequently to the statement of income		
Fair value through other comprehensive income (FVOCI):		
Net changes in fair value of FVOCI investments	**229,318**	(81,406)
FVOCI – reclassified to statement of income	**(127,489)**	(2,085)
Other comprehensive income / (loss) for the year	**101,829**	(83,491)
Total comprehensive loss for the year	**(368,924)**	(6,264)

The attached notes 1 to 34 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 1– 7.

Statement of cash flows
For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 AED'000	2018 AED'000
Operating activities			
Net profit for the year		**(470,753)**	77,227
Adjustments for:			
Depreciation		**39,441**	29,357
Loss on write off of property, equipment and capital work-in-progress	9	**5,724**	4,044
Loss on branch closures		**1,050**	-
Gain from insurance and sale of property and equipment		**(19)**	(301)
Impairment on properties	9	**141,308**	-
Impairment on assets acquired in settlement of debt	10	**108,245**	-
Net credit impairment losses	22	**451,904**	241,895
Amortisation of premium paid on investments		**25,233**	33,328
Net fair value loss on disposal of investments		**(27,634)**	2,789
Unrealised loss / (gain) on investments	8	**164**	(40)
Operating profit before changes in operating assets and liabilities		**274,663**	388,299
Changes in operating assets and liabilities:			
Loans and advances		**758,976**	(124,949)
Balances with UAE Central bank maturing after three months		**62,394**	(66,910)
Cash margin held by counterparty banks against borrowings and derivative transactions	6	**(122,177)**	13,257
Other assets	10	**111,995**	220,785
Due to banks maturing after three months		**(368,658)**	386,274
Customers' deposits	12	**(1,353,391)**	(1,020,897)
Other liabilities	14	**(71,038)**	(338,287)
Net cash used in operating activities		**(707,236)**	(542,428)
Investing activities			
Purchase of property, equipment and capital work-in-progress	9	**(24,671)**	(21,793)
Proceeds from insurance claims		**19**	301
Purchase of investments		**(1,212,496)**	(2,173,433)
Proceeds from redemption / sale of investments		**1,770,278**	1,637,439
Proceeds from closure of subsidiary		-	10,238
Net cash generated from / (used in) investing activities		**533,130**	(547,248)
Financing activities			
Increase in ordinary share capital on rights issue	15	-	687,517
Proceeds of medium term borrowings	13	**807,951**	679,436
Repayment of medium term borrowings	13	**(275,438)**	(569,215)
Rights issue costs		**(222)**	(2,216)
Net cash generated from financing activities		**532,291**	795,522
Net change in cash and cash equivalents		**358,185**	(294,154)
Cash and cash equivalents at 1 January		**741,913**	1,036,067
Cash and cash equivalents at 31 December		**1,100,098**	741,913

Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:

	2019	2018
Cash and balances with the UAE Central Bank	**1,368,639**	1,012,515
Due from other banks	**609,191**	512,203
Due to banks	**(877,732)**	(782,805)
	1,100,098	741,913

The attached notes 1 to 34 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 1– 7.

Statement of changes in equity
For the year ended 31 December 2019

	Share capital AED'000	*Special reserve AED'000*	*Statutory reserve AED'000*	*General reserve AED'000*	*Revaluation reserve AED'000*	*Cumulative changes in fair values AED'000*	*Accumulated losses AED'000*	*Total AED'000*
At 1 January 2018	1,375,033	414,393	496,948	9,311	632	22,253	(153,940)	2,164,630
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	15,912	(330,119)	(314,207)
Restated balance at 1 January 2018	**1,375,033**	**414,393**	**496,948**	**9,311**	**632**	**38,165**	**(484,059)**	**1,850,423**
Profit for the year	-	-	-	-	-	-	77,227	77,227
Comprehensive loss for the year	-	-	-	-	-	(83,491)	-	(83,491)
Total comprehensive loss for the year	-	-	-	-	-	(83,491)	77,227	(6,264)
Rights issue (note 15)	687,517	-	-	-	-	-	-	687,517
Rights issue cost	-	-	-	-	-	-	(2,216)	(2,216)
Depreciation transfer for land and buildings	-	-	-	-	(39)	-	39	-
Transfer to special reserve	-	7,723	-	-	-	-	(7,723)	-
Transfer to statutory reserve	-	-	7,723	-	-	-	(7,723)	-
Loss on sale of equity reclassified	-	-	-	-	-	2,471	(2,471)	-
At 31 December 2018	**2,062,550**	**422,116**	**504,671**	**9,311**	**593**	**(42,855)**	**(426,926)**	**2,529,460**
Loss for the year	-	-	-	-	-	-	(470,753)	(470,753)
Comprehensive income for the year	-	-	-	-	-	101,829	-	101,829
Total comprehensive loss for the year	-	-	-	-	-	101,829	(470,753)	(368,924)
Rights issue cost (note 15)	-	-	-	-	-	-	(222)	(222)
Depreciation transfer for land and buildings	-	-	-	-	(38)	-	38	-
At 31 December 2019	**2,062,550**	**422,116**	**504,671**	**9,311**	**555**	**58,974**	**(897,863)**	**2,160,314**

The attached notes 1 to 34 form an integral part of these financial statements. The independent auditor's report on these financial statements is set out on pages 1 – 7.

1 Incorporation and activities

United Arab Bank P.J.S.C. (the "Bank") was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a Public Joint Stock Company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

The financial statements for the year ended 31 December 2019 and the comparative financial information comprise the results of the Bank on a standalone basis. The former subsidiary company, Al Sadarah Investment Company was wound up in January 2018.

2 Basis of preparation

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of laws of the United Arab Emirates. UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Bank, has come into effect from 1 July 2015. The Bank has assessed, evaluated and ensured compliance with the relevant provisions of the Companies Law.

3 Significant accounting policies

3.1 New and revised International Financial Reporting Standards

3.1.1 Standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2019

i. **IFRS 16 'Leases' (effective date: 1 January 2019) -** The Bank adopted IFRS 16 from 1 January 2019 and has not restated the comparative for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The effect of adoption of IFRS 16 on the statement of financial position as at 1 January 2019 and 31 December 2019 is as follows:

	1 January 2019 AED'000	31 December 2019 AED'000
Assets		
Right-of-use assets	32,574	26,076
Accumulated depreciation	-	(8,017)
Right-of-use assets (net) (note 10)	32,574	**18,059**
Liabilities		
Lease liabilities (note 14)	25,049	**18,247**

3 Significant accounting policies (continued)

3.1 New and revised International Financial Reporting Standards (continued)

3.1.1 Standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2019 (continued)

i. IFRS 16 'Leases' (continued)

Impact on the statement of income for the year ended 31 December 2019 is as follows:

	2019 AED'000
Depreciation expense	(14,017)
Rent expense	9,054
Operating expenses	**(4,963)**
Finance costs	(554)
Net impact	**(5,517)**

There is no material impact on other comprehensive income and the basic and diluted EPS.

Nature of the effect of adoption of IFRS 16

The Bank has lease contracts for its branches. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Bank recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Set out below are the new accounting policies of the Bank upon adoption of IFRS 16:

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

3 Significant accounting policies (continued)

3.1 New and revised International Financial Reporting Standards (continued)

3.1.1 Standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2019 (continued)

i. IFRS 16 'Leases' (continued)

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of ATM's (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) together with the exemption of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Bank has the option, under some of its leases to lease the assets for an additional term. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

ii. IFRS 9, 'Financial Instruments' (effective date: 1 January 2019) - 'Financial Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation

The Board has issued a narrow-scope amendment to IFRS 9 to enable entities to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL).

This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

3.1.2 Standards, amendments and interpretations issued but not yet effective for the Bank's accounting period beginning on 1 January 2019 and not early adopted

The Bank has not yet applied the following amendments that have been issued but are not yet effective:

i. Amendments to IAS 1 and IAS 8: Definition of Material (effective date: 1 January 2020)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Bank's financial statements.

ii. Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate (an "RFR"). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. These amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative RFR.

3 Significant accounting policies (continued)

3.1 New and revised International Financial Reporting Standards (continued)

3.1.2 Standards, amendments and interpretations issued but not yet effective for the Bank's accounting period beginning on 1 January 2019 and not early adopted

ii. Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (continued)

The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted.

The Bank has not early adopted these amendments and has concluded that the uncertainty arising from IBOR reform is not affecting its hedge relationships to the extent that the hedge relationships need to be discontinued.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2019 that would be expected to have a material impact on the Bank's financial statements.

3.2 Basis of measurement

The Bank's financial statements are prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value;
- financial assets at FVTPL and FVOCI (applicable from 1 January 2018) are measured at fair value;
- investment properties are measured at fair value.

3.3 Functional and presentation currency

The Bank's financial statements have been presented in UAE Dirhams (AED), which is the presentation currency of the Bank and also the functional currency of the Bank and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

3.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity. All assets and liabilities in the statement of financial position are financial instruments except property and equipment, capital work-in-progress, prepayments, provision for employee service benefits and shareholders' equity.

3.4.1 Classification

On initial recognition a financial asset is classified as measured at:

- Amortised cost;
- Fair value through comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL)

The classification requirements for debt and equity instruments are described below.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

The classification depends on the Bank's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

3 Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.1 Classification (continued)

Debt instruments (continued)

Based on these factors, the Bank classifies its debt instruments into one of three measurement categories:

- Amortised Cost - Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as explained in note 3.4.14. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through comprehensive income (FVOCI) – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest Income' using the effective interest rate method.

- Fair value through profit or loss (FVTPL) – Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement in the period in which it arises.

The business model reflects how the Bank manages its assets in order to generate cash flows that is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI' test). In making this assessment, the Bank considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangements, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Investment in equity instruments that are not held for trading are measured at FVOCI. In such cases amounts presented in comprehensive income are not subsequently transferred to profit or loss upon de-recognition. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

All other financial assets are classified and measured at FVTPL.

3 Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.2 Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.4.3 Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

3.4.4 Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles below.

All other assets are measured at amortised cost using the effective interest method less impairment losses, if any.

3.4.5 Gains and losses on subsequent measurement

(a) Debt Investments

Gains and losses arising from changes in the fair value of FVOCI investments are recognised directly in equity through comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. Changes in the fair value of FVTPL investments are subsequently recognised in the profit or loss.

(b) Equity Investments

Gains and losses arising from changes in the fair value on equity investments are recognised in comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the right to receive payments is established.

3.4.6 De-recognition

Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire or where the Bank has transferred substantially all the risks and rewards of ownership. A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

3.4.7 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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank 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.

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

3 Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.7 Fair value measurement (continued)

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 Bank 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, 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 recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly 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, the Bank measures its assets, liabilities, long and short positions at mid-market rate (which is computed as an average of the bid and ask price).

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank 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 (or paid to transfer a net short 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 Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.4.8 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances arise when cash is advanced to a debtor with no intention of trading the receivable. Loans and advances are carried at amortised cost.

3.4.9 Investments

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

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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

- Interest revenue using the effective interest method; and
- Expected credit losses (ECL) and reversals

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

3.4.10 Due from banks

Due from banks and financial institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

3.4.11 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with the Central Bank, deposits with the Central Bank with an original maturity of three months or less, and amounts due from (to) banks on demand or with an original maturity of three months or less.

3 Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.12 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, with premium received included in 'Other liabilities'. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Provision for credit losses'. The premium received is recognised in the statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

3.4.13 Derivatives

The Bank enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in foreign exchange, interest rate and capital markets. In the normal course of business, the fair value of a derivative on initial recognition is the transaction price included in other income/expenses. Subsequent to their initial recognition, derivative financial instruments are stated at fair values where they are designated as part of a hedging relationship and classified as a hedging instrument. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position. Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the statement of income.

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

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is / are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk are included in other operating income / (expenses) along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance, in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the statement of income over the remaining term to maturity.

Certain derivative transactions, while providing effective economic hedges under the Bank's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

Derivatives may be embedded in another contractual agreement (host contract). Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the statement of income. Post adoption of IFRS 9, embedded derivatives are separated from the host contract, only if the host contract is not an asset in the scope of IFRS 9.

3 Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.14 Impairment of financial assets

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on financial instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

ii) Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

iii) Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. This uses the same criteria as under IAS 139, the Bank's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

The Bank measures loss allowances at an amount equal to 12-month ECL for the following financial instruments which are considered to have low credit risk:

- balances with Central Bank and other banks
- debt investment securities; and
- other financial assets, mainly comprising of sundry receivables

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL
The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost and FVOCI: as a deduction from the gross carrying amount of the assets and adjustments to OCI respectively; and
- loan commitments and financial guarantee contracts: as a provision in other liabilities

3.5 Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3 Significant accounting policies (continued)

3.6 Write-off

The Bank writes off its loans and advances, Islamic financing receivable balances or other financial asset (and any other related allowances for impairment losses) when the Bank's credit determines that such financial assets are uncollectible in whole or in part. This is determined after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Assets are written-off against provisions up to the extent of amount considered un-collectible.

However, the Bank retains its full legal claim on, and may continue with its recovery effort including litigation, on written-off accounts.

Subsequent recoveries of amounts previously written off are recognised in the statement of income.

3.7 Assets acquired in settlement of debts

In certain cases, the Bank may close out transactions by acquiring assets in settlement of debts. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment losses) at the date of exchange. These assets are recorded in "Other assets". It is the Bank's policy to dispose of such repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. Assets acquired in settlement of debts are held as inventory and are valued at lower of cost and net realisable value.

3.8 Revenue recognition

For all financial instruments measured at amortised cost and debt financial instruments classified as FVOCI, interest income or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management advisory fees.

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

3.9 Collateral pending sale

Real estate and other collaterals may be acquired as the result of settlement of certain loans and advances and are recorded in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of these assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the statement of profit or loss. The Bank's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Bank operates.

3 Significant accounting policies (continued)

3.10 Property and equipment

Property and equipment are stated at cost excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

Buildings	Over 25 years
Motor vehicles	Over 5 years
Furniture and equipment	Over 3 to 8 years
Fixtures and leasehold improvements	Over 12 years

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of income in the year the asset is derecognised.

3.11 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and can be reliably measured. The expense relating to any provision is presented in the statement of income net of any reimbursement.

3.12 Employees' end of service benefits

Provision is made, in accordance with the provisions of IAS 19, for the end of service benefits due to employees in accordance with the UAE labor law for their period of service up to the financial position date and the provision arising disclosed as 'provision for employees' end of service benefits' in the statement of financial position. The Bank pays its contributions in respect of UAE citizens under the UAE pension and social security law and no further liability exists.

3.13 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at mid-market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the statement of income.

3.14 Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Others.

3 Significant accounting policies (continued)

3.15 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash-Generating Unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

3.16 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

3.17 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

3.18 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

3.19 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

3.20 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the Bank and is therefore recognised as a financial liability in the statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

3 Significant accounting policies (continued)

3.21 Islamic financing and investment products

In addition to conventional banking products, the Bank offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

The various Islamic instruments described below are accounted for, disclosed and presented in accordance with the requirements of the underlying substance of the instruments and IFRS / IAS / IFRIC.

Murabaha:
Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. Murabaha is a sale transaction in which the seller (Bank) expressly mentions the actual cost of the asset to be sold to the customer and sells it to the customer on a cost-plus mark-up (profit) basis. It is in fact the sale of an asset for a profit, usually on deferred payment basis.

Income on Murabaha financing is recognised on a time apportioned basis over the period of the Murabaha contract, using the effective profit rate method.

Ijara:
Ijara involves a contract where the Bank buys and then leases an item to a customer for a specified rental over a specific period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Bank acquires the beneficial ownership of the property to lease the usufruct to the customer.

Income on Ijara financing is recognised on a time apportioned basis over the lease term, using the effective profit rate method.

Qard:
A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Bank, and it is binding on the Bank to return equal wealth (money) to the customer on demand or as per the agreed terms, which means that the principal is to be repaid on demand. The Islamic current account offered to customers is based on the concept of Qard, a profit free amount received from the customer to the Bank, on which no profit or other form of return is payable.

Wakala:
Wakala involves an agreement, based on the concept of Wakala Bil Istithmar, where the Bank becomes the investment agent (Wakil) for its customers (Muwakkil) for deposit of their funds in the Wakala investment account to be invested in Shariah-compliant investment instruments. The funds are used to generate profit for the customer by investing in Islamic financing facilities to the Bank's other customers or investing in other Shariah-compliant investment instruments.

Income generated from the Wakala deposits are paid to the customers and the Bank recognizes a corresponding expense in the statement of income. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the agent; otherwise, they are borne by the principal.

4 Significant management judgements and estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation and uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

4.1 Classification of financial assets

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

4 Significant management judgements and estimates (continued)

4.2 Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Significant increase in credit risk (SICR)
At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the probability of default (PD) occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort (including both qualitative and quantitative information) and also uses its historical experience, internal credit risk grading system, external risk ratings and forward-looking information to assess deterioration in credit quality of a financial asset.

<u>Credit risk grades</u>
The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. - Data from credit reference agencies, press articles, changes in external credit ratings - Quoted bond and credit default swap (CDS) prices for the borrower where available - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	- Internally collected data on customer behaviour - External data from credit reference agencies including industry-standard credit scores	- Payment record – this includes overdue status - Utilisation of the granted limit - Requests for and granting of forbearance - Existing and forecast changes in business, financial and economic conditions

4 Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

The Bank uses Moody's credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The table below provides a mapping of the Bank's credit risk grades.

S.No.	Moody's Rating Grades	Classification	Description
1	1	High	Strong
2	2+		Very Good
3	2		
4	2-		
5	3+	Standard	Good
6	3		
7	3-		
8	4+		Satisfactory
9	4		
10	4-		
11	5+		Acceptable
12	5		
13	5-		
14	6+		Marginal
15	6		
16	6-		Watch list
17	7+	Watch list	Watch list
18	7		OLEM
19	7-		
20	8	Default	Sub Standard
21	9		Doubtful
22	10		Loss

<u>Generating the term structure of PD:</u>
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. Information purchased from external credit reference agencies is also used.

The Bank uses statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Market Risk Committee and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 to 7 years.

Importance of staging criteria
Staging is an important input in determining the IFRS 9 ECL, as it dictates loans would be classified as stage 1 (attracting 12 months ECL) and in stage 2 (attracting life time ECL). Staging under IFRS 9 is based on the assessment of relative movement in the credit quality of the loans from the time of initial recognition. Loans classified in stage 3 have objective evidence of impairment and in respect of which specific provisions have been established.

4 Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

Determining the stage for impairment
The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria:

Corporate and Institutional Banking portfolio:
Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at the reporting date. In addition, the following parameters are also considered:

- 30 days past due
- Restructuring flag
- Downgrade by 3 notches on a 22 scale as per internal rating guidelines

Retail portfolio:
Thresholds have been set for each portfolio based on historical default rates. Facilities exceeding the threshold are considered for significant increase in credit risk. In addition, the following parameters are also considered:

- 30 days past due
- Restructuring flag
- Abandoned segment

Investment portfolio and Due from banks:
External rating agency credit grades are used to assess the significant increase in credit risk. These external published grades are continuously monitored and updated. The Bank's rating method comprises 20 rating levels for instruments not in default (1 to 19) and 3 default classes (20 to 22). The Bank's internal rating scale is mapped with external ratings. The master scale assigns each rating category a specified range of probabilities of default, which is stable over time.

Qualitative criteria:
The Bank also considers in its assessment of significant increase in credit risk various qualitative factors like significant adverse changes in business, actual and expected forbearance or restructuring and early signs of cash flows and liquidity problems.

Curing criteria:
The Bank continues to monitor financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from Stage 2 to Stage 1.

The Bank is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after restructuring, before upgrading from Stage 3 to Stage 2.

Exposures are not upgraded from Stage 3 to Stage 1 directly and are upgraded to Stage 2 initially before upgrading to Stage 1 based on the above-mentioned criteria.

The Bank ensures that the risk rating of the obligor correctly reflects its credit risk. UAB has in place a robust early warning signal mechanism to ensure credit risk deterioration is highlighted before the default takes place. This is via close monitoring of key early warning signals such as excesses, past dues, cheque / payment failures, external market feedback and credit ratings, covenant / condition breaches and weak financials. Where a client shows early signs of financial strain, it is placed on a watch list category and monitored at an internal watch list forum.

4 Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

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.

Definition of default
The Bank considers a financial asset to be in default in line with the Circular No. 28/2010 and associated regulations issued by the Central Bank of the United Arab Emirates.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets the default criteria for a consecutive period of 12 months as determined by the regulatory guidelines.

Measurement of ECL
The ECL is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

- PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates Two types of PDs are used for calculating ECL
  - 12 month PDs: This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This is used to calculate 12 month ECL for Stage 1 exposures
  - Lifetime PDs: This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECL for Stage 2 and Stage 3 exposures.
- EAD represents the expected exposure at the time of default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. As described and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.
- LGD is the magnitude of the likely loss if there is a default. LGD is expressed as a loss percentage of the exposure at the time of default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

The measurement of ECL is based on a probability-weighted average credit loss. As a result, the measurement of the loss allowance is the same regardless of whether it is measured on an individual basis or a collective basis. In relation to the assessment of whether there has been a significant increase in credit risk it may be necessary to perform the assessment on a collective basis where the financial instruments are grouped based on product type risk characteristics.

The weighted average ECL is calculated considering base, upside and downside scenarios for recognition of ECL.

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

The Bank considers its historical loss experience and adjusts this for current observable data. In addition, the Bank uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, real annual growth in gross domestic product and oil prices and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

4 Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

Measurement of ECL (continued)

Upon implementation of IFRS 9 in 2018, the Bank had applied a 45% LGD on the Bank's unsecured portfolio following regulatory guidelines as well as independent reviews undertaken at the time. In 2019, the Bank has increased this LGD to 65% on the Bank's unsecured portfolio to reflect historical recovery data together with the Bank's forward looking business plans. The impact of this change in estimate has been disclosed in note 7 (on loans and advances) as well as note 26 (on commitments and contingencies).

The most significant assumptions used for ECL estimate as at 31 December 2019 are set out below. The scenarios of base case, upside and downside cases were used for all portfolios keeping in view the following principal macroeconomic variables:

Macroeconomic variables	Scenario	Assigned probabilities	2019	2020	2021	2022	2023
Average oil price per barrel (USD)	Base	72%	65.9	64.5	64.2	64.1	64.3
	Upside	14%	74.5	73.0	72.6	72.5	72.7
	Downside	14%	35.0	35.5	40.8	54.5	60.2
Non-oil Economic Composite Index ("ECI") (proxy of GDP)	Base	72%	2.00%	3.00%	3.60%	3.53%	3.47%
	Upside	14%	3.06%	4.60%	5.51%	5.41%	5.31%
	Downside	14%	-2.00%	-4.10%	-2.16%	1.76%	2.95%
Real estate prices of Dubai (index level price in AED)	Base	72%	11,891	11,951	12,131	12,327	12,546
	Upside	14%	13,515	13,582	13,787	14,010	14,259
	Downside	14%	10,676	9,688	9,991	10,299	10,616
ECI (proxy of GDP)	Base	72%	1.60%	2.60%	3.00%	2.97%	2.93%
	Upside	14%	2.42%	3.93%	4.53%	4.48%	4.43%
	Downside	14%	-5.00%	-2.36%	-1.00%	1.72%	2.56%
Inflation	Base	72%	3.60%	2.10%	2.00%	2.00%	2.00%
	Upside	14%	4.60%	2.68%	2.56%	2.56%	2.56%
	Downside	14%	0.10%	0.20%	0.50%	1.53%	1.85%

Sensitivity analysis

If the macroeconomic variables (listed above) were to change by the base, upside and downside scenarios, the ECL under stage 1 and 2 would change as follows:

Change in ECL due to change in macroeconomic variables	Base	Upside	Downside
Stage 1	28.7%	31.0%	31.7%
Stage 2	71.3%	69.0%	68.3%

There has been no significant sensitivity impact on stage 3 ECL.

4.3 Going concern

The management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future despite the accumulated losses incurred to date. Management believes that it has adequate liquidity and funding in order to meet its cash flow requirements as and when these fall due. In addition, the Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to its stakeholders. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5 Cash and balances with UAE central bank

	2019 AED'000	2018 AED'000
Cash on hand	**81,059**	98,468
Balances with UAE Central bank:		
Clearing accounts	**337,580**	264,047
Certificate of deposits	**1,250,000**	900,000
Reserve requirements	**515,858**	628,252
	2,184,497	1,890,767

The reserve requirements, kept with the UAE Central Bank in AED and USD, are not available for use in the Bank's day to day operations and cannot be withdrawn without its approval. However, the Central Bank in its Circular 4310/2008 dated 24 September 2008, has temporarily permitted banks to overdraw their current accounts (a) up to the amount of reserves at interest of 3% above the prevailing Central Bank Repo rate; and (b) in excess of reserves at interest of 5% above the prevailing Central Bank Repo rate. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

Cash and balances with the UAE Central bank maturing within 3 months amount to AED 1,368,639,000 (2018: AED 1,012,515,000).

Grading of balances with UAE Central Bank along with stages is shown below:

Balances with UAE Central Bank	***Stage 1 AED'000***	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
High	**2,103,438**	-	-	**2,103,438**
As at 31 December 2019	**2,103,438**	-	-	**2,103,438**

Balances with UAE Central Bank	*Stage 1 AED'000*	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
High	1,792,299	-	-	1,792,299
As at 31 December 2018	1,792,299	-	-	1,792,299

6 Due from other banks

	2019 AED'000	2018 AED'000
Demand deposits	**245,362**	116,197
Term deposits	**493,975**	403,975
	739,337	520,172

The Bank holds a stage 1 expected credit loss allowance of AED 86,000 (31 December 2018: AED 38,000) on its due from other banks.

Due from other banks includes AED 105,858,000 (2018: AED 98,787,000) placed with foreign banks outside the UAE. AED 130,146,000 (2018: AED 7,969,000) is held with other banks as margin for derivative transactions.

6 Due from other banks (continued)

Gross amounts of due from other banks by geographical area	**2019 AED'000**	2018 AED'000
Within UAE	**593,503**	421,385
Within GCCs	**14,212**	18,101
Other countries	**131,622**	80,686
	739,337	520,172

An analysis of due from other banks based on external credit ratings is as follows:

	2019 AED'000	2018 AED'000
AA−	**16,782**	38
A+	**10,062**	9,439
A	**123,399**	49,176
A−	**217,162**	11,385
BBB+	**346,074**	445,564
BBB	**24,356**	869
BBB− and below	**1,502**	3,701
	739,337	520,172

Grading of gross balances of due from other banks along with stages

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
High	**367,405**	-	-	**367,405**
Standard	**371,932**	-	-	**371,932**
As at 31 December 2019	**739,337**	-	-	**739,337**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
High	70,037	-	-	70,037
Standard	450,135	-	-	450,135
As at 31 December 2018	520,172	-	-	520,172

Grading of gross balances of due from other banks along with stages

7 Loans and advances and Islamic financing receivables

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

	2019 AED'000	2018 AED'000
(a) By type:		
Overdrafts	**1,360,879**	1,728,608
Loans (medium and short term)*	**10,648,270**	10,652,535
Loans against trust receipts	**587,392**	1,027,101
Bills discounted	**271,228**	245,431
Other cash advances	**48,663**	51,184
Bills drawn under letters of credit	**114,175**	197,955
Gross amount of loans and advances and Islamic financing receivables	**13,030,607**	13,902,814
Less: Provision for impairment on loans and advances and Islamic financing receivables	**(1,467,117)**	(1,143,713)
Net loans and advances and Islamic financing receivables	**11,563,490**	12,759,101

* Includes retail loans of AED 2,880,123,000 (2018: AED 3,059,763,000)

	2019 AED'000	2018 AED'000
(b) By economic sector:		
Government and public sector	**687,491**	434,645
Trade	**1,906,957**	2,372,455
Personal loans (retail and business)	**5,235,214**	5,454,158
Manufacturing	**1,193,940**	1,419,723
Construction	**586,126**	847,282
Services	**1,489,242**	1,372,529
Financial institutions	**1,434,078**	1,379,313
Transport and communication	**497,296**	510,346
Others	**263**	112,363
Gross amount of loans and advances and Islamic financing receivables	**13,030,607**	13,902,814

Loans and advances and Islamic financing receivables are stated net of provision for impairment.

Islamic financing receivables amount to AED 748,331,000 (2018: AED 678,323,000) recognised through the Bank's Shari'a - compliant Islamic window.

At 31 December 2019, the gross amount of loans and advances and Islamic financing receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,483,820,000 (2018: AED 1,250,603,000). The provision and collateral held on these impaired loans is disclosed in note 27 under credit risk.

7 Loans and advances and Islamic financing receivables (continued)

Grading of gross balances of loans and advances and Islamic financing receivables along with stages

	Stage 1 ***AED'000***	***Stage 2*** ***AED'000***	***Stage 3*** ***AED'000***	***Total*** ***AED'000***
High	**23,424**	**-**	**-**	**23,424**
Standard	**9,490,574**	**1,515,732**	**-**	**11,006,306**
Watch list	**-**	**517,057**	**-**	**517,057**
Default	**-**	**-**	**1,483,820**	**1,483,820**
Total gross carrying amount	**9,513,998**	**2,032,789**	**1,483,820**	**13,030,607**
Expected credit loss	**(83,550)**	**(238,381)**	**(1,145,186)**	**(1,467,117)**
As at 31 December 2019	**9,430,448**	**1,794,408**	**338,634**	**11,563,490**

	Stage 1 *AED'000*	*Stage 2* *AED'000*	*Stage 3* *AED'000*	*Total* *AED'000*
High	117,415	29	-	117,444
Standard	10,006,840	854,973	28,752	10,890,565
Watch list	190,214	1,449,695	4,293	1,644,202
Default	-	-	1,250,603	1,250,603
Total gross carrying amount	10,314,469	2,304,697	1,283,648	13,902,814
Expected credit loss	(60,036)	(348,631)	(735,046)	(1,143,713)
As at 31 December 2018	10,254,433	1,956,066	548,602	12,759,101

Movement in the gross balances of loans and advances and Islamic financing receivables

	Stage 1 ***AED'000***	***Stage 2*** ***AED'000***	***Stage 3*** ***AED'000***	***Total*** ***AED'000***
Gross carrying amount as at 31 December 2018	**10,314,469**	**2,304,697**	**1,283,648**	**13,902,814**
Net of new assets originated and assets repaid	**(390,494)**	**(458,618)**	**146,314**	**(702,798)**
Write-offs	**-**	**-**	**(169,409)**	**(169,409)**
Transferred from Stage 1	**(414,049)**	**414,049**	**-**	**-**
Transferred from Stage 2	**-**	**(232,816)**	**232,816**	**-**
Transferred from Stage 3	**4,072**	**5,477**	**(9,549)**	**-**
As at 31 December 2019	**9,513,998**	**2,032,789**	**1,483,820**	**13,030,607**

	Stage 1 *AED'000*	*Stage 2* *AED'000*	*Stage 3* *AED'000*	*Total* *AED'000*
Gross carrying amount as at 31 December 2017	10,580,284	2,371,788	1,206,434	14,158,506
Net of new assets originated and assets repaid	642,459	(495,053)	38,830	186,236
Write-offs	-	-	(441,928)	(441,928)
Transferred from Stage 1	(908,274)	870,969	37,305	-
Transferred from Stage 2	-	(443,007)	443,007	-
Transferred from Stage 3	-		-	-
As at 31 December 2018	10,314,469	2,304,697	1,283,648	13,902,814

7 Loans and advances and Islamic financing receivables (continued)

Movement in provision for impairment of loans and advances and Islamic financing receivables

	Stage 1 *AED'000*	*Stage 2* *AED'000*	*Stage 3* *AED'000*	*Total* *AED'000*
Balance as at 31 December 2018	**60,036**	**348,631**	**735,046**	**1,143,713**
Changes due to provisions recognised in the opening balance that have:				
Transferred to 12 month ECL	**327**	**(327)**	-	-
Transferred to lifetime ECL not credit impaired	**(23,917)**	**23,917**	-	-
Transferred to lifetime ECL credit-impaired	-	**(108,543)**	**108,543**	-
Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities (note 26)	-	-	**(16,984)**	**(16,984)**
Charge to income statement (note 22)	**29,599**	**(35,736)**	**365,690**	**359,553**
Changes in estimate (note 4.2 and 22)	**17,505**	**55,309**	-	**72,814**
Write-offs	-	**(44,870)**	**(47,109)**	**(91,979)**
As at 31 December 2019	**83,550**	**238,381**	**1,145,186**	**1,467,117**

	Stage 1 *AED'000*	*Stage 2* *AED'000*	*Stage 3* *AED'000*	*Total* *AED'000*
Balance as at 1 January 2018	75,835	445,437	758,690	1,279,962
Changes due to provisions recognised in the opening balance that have:				
Transferred to 12 month ECL	83	(83)	-	-
Transferred to lifetime ECL not credit impaired	(6,049)	6,049	-	-
Transferred to lifetime ECL credit-impaired	-	(133,720)	133,720	-
Charge to income statement (note 22)	(9,833)	30,948	262,433	283,548
Write-offs	-	-	(419,797)	(419,797)
As at 31 December 2018 (audited)	60,036	348,631	735,046	1,143,713

Sector wise analysis of impaired loans and advances and Islamic financing receivables in the default category and related provisions is as follows:

	2019		2018	
	Gross exposure AED'000	**Impairment provision AED'000**	Gross exposure AED'000	Specific provision AED'000
By economic sector				
Trade	**347,834**	**303,728**	292,398	198,360
Personal loans (retail and business)	**184,497**	**94,409**	112,717	43,431
Manufacturing	**378,039**	**259,420**	293,014	154,380
Construction	**26,342**	**11,689**	86,277	47,995
Services	**300,456**	**286,126**	225,878	169,868
Financial institutions	**85,971**	**46,327**	84,778	41,336
Transport and communication	**160,681**	**143,487**	155,541	79,676
Total	**1,483,820**	**1,145,186**	1,250,603	735,046

The fair value of collateral that the Bank holds relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2019 amounts to AED 675,920,000 (2018: AED 601,168,000). The collateral consists of cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory, trade receivables, and guarantees from parent companies for loans to their subsidiaries or other Bank companies. During the year, the Bank did not repossess any collaterals (2018: AED 17,528,000).

8 Investments and Islamic instruments

	2019			2018		
	Quoted AED'000	**Unquoted AED'000**	**Total AED'000**	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
FVOCI						
Local	**2,744,185**	**-**	**2,744,185**	2,988,555	-	2,988,555
Overseas	**739,500**	**-**	**739,500**	596,347	-	596,347
FVTPL						
Overseas	**-**	**-**	**-**	190,969	-	190,969
Amortised Cost						
Local	**18,383**	**-**	**18,383**	48,852	-	48,852
Total debt securities	**3,502,068**	**-**	**3,502,068**	3,824,723	-	3,824,723
Equity:						
FVOCI						
Local	**-**	**467**	**467**	-	467	467
Overseas	**285**	**76**	**361**	291	76	367
Total equities	**285**	**543**	**828**	291	543	834
Total investments	**3,502,353**	**543**	**3,502,896**	3,825,014	543	3,825,557
Expected credit loss			**(100)**			(1,423)
Net investments			**3,502,796**			3,824,134

Included in the above are investment securities amounting to AED 455,955,000 (2018: AED 678,372,000) secured under repurchase agreement with the lenders. The Banks holds an ECL allowance of AED 4,706,000 (2018: AED 9,189,000) on these investment securities secured under repurchase agreements.

During the year, the Bank has invested in unquoted shares of a company amounting to Nil (2018: AED 166,000) which have been categorised as level 3.

8 Investments and Islamic instruments (continued)

Grading of gross balances of investment securities (FVOCI and Amortised Cost) along with stages:

	Stage 1 ***AED'000***	***Stage 2*** ***AED'000***	***Stage 3*** ***AED'000***	***Total*** ***AED'000***
High	**1,447,250**	-	-	**1,447,250**
Standard	**2,054,818**	-	-	**2,054,818**
Total gross carrying amount	**3,502,068**	-	-	**3,502,068**
Expected credit loss	**(21,956)**	-	-	**(21,956)**
As at 31 December 2019	**3,480,112**	-	-	**3,480,112**

	Stage 1 *AED'000*	*Stage 2* *AED'000*	*Stage 3* *AED'000*	*Total* *AED'000*
High	2,360,964	-	-	2,360,964
Standard	1,272,790	-	-	1,272,790
Total gross carrying amount	3,633,754	-	-	3,633,754
Expected credit loss	(20,929)	-	-	(20,929)
As at 31 December 2018	3,612,825	-	-	3,612,825

Movement in the provision for impairment of investment securities (FVOCI and Amortised Cost):

	Stage 1 ***AED'000***	***Stage 2*** ***AED'000***	***Stage 3*** ***AED'000***	***Total*** ***AED'000***
Balance as at 31 December 2018	**20,929**	-	-	**20,929**
Charge to income statement (note 22)	**1,027**	-	-	**1,027**
As at 31 December 2019	**21,956**	-	-	**21,956**

	Stage 1 *AED'000*	*Stage 2* *AED'000*	*Stage 3* *AED'000*	*Total* *AED'000*
Balance as at 1 January 2018	15,718	431	-	16,149
Changes due to financial assets recognised in the opening balance that have:				
Transferred to 12 month ECL	431	(431)	-	-
Charge to income statement (note 22)	4,780	-	-	4,780
As at 31 December 2018	20,929	-	-	20,929

8 Investments and Islamic instruments (continued)

An analysis of the investment based on external credit ratings is as follows:

As at 31 December 2019	**Debt securities AED'000**	**Other investments AED'000**	**Total AED'000**
AA	**788,369**	**-**	**788,369**
A+	**51,930**	**-**	**51,930**
A	**247,859**	**-**	**247,859**
A-	**359,092**	**-**	**359,092**
BBB+	**575,416**	**-**	**575,416**
BBB- and below	**866,046**	**-**	**866,046**
Unrated	**613,356**	**828**	**614,184**
Total investments	**3,502,068**	**828**	**3,502,896**
Less: Provision for credit loss	**(100)**	**-**	**(100)**
Net investments	**3,501,968**	**828**	**3,502,796**

As at 31 December 2018	Debt securities AED'000	Other investments AED'000	Total AED'000
AA	1,054,879	-	1,054,879
A+	48,689	-	48,689
A	271,451	-	271,451
A-	291,680	-	291,680
BBB+	536,325	-	536,325
BBB- and below	649,612	-	649,612
Unrated	972,087	834	972,921
Total investments	3,824,723	834	3,825,557
Less: Provision for credit loss	(1,423)	-	(1,423)
Net investments	3,823,300	834	3,824,134

9 Property, equipment and capital work-in-progress

	Freehold land and buildings AED'000	*Motor vehicles, leasehold improvements, furniture, fixtures and equipment AED'000*	*Capital work-in-progress AED'000*	*Total AED'000*
Cost or valuation:				
At 1 January 2019	**432,360**	**265,865**	**96,688**	**794,913**
Correction of opening balances	**2**	**(7)**	**2**	**(3)**
Restated at 1 January 2019	**432,362**	**265,858**	**96,690**	**794,910**
Additions	**-**	**3,530**	**21,141**	**24,671**
Transfers	**-**	**1,856**	**(1,856)**	**-**
Write-offs (note 21)	**-**	**-**	**(5,724)**	**(5,724)**
At 31 December 2019	**432,362**	**271,244**	**110,251**	**813,857**
Depreciation:				
At 1 January 2019	**19,638**	**196,920**	**-**	**216,558**
Correction of opening balances	**5**	**(8)**	**-**	**(3)**
Restated at 1 January 2019	**19,643**	**196,912**	**-**	**216,555**
Charge for the year	**3,747**	**21,677**	**-**	**25,424**
At 31 December 2019	**23,390**	**218,589**	**-**	**241,979**
Impairment on properties	**(85,279)**	**-**	**(56,029)**	**(141,308)**
Net Carrying Value:				
At 31 December 2019	**323,693**	**52,655**	**54,222**	**430,570**

	Freehold land and buildings AED'000	*Motor Vehicles, leasehold improvements, furniture, fixtures and equipment AED'000*	*Capital work-in-progress AED'000*	*Total AED'000*
Cost or valuation:				
At 1 January 2018	432,257	267,162	83,280	782,699
Additions	103	4,927	16,763	21,793
Transfers	-	3,355	(3,355)	-
Write-offs (note 21)	-	(9,154)	-	(9,154)
Disposals	-	(425)	-	(425)
At 31 December 2018	432,360	265,865	96,688	794,913
Depreciation:				
At 1 January 2018	15,894	176,845	-	192,739
Charge for the year	3,744	25,613	-	29,357
Transfers	-	-	-	-
Write-offs (note 21)	-	(5,295)	-	(5,295)
Disposals	-	(243)	-	(243)
At 31 December 2018	19,638	196,920	-	216,558
Net Carrying Value:				
At 31 December 2018	412,722	68,945	96,688	578,355

9 Property, equipment and capital work-in-progress (continued)

The cost of freehold land included above is AED 338,368,000 (2018: AED 338,368,000).

During 2019, additions to capital work in progress relate to expenditure incurred in connection with the purchase of property and equipment amounting to AED 21,141,000 (2018: AED 16,763,000). Upon completion of associated projects, AED 1,856,000 (2018: AED 3,355,000) was transferred to 'motor vehicles, leasehold improvements, furniture, fixtures and equipment' whilst AED 5,724,000 (2018: Nil) was written-off.

During 2019, the Bank undertook a review of its branch network and wrote off building and furniture and equipment with a net carrying value of AED Nil (2018: AED 3,859,000).

Included in Property, equipment and capital work-in-progress are plots of land with gross carrying values of AED 422,100,000 (2018: AED 416,165,000). Management has completed the assessment of the carrying values of these plots of land and has accordingly recognised an impairment of AED 141,308,000 (2018: Nil).

Intangible assets relating to computer software are included within equipment with a net carrying value of AED 13,648,000 (2018: AED 20,357,000). Description of the valuation techniques used and key inputs to valuation of properties is as follows:

	Valuation technique	**Significant unobservable inputs**	**Range**
Plot 1	DCF method (refer below)	Duration of construction	24 months
		Discount rate	8.0%
		Proposed development of 2 Towers	Tower A and B
		Estimated sales revenue per sq.ft	Sale price - Tower A (AED 1,500 – 1,700 per sq. ft) - Tower B (AED 1,150 – 1,600 per sq. ft)
Plot 2	Sales Comparison method (refer below)	Proposed development of 1 Tower	Tower comprising of G + 31 floors and additional 7 podium levels
		Land value based on height range	G+5 (AED 1,665 per sq. ft) to G+20 (AED 7,415 per sq. ft)
		Recent comparable sale in FY 2015	Sale at AED 6,333 per sq. ft in nearby location

Discounted cash flow ("DCF") valuation method

Using the DCF method involves forecasting future cash flows from the property based on precisely stated market-based assumptions. This method allows for explicit modelling of income associated with the development of the property. These future financial benefits then are discounted to present value by adopting an appropriate discount rate.

Sales comparison method

This method involves analysing sales and asking prices of similar plots of land and comparing these to the property owned.

10 Other assets

	2019 AED'000	2018 AED'000
Interest receivable	**96,320**	102,020
Positive fair value of derivatives (note 25)	**25,163**	83,636
Acceptances	**314,303**	385,744
Prepayments and other assets	**65,471**	73,928
Right-of-use assets	**18,059**	-
Assets repossessed in settlement of debts (refer below)	**184,915**	293,160
	704,231	938,488

The Bank's portfolio of assets repossessed in settlement of debts amounted to AED 293,160,000 (2018: 293,160,000). During 2019, the management has completed an assessment of the carrying values of these properties and has accordingly recognised an impairment of AED 108,245,000 (2018: Nil).

Grading of credit exposure of other assets along with stages is shown below:

Other assets	***Stage 1 AED'000***	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
High	**23,163**		-	**23,163**
Standard	**311,814**	**134,926**	-	**446,740**
Watch list	**2,886**	**2,305**	-	**5,191**
As at 31 December 2019	**337,863**	**137,231**	-	**475,094**

Other assets	*Stage 1 AED'000*	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
High	76,672	-	-	76,672
Standard	490,844	29,256	-	520,100
Watch list	1,805	19,468	-	21,273
As at 31 December 2018	569,321	48,724	-	618,045

11 Due to banks

	2019 AED'000	2018 AED'000
Demand deposits	**7,732**	30,168
Term deposits	**1,869,985**	2,121,280
	1,877,717	2,151,448

Term deposits include borrowings through repurchase agreements of AED 348,888,000 (2018: AED 550,875,000). Demand deposits include Nil balances (2018: AED 18,495,000) held as margin for derivative transactions.

	2019 AED'000	2018 AED'000
Gross amounts due to banks by geographical area		
Within U.A.E.	**1,322,783**	932,293
Within GCC	**57,937**	281,694
Other countries	**496,997**	937,461
	1,877,717	2,151,448

12 Customers' deposits and Islamic customer deposits

	2019 AED'000	2018 AED'000
Term deposits	**9,536,572**	10,005,532
Current accounts	**2,834,551**	3,630,325
Call and saving accounts	**314,445**	403,102
	12,685,568	14,038,959

Customer' deposits include Islamic customer deposits amounting to AED 3,041,617,000 (2018: AED 4,462,553,000) undertaken through the Bank's Shari'a - compliant Islamic window.

13 Medium term borrowings

Movement in medium term borrowings during the year is as follows:

	2019 AED'000	2018 AED'000
Balance as at 1 January	**954,850**	844,629
Issued during the year	**807,951**	679,413
Repaid during the year	**(275,438)**	(569,192)
Balance as at 31 December	**1,487,363**	954,850

The below table details the maturity, currency and interest rate details of the medium term borrowings:

Maturity	Currency	Fixed / Floating	Interest Rate	2019 AED'000	2018 AED'000
2019	USD	Floating	LIBOR + 1.50%	-	275,437
2020	USD	Floating	LIBOR + 1.50%	**679,413**	679,413
2020	USD	Floating	LIBOR + 1.20%	**91,813**	-
2021	USD	Floating	LIBOR + 1.40%	**716,137**	-
				1,487,363	954,850

14 Other liabilities

	2019 AED'000	2018 AED'000
Acceptances	**314,303**	385,744
Interest payable	**181,709**	167,266
Negative fair value of derivatives (note 25)	**135,503**	64,088
ECL on off-balance sheet exposures and due from other banks	**91,381**	42,959
Staff related provisions	**31,991**	30,339
Accrued expenses	**31,402**	68,006
Un-presented cheques	**25,597**	32,403
Lease liability	**18,247**	-
Others	**83,826**	45,495
	913,959	836,300

14 Other liabilities (continued)

	2019 AED'000	2018 AED'000
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	**23,058**	28,519
Other liabilities	**8,933**	1,820
	31,991	30,339

In accordance with UAE labour law, the Bank provides for end of service benefit for its expatriate employees. Movements in the liability recognised in the statement of financial position in respect of end of service benefits are as follows:

	2019 AED'000	2018 AED'000
Liability as at 1 January	**28,519**	28,116
Expense recognised in the statement of income	**6,559**	8,095
End of service benefits paid	**(12,020)**	(7,692)
Liability as at 31 December	**23,058**	28,519

15 Share capital and reserves

a) Share capital

The authorised, issued and fully paid up share capital of the Bank comprises 2,062,550,649 (2018: 2,062,550,649) shares of AED 1 each. See note 22 for details.

On 15 January 2018, the Bank held an Extraordinary General Meeting to approve a rights issue, offering existing shareholders 1 ordinary share for every 2 ordinary shares held. Subsequently in March 2018, the rights issue was fully subscribed and resulted in an increase in the paid up share capital of the Bank by AED 687,516,883 from AED 1,375,033,766 (1,375,033,766 ordinary shares) to AED 2,062,550,649 (2,062,550,649 ordinary shares).

b) Special reserve

Decretal Federal Law No. (14) of 2018 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital.

c) Statutory reserve

UAE Federal Law No.(2) of 2015 and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

d) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors.

e) Revaluation reserve

The revaluation reserve is used to record increases in the fair value of freehold land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in comprehensive income. In 2008, the Bank changed its accounting policy to the cost basis of accounting for land and buildings.

15 Share capital and reserves (continued)

f) Dividends

The directors do not propose any cash dividend for the year ended 31 December 2019 (2018: Nil).

g) Cumulative changes in fair value

Cumulative changes in fair value reserve includes the net change in fair value of FVOCI assets and the net effective portion of changes in fair value of cash flow hedges (if any).

16 Interest income and income from Islamic financing products

	2019 AED'000	2018 AED'000
Interest on loans and advances to customers	**677,383**	720,333
Interest on money market and interbank transactions	**101,758**	79,336
Interest on debt investments securities and profit on sukuk's	**145,213**	133,399
	924,354	933,068

17 Interest expense and distribution to depositors

	2019 AED'000	2018 AED'000
Interest on customer deposits	**356,441**	297,123
Interest on interbank transactions	**176,947**	147,718
	533,388	444,841

18 Net fees and commission income

	2019 AED'000	2018 AED'000
Fees on letters of credit and acceptances	**16,300**	17,874
Fees on guarantees	**28,654**	31,289
Fees on loans and advances	**44,379**	41,760
Commission expense	**(14,270)**	(14,626)
	75,063	76,297

19 Foreign exchange income

Foreign exchange income comprises mainly of net gains of AED 16,551,000 (2018: AED 21,523,000) arising from trading in foreign currencies.

20 Other operating income

	2019 AED'000	2018 AED'000
Charges recovered from customers	**28,110**	28,908
Income from collections	**3,753**	4,420
Others	**23,130**	20,088
	54,993	53,416

Other income primarily includes realized gain of AED 22,645,000 (2018: loss of AED 4,370,000) on sale of FVOCI investments.

21 Other operating expenses

	2019 AED'000	2018 AED'000
Occupancy and maintenance costs	**36,112**	41,672
Legal and professional fees	**11,821**	16,303
Other administrative expenses	**29,962**	19,127
Write-off of property and equipment (note 9)	**5,724**	3,859
	83,619	80,961

22 Net impairment losses

Provision for credit losses recognised in the statement of income is as follows

	2019 AED'000	2018 AED'000
Net impairment of financial assets on:		
Loans and advances and Islamic financing receivables (note 7)	**432,367**	283,548
Contingent liabilities (note 26)	**31,390**	(21,163)
Due from other banks (note 6)	**50**	(45)
Investments and Islamic instruments (note 8)	**1,027**	4,780
Principal waivers on loans and advances and Islamic financing receivables	**43**	-
Net impairment of non-financial assets on:		
Property, equipment and capital work-in-progress (note 9)	**141,308**	-
Other assets (note 10)	**108,245**	-
Recovery on bad debts written off	**(12,973)**	(25,225)
Net impairment losses	**701,457**	241,895

23 Earnings per share

Basic earnings per share is based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	2019 AED'000	2018 AED'000
Net profit for the year	**(470,753,000)**	77,227,000
Number of ordinary shares:		
Ordinary shares of AED 1 each at the beginning of the year	**2,062,550,649**	1,375,033,766
Ordinary shares rights issue of 1 for every 2 held of AED 1 each issued during the year	-	687,516,883
Ordinary shares of AED 1 each at the end of the year	**2,062,550,649**	2,062,550,649
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	**2,062,550,649**	1,375,033,766
Effect of bonus shares	-	196,433,395
Deemed number of shares in issue before rights issue	**2,062,550,649**	1,571,467,161
Effect of rights issue of 491,083,488 shares weighted for 10 months of the year	-	409,236,240
Weighted average number of shares of AED 1 each outstanding for the year	**2,062,550,649**	1,980,703,401
Basic earnings per share	**(AED 0.23)**	AED 0.04

The figures for diluted earnings per share are the same as basic earnings per share as the Bank has not issued any instruments which would have an impact on earnings per share if or when exercised.

24 Related party transactions

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, directors of the Bank, key management personnel of the Bank and companies over which such shareholders and directors exercise control or significant influence either directly or indirectly. The significant balances outstanding at 31 December are as follows:

	2019 AED'000	2018 AED'000
Shareholders:		
Due from banks	**712**	1,330
Due to other banks	**2,566**	3,816
Medium term borrowings	**165,263**	165,263
Commitments and contingencies	**5,285**	5,310
Directors:		
Loans and advances	**110,588**	215,452
Customers' deposits	**3,294**	4,699
Commitments and contingencies	**45**	45

24 Related party transactions (continued)

	2019 AED'000	2018 AED'000
Other related entities of shareholders and directors:		
Loans and advances	**341,437**	292,745
Investments	**67,198**	70,070
Due from banks	**32**	10
Due to other banks	**665**	177
Customers' deposits	**169,963**	161,711
Commitments and contingencies	**140,105**	216,162
Key management personnel of the Bank:		
Loans and advances	**3,686**	2,086
Customers' deposits	**2,302**	2,848
Shareholders, directors and their related entities and key management personnel:		
Accrued interest income	**5,081**	7,713
Accrued interest expense	**3,946**	2,240
Expected credit loss held on all related party balances:		
Expected credit loss	**18,555**	8,729

The income, expenses, purchase and sale of investments in respect of related parties during the year included in the statement of income are as follows:

	2019 AED'000	2018 AED'000
Shareholders, directors and their related entities		
Interest income	**31,546**	39,516
Interest expense	**8,340**	4,585
Gain / (loss) from sale of investments	**250**	(2,746)
Purchase of investments	**7,079**	25,454
Sale of investments	**14,509**	34,163
Sale of loans and receivables	**305,130**	-
Loss on sale of loans and receivables	**44,870**	-

24 Related party transactions (continued)

	2019 AED'000	2018 AED'000
Key management personnel		
Number of key management personnel	**10**	8
Salaries and other short term benefits	**16,880**	18,075
Employees' end of service benefits	**800**	939
Total compensation to key management personnel	**17,680**	19,014
Interest income	**69**	42
Interest expense	**19**	64

Terms and conditions of transactions with related parties

The above mentioned outstanding balances and transactions arose from the ordinary course of business and have been conducted on an arm's length. The interest charged to, and by, related parties is at normal commercial rates. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Bank has not recorded any stage 3 impairment on amounts owed by related parties (2018: Nil).

The Bank has leased office space in various premises owned by a related party. The property rentals less associated expenses for the year amounted to AED 4,262,000 (2018: AED 2,681,000). The property rentals are negotiated each year at market rates.

Movement in the gross balances of all related party loans and advances

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
Gross carrying amount as at 31 December 2018	**257,925**	**252,358**	-	**510,283**
Net of new assets originated and assets repaid	**(76,525)**	**21,953**	-	**(54,572)**
Write-offs	-	-	-	-
Transferred from Stage 1	-	-	-	-
Transferred from Stage 2	**35,449**	**(35,449)**	-	-
Transferred from Stage 3	-	-	-	-
As at 31 December 2019	**216,849**	**238,862**		**455,711**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Gross carrying amount as at 31 December 2017	244,400	55,048	-	299,448
Net of new assets originated and assets repaid	217,872	(7,037)	-	210,835
Write-offs	-	-	-	-
Transferred from Stage 1	(204,347)	204,347	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
As at 31 December 2018	257,925	252,358	-	510,283

24 Related party transactions (continued)

Movement in provision for impairment of related party loans and advances

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Balance as at 31 December 2018	1,609	4,564	-	6,173
Charge to income statement	3,150	(964)	-	2,186
As at 31 December 2019	**4,759**	**3,600**	-	**8,359**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Balance as at 1 January 2018	1,559	1,972	-	3,531
Charge to income statement	50	2,592	-	2,642
As at 31 December 2018	1,609	4,564	-	6,173

25 Derivatives

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards and swaps.

25.1 Derivative product types

a) Forward Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Bank has credit exposure to the counterparties of forward contracts.

b) Options

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

c) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

25 Derivatives (continued)

25.2 Purpose of derivatives

The Bank is a party to derivative instruments in the normal course of meeting the needs of the Bank's customers. In addition, as part of its risk management activity, the Bank uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

Over-the-counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices actual market transactions and the Bank's best estimate of the most appropriate model inputs (note 27).

The tables below show the fair values of derivative financial instruments for risk management and hedging purposes, recorded as assets and liabilities, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

25.2.1 Derivatives held for risk management

31 December 2019				**Notional amounts by term to maturity**			
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount AED'000**	**Within 3 months AED'000**	**3-12 months AED'000**	**1-5 years AED'000**	**Over 5 years AED'000**
Forward contracts	**14,536**	**(4,140)**	**5,150,712**	**3,094,362**	**1,885,997**	**170,353**	-
Foreign currency options	-	-	-	-	-	-	-
Interest rate swaps	**10,627**	**(10,627)**	**640,457**	-	-	**640,457**	-
	25,163	**(14,767)**	**5,791,169**	**3,094,362**	**1,885,997**	**810,810**	-

				Notional amounts by term to maturity			
31 December 2018	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Forward contracts	62,469	(45,496)	11,997,742	5,984,663	4,190,590	1,822,489	-
Foreign currency options	15	-	4,205	-	4,205	-	-
Interest rate swaps	2,211	(2,211)	413,143	-	8,593	404,550	-
	64,695	(47,707)	12,415,090	5,984,663	4,203,388	2,227,039	-

25 Derivatives (continued)

25.2 Purpose of derivatives (continued)

25.2.1 Derivatives held for risk management (continued)

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a benchmark interest rate. Interest rate swaps are matched to specific purchases of investments.

The Bank hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

When fair value hedge accounting is applied by the Bank, the Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item using regression analysis. The assessment is based on an evaluation of the quantitative measures of the regression results.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

At 31 December 2019, the Bank held the following interest rate swaps as hedging instruments in fair value hedges of interest risk, along with amounts relating to hedged items.

				Notional amounts by term to maturity			
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount AED'000**	**Within 3 months AED'000**	**3-12 months AED'000**	**1-5 years AED'000**	**Over 5 years AED'000**
31 December 2019							
Hedge of investments	**-**	**(120,736)**	**2,159,177**	**-**	**36,725**	**826,050**	**1,296,402**
31 December 2018							
Hedge of investments	18,941	(16,381)	2,737,962	-	-	810,337	1,927,625

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totalling to AED 2,291,282,000 (2018: AED 2,716,187,000). These hedged items comprise of debt instruments which are held as FVOCI.

During 2019, the Bank has recognised a gain of AED 7,664,000 (2018: gain of AED 2,438,000) relating to hedge ineffectiveness calculated as follows:

	2019		2018	
	Change in value AED'000	**Effectiveness recognised in profit and loss AED'000**	Change in value AED'000	Effectiveness recognised in profit and loss AED'000
On hedging instruments	**(123,361)**	**7,664**	6,558	2,438
On hedged items	**131,025**		(4,120)	

25.3 Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 94% (2018: 98%) of the Bank's derivative contracts are entered into with other financial institutions.

26 Contingent liabilities and commitments

Credit related commitments

The Bank's contractual amounts in respect of letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These commitments are revocable and generally have fixed expiry dates or other termination clauses. Since commitments are revocable, may expire without being drawn down, and also the conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash outflow requirements.

The Bank has the following credit related commitments:

	2019 AED'000	2018 AED'000
Contingent liabilities		
Letters of credit	**278,390**	404,649
Guarantees	**3,234,297**	3,434,351
	3,512,687	3,839,000
Commitments		
Undrawn loan commitments	**2,404,959**	2,563,401

The undrawn loan commitments of the Bank are all revocable and are not considered for ECL computation.

Grading of gross balances of commitments and contingent liabilities along with stages

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
High	**8,033**	**117**	**-**	**8,150**
Standard	**2,318,718**	**945,178**	**-**	**3,263,896**
Watch list	**88,327**	**84,198**	**4,090**	**176,615**
Default	**-**	**-**	**64,026**	**64,026**
Total gross carrying amount	**2,415,078**	**1,029,493**	**68,116**	**3,512,687**
Expected credit loss	**(14,000)**	**(45,462)**	**(31,833)**	**(91,295)**
As at 31 December 2019	**2,401,078**	**984,031**	**36,283**	**3,421,392**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
High	15,785	162	-	15,947
Standard	2,944,967	571,632	-	3,516,599
Watch list	10,150	250,922	-	261,072
Default	-	-	45,382	45,382
Total gross carrying amount	2,970,902	822,716	45,382	3,839,000
Expected credit loss	(12,862)	(30,059)	-	(42,921)
As at 31 December 2018	2,958,040	792,657	45,382	3,796,079

26 Contingent liabilities and commitments (continued)

Movement in the gross balance of contingent liabilities

Gross carrying amount	***Stage 1 AED'000***	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
As at 31 December 2018	**2,970,902**	**822,716**	**45,382**	**3,839,000**
Changes due to financial assets recognised in the opening balance that have:				
Transferred from Stage 1	**(362,778)**	**362,778**	-	-
Transferred from Stage 2	-	**(27,279)**	**27,279**	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	**(193,046)**	**(128,722)**	**(4,545)**	**(326,313)**
As at 31 December 2019	**2,415,078**	**1,029,493**	**68,116**	**3,512,687**

Gross carrying amount	*Stage 1 AED'000*	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
As at 1 January 2018	3,319,538	671,628	51,299	4,042,465
Changes due to financial assets recognised in the opening balance that have:				
Transferred from Stage 1	(301,121)	301,121	-	-
Transferred from Stage 2	-	(8,239)	8,239	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	(47,515)	(141,794)	(14,156)	(203,465)
As at 31 December 2018	2,970,902	822,716	45,382	3,839,000

Movement in the provision for impairment of contingent liabilities

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
Balance as at 31 December 2018	**12,862**	**30,059**	-	**42,921**
Changes due to provisions recognised in the opening balance that have:				
Transferred to 12 month ECL	**637**	**(637)**	-	-
Transferred to lifetime ECL not credit impaired	**(10,594)**	**10,594**	-	-
Transferred from ECL credit impaired on loans (note 7)	-	-	**16,984**	**16,984**
Charge to income statement (note 22)	**3,975**	**(6,286)**	**14,849**	**12,538**
Changes in estimate (note 4.2 and 22)	**7,120**	**11,732**	-	**18,852**
As at 31 December 2019	**14,000**	**45,462**	**31,833**	**91,295**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Balance as at 1 January 2018	11,403	35,805	16,876	64,084
Changes due to provisions recognised in the opening balance that have:				
Transferred to lifetime ECL not credit impaired	(587)	587	-	-
Charge to income statement (note 22)	2,046	(6,333)	(16,876)	(21,163)
As at 31 December 2018	12,862	30,059	-	42,921

27 Risk management

Introduction

Risk is inherent in all of the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including credit, liquidity, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organisation, roles and responsibilities of Board and management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Bank's strategic planning process.

Risk Management Structure

Board level committees

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate board sub-committees responsible for managing and monitoring risks.

(a) Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

(b) Board Audit Committee

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Bank, internal controls, compliance and internal / external audit processes.

(c) Board Risk Committee

The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Bank's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

(d) Group Remuneration Committee

The Group Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

Management Groups

The Board level committees are further supplemented by the management groups / functions who are responsible for day to day monitoring of risks.

27 Risk management (continued)

Risk Management Structure (continued)

(a) Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safe-guarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

(b) Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

(c) Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of, and the Bank's compliance with, its procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect both the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assess the appropriateness of the allowance for credit losses on a quarterly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, GMRC and all other relevant members of management on all aspects of risk taken by the Bank including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

Risk Mitigation

The Bank actively uses collateral to reduce its credit risks.

Also, as part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

Risk concentration

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 Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

27 Risk management (continued)

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment / contractual obligation, resulting in a financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is the single largest risk for the Bank's business and is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Notes	**2019 AED'000**	2018 AED'000
Cash and balances with UAE Central Bank (excluding cash on hand)	5	**2,103,437**	1,792,299
Due from other banks	6	**739,337**	520,172
Loans and advances (net of provisions)	7	**11,563,490**	12,759,101
Investments	8	**3,502,068**	3,824,723
Other assets*	10	**475,094**	618,045
*excluding prepayments and assets acquired in settlement of debt and lease assets			
Total		**18,383,426**	19,514,340
Letters of credit	26	**278,390**	404,649
Guarantees	26	**3,234,297**	3,434,351
Undrawn loan commitments	26	**2,404,959**	2,563,401
Total		**5,917,646**	6,402,401
Total credit risk exposure		**24,301,072**	25,916,741

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

27 Risk management (continued)

Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client / counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2019 was AED 560,000,000 (2018: AED 448,483,000).

The Bank's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2019		2018	
	Assets AED'000	**Contingent liabilities and commitments AED'000**	Assets AED'000	Contingent liabilities and commitments AED'000
United Arab Emirates	**16,905,487**	**5,694,169**	17,372,395	5,864,089
Other Middle East countries	**1,013,802**	**110,344**	1,516,345	269,423
Europe	**75,404**	**31,616**	75,082	32,236
USA	**63,452**	**-**	234,814	-
Rest of the World	**325,281**	**81,517**	315,704	236,653
Total	**18,383,426**	**5,917,646**	19,514,340	6,402,401

An industry sector analysis of the Bank's maximum exposure to credit risk (excluding cash on hand) after provisions but before taking into account collateral held or other credit enhancements, is as follows:

	2019 AED'000	2018 AED'000
Financial services	**4,855,554**	4,198,045
Trade	**2,075,331**	2,499,536
Manufacturing	**1,303,934**	1,602,617
Government and public sector	**3,706,503**	3,924,156
Construction	**628,262**	927,998
Services	**2,002,358**	1,900,671
Others	**5,278,601**	5,605,030
	19,850,543	20,658,053
Less: impairment provision on loans and advances	**(1,467,117)**	(1,143,713)
	18,383,426	19,514,340

Past due but not impaired

Past due loans and advances include those that are past due on their repayment schedule. Aging analysis of past due but not impaired loans and advances is as follows:

31 December 2019	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 91 days AED'000	Total AED'000
Loans and advances	**34,358**	**29,076**	**9,106**	**32,345**	**104,885**
31 December 2018					
Loans and advances	53,642	12,285	59,373	60,810	186,110

Approximately 94% (2018: 95%) of the above loans are advanced to the corporate sector.

27 Risk management (continued)

Credit risk (continued)

Loans and advances and Islamic financing receivables with renegotiated terms

Loans and advances and Islamic financing receivables with renegotiated terms are those which have been rescheduled or restructured and where the Bank has made concessions that it would otherwise not consider. Rescheduled and restructured loans are classified under Stage 2 attracting lifetime ECL – not credit impaired impact.

The carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated are as follows:

	2019 **AED'000**	2018 AED'000
Loans and advances and Islamic financing receivables	**1,145,739**	990,290

	Stage 1 ***AED'000***	***Stage 2*** ***AED'000***	***Stage 3*** ***AED'000***	***Total*** ***AED'000***
Outstanding balance	**39,883**	**556,477**	**549,379**	**1,145,739**
Less: Provision for impairment	**(794)**	**(150,645)**	**(340,707)**	**(492,146)**
As at 31 December 2019	**39,089**	**405,832**	**208,672**	**653,593**

	Stage 1 *AED'000*	*Stage 2* *AED'000*	*Stage 3* *AED'000*	*Total* *AED'000*
Outstanding balance	30,226	546,786	413,278	990,290
Less: Provision for impairment	(516)	(118,497)	(200,322)	(319,335)
As at 31 December 2018	29,710	428,289	212,956	670,955

Collateral and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The main types of collateral obtained are cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other Bank companies. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Collateral is generally not held against non-trading investment and due from banks and financial institutions. Management monitors the market value of collateral and wherever necessary the Bank requests additional collateral in accordance with the underlying agreement, and considers collateral value during its periodic review of credit facilities and adequacy of provision for impairment on loans and advances.

The percentage of collateralized exposure and the principal types of collateral held against loans and advances are as follows:

	Percentage of collateralized exposure		
	2019	2018	**Principal type of collateral held**
Retail Mortgage Loans	**100%**	100%	Residential property
Corporate customers	**64%**	66%	Cash, securities, vehicles, property and equipment, commercial property, inventory and trade receivables

27 Risk management (continued)

Credit risk (continued)

Retail mortgage loans

Credit exposure on retail mortgage loans by range of loans to value (LTV) ratio are as follows:

	2019	2018
	AED'000	AED'000
LTV ratio		
Less than 50%	**189,084**	264,223
51- 70%	**617,475**	737,976
71- 90%	**975,443**	1,072,170
91- 100%	**140,698**	56,318
More than 100%	**40,094**	14,535
Total	**1,962,794**	2,145,222

LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

Impaired loans

For impaired loans the value of collateral is based on the most recent appraisals. Credit exposure on impaired retail mortgage loans by range of LTV ratio are as follows:

	2019	2018
	AED'000	AED'000
LTV ratio		
Less than 50%	**7,259**	7,263
51- 70%	**16,986**	30,158
More than 70%	**67,151**	37,705
Total	**91,396**	75,126

At 31 December 2019, the carrying amount of impaired loans and advances to retail customers (including mortgages) amounted to AED 140,562,000 (2018: AED 112,718,000) and the value of identifiable collateral held against those loans and advances amounted to AED 103,274,000 (2018: AED 112,686,000).

Corporate customers

At 31 December 2019, the net carrying amount of impaired loans and advances to corporate customers amounted to AED 1,343,258,000 (2018: AED 1,137,885,000) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 572,646,000 (2018: AED 488,482,000). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

27 Risk management (continued)

Credit risk (continued)

Impairment Reserve under the UAE Central Bank

The UAE Central Bank issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE (the "Guidance"). Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under circular 28/2010 of the UAE Central Bank and IFRS 9 is as follows:

	2019 AED'000	2018 AED'000
Impairment Reserve : General		
General Provisions under Circular 28/2010 of UAE Central Bank	**215,789**	236,767
Less: Stage 1 & Stage 2 provisions under IFRS 9	**321,931**	408,667
General Provision transferred to impairment reserve	**-**	-
Impairment Reserve : Specific		
Specific Provisions under Circular 28/2010 of UAE Central Bank	**1,145,186**	735,046
Less: Stage 3 provisions under IFRS 9	**1,145,186**	735,046
Specific Provision transferred to impairment reserve	**-**	-

Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stressed circumstances. To limit this risk, management have arranged diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of UAE equal to 14% of current deposits and 1% of time deposits. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The most important of these is to maintain the regulatory limits for Lending to Stable Resources and Eligible Liquid Assets to total liabilities ratios. The Bank stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance its lending to customers. They are monitored using the lending to stable resources ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with medium term borrowing. Eligible Liquid Assets ratio was introduced by Central Bank of the UAE in 2015 and replaced the Liquid Assets ratio. Eligible liquid assets consist of cash, balances with the Central Bank of UAE, short term bank deposits and eligible debt securities. The ratios as at the year-end were as follows:

	2019	2018
Lending to Stable Resources Ratio	**78.9%**	80.8%
Eligible Liquid Assets Ratio	**18.7%**	15.4%

27 Risk management (continued)

Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds, as at 31 December 2019 is as follows:

	Less than 3 months AED'000	*From 3 months to 6 months AED'000*	*From 6 months to 12 months AED'000*	*Sub total less than 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Subtotal over 12 months AED'000*	*Undated AED'000*	*Total AED'000*
Assets									
Cash and balances with the UAE Central Bank	1,984,497	100,000	100,000	2,184,497	-	-	-	-	2,184,497
Due from other banks	739,337	-	-	739,337	-	-	-	-	739,337
Loans and advances (Gross)	2,845,340	823,146	841,894	4,510,380	3,233,622	5,286,605	8,520,227	-	13,030,607
Investments	-	51,564	258,720	310,284	1,374,622	1,817,059	3,191,681	831	3,502,796
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	430,570	430,570
Other assets	406,587	86,147	14,529	507,263	191,452	5,516	196,968	-	704,231
Provision for impairment of loans and advances and interest in suspense	(1,467,117)	-	-	(1,467,117)	-	-	-	-	(1,467,117)
Total assets	4,508,644	1,060,857	1,215,143	6,784,644	4,799,696	7,109,180	11,908,876	431,401	19,124,921
Liabilities and shareholders' funds									
Due to banks	1,074,233	91,813	631,671	1,797,717	80,000	-	80,000	-	1,877,717
Customers' deposits	8,375,551	2,386,854	1,110,806	11,873,211	812,357	-	812,357	-	12,685,568
Medium term borrowings	-	-	771,225	771,225	716,138	-	716,138	-	1,487,363
Other liabilities	664,671	83,874	11,203	759,748	38,157	92,996	131,153	23,058	913,959
Shareholders' equity	-	-	-	-	-	-	-	2,160,314	2,160,314
Total liabilities and shareholders' equity	10,114,455	2,562,541	2,524,905	15,201,901	1,646,652	92,996	1,739,648	2,183,372	19,124,921
Net liquidity gap	(5,605,811)	(1,501,684)	(1,309,762)	(8,417,257)	3,153,044	7,016,184	10,169,228	(1,751,971)	-

27 Risk management (continued)

Liquidity risk (continued)

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

	Less than 3 months AED'000	*From 3 months to 6 months AED'000*	*From 6 months to 12 months AED'000*	*Sub total less than 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Subtotal over 12 months AED'000*	*Undated AED'000*	*Total AED'000*
Assets									
Cash and balances with the UAE Central Bank	1,840,767	-	50,000	1,890,767	-	-	-	-	1,890,767
Due from other banks	520,172	-	-	520,172	-	-	-	-	520,172
Loans and advances (Gross)	3,551,628	941,344	403,201	4,896,173	3,836,586	5,170,055	9,006,641	-	13,902,814
Investments	183,794	55,812	129,350	368,956	1,294,418	2,159,923	3,454,341	837	3,824,134
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	578,355	578,355
Other assets	490,752	74,246	40,139	605,137	315,963	17,388	333,351	-	938,488
Provision for impairment of loans and advances and interest in suspense	(1,143,713)	-	-	(1,143,713)	-	-	-	-	(1,143,713)
Total assets	5,443,400	1,071,402	622,690	7,137,492	5,446,967	7,347,366	12,794,333	579,192	20,511,017
Liabilities and shareholders' funds									
Due to banks	1,031,430	300,128	636,265	1,967,823	183,625	-	183,625	-	2,151,448
Customers' deposits	8,817,149	2,491,455	1,834,326	13,142,930	896,029	-	896,029	-	14,038,959
Medium term borrowings	-	-	275,438	275,438	679,412	-	679,412	-	954,850
Other liabilities	669,401	73,373	34,863	777,637	18,042	12,102	30,144	28,519	836,300
Shareholders' equity	-	-	-	-	-	-	-	2,529,460	2,529,460
Total liabilities and shareholders' equity	10,517,980	2,864,956	2,780,892	16,163,828	1,777,108	12,102	1,789,210	2,557,979	20,511,017
Net liquidity gap	(5,074,580)	(1,793,554)	(2,158,202)	(9,026,336)	3,669,859	7,335,264	11,005,123	(1,978,787)	-

27 Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2019 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial Liabilities	*Carrying amount AED'000*	*On demand AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2019							
Due to banks	**1,877,717**	**7,732**	**1,073,365**	**742,462**	**81,935**	**-**	**1,905,494**
Customers' deposits	**12,685,568**	**2,928,302**	**5,531,933**	**3,596,785**	**916,901**	**-**	**12,973,921**
Medium term borrowings	**1,487,363**	**-**	**-**	**790,351**	**752,103**	**-**	**1,542,454**
Other liabilities	**778,456**	**250,454**	**433,940**	**94,062**	**-**	**-**	**778,456**
Financial derivatives	**135,503**	**-**	**14,730**	**44,094**	**205,830**	**87,979**	**352,633**
Total undiscounted financial liabilities	**16,964,607**	**3,186,488**	**7,053,968**	**5,267,754**	**1,956,769**	**87,979**	**17,552,958**

Financial Liabilities	*Carrying amount AED'000*	*On demand AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2018							
Due to banks	2,151,448	30,168	1,005,956	975,231	200,539	-	2,211,894
Customers' deposits	14,038,959	3,930,507	7,061,768	3,904,810	355,767	-	15,252,852
Medium term borrowings	954,850	-	-	287,028	728,765	-	1,015,793
Other liabilities	772,212	188,863	496,158	80,170	7,021	-	772,212
Financial derivatives	64,088	-	18,563	55,688	259,702	145,347	479,300
Total undiscounted financial liabilities	17,981,557	4,149,538	8,582,445	5,302,927	1,551,794	145,347	19,732,051

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding carrying amounts.

	On demand AED'000	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2019						
Inflows	-	**10,066**	**28,779**	**124,606**	**54,435**	**217,886**
Outflows	-	**(14,730)**	**(44,094)**	**(205,830)**	**(87,979)**	**(352,633)**
Net	-	**(4,664)**	**(15,315)**	**(81,224)**	**(33,544)**	**(134,747)**
Discounted at applicable interbank rates	-	**(4,575)**	**(15,036)**	**(79,853)**	**(32,942)**	**(132,406)**

27 Risk management (continued)

Liquidity risk (continued)

	On demand AED '000	*Less than 3 months AED '000*	*3 to 12 months AED '000*	*1 to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2018						
Inflows	-	18,890	55,916	244,744	136,936	456,486
Outflows	-	(18,563)	(55,688)	(259,702)	(145,347)	(479,300)
Net	-	327	228	(14,958)	(8,411)	(22,814)
Discounted at applicable interbank rates	-	318	221	(14,570)	(8,189)	(22,220)

The table below shows the contractual maturity profile of the Bank's contingent liabilities and commitments:

	On demand AED'000	***Less than 3 months AED'000***	***3 to 12 months AED'000***	***1 to 5 years AED'000***	***Over 5 years AED'000***	***Total AED'000***
31 December 2019						
Contingent liabilities	-	**2,623,513**	**739,248**	**149,926**	-	**3,512,687**
Commitments	**2,404,959**	-	-	-	-	**2,404,959**
Total	**2,404,959**	**2,623,513**	**739,248**	**149,926**	-	**5,917,646**
31 December 2018						
Contingent liabilities	-	2,800,124	813,996	224,880	-	3,839,000
Commitments	2,563,401	-	-	-	-	2,563,401
Total	2,563,401	2,800,124	813,996	224,880	-	6,402,401

The Bank expects that not all of the contingent liabilities or commitments will be drawn and therefore the actual cash flows are expected to be significantly lower than those reflected in the above table.

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Asset and Liability Committee (ALCO).

27 Risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

The following table summarises interest rate sensitivity position at the year end. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	Less than 3 months AED'000	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Non Interest Sensitive AED'000*	*Carrying amount AED'000*
31 December 2019						
Assets						
Cash and balances with the UAE Central Bank	1,050,000	200,000	-	-	934,497	2,184,497
Due from other banks	493,975	-	-	-	245,362	739,337
Loans and advances	7,401,635	1,103,919	2,288,146	769,790	-	11,563,490
Investments	36,725	246,900	1,334,230	1,884,110	831	3,502,796
Property, equipment and capital work-in-progress	-	-	-	-	430,570	430,570
Other assets	-	-	-	-	704,231	704,231
Total assets	8,982,335	1,550,819	3,622,376	2,653,900	2,315,491	19,124,921
Liabilities and shareholders' equity						
Due to banks	1,066,503	723,482	80,000	-	7,732	1,877,717
Customers' deposits	5,616,376	3,436,516	798,125	-	2,834,551	12,685,568
Medium term borrowings	1,487,363	-	-	-	-	1,487,363
Other liabilities	-	-	-	-	913,959	913,959
Shareholders' equity	-	-	-	-	2,160,314	2,160,314
Total liabilities and shareholders' equity	8,170,242	4,159,998	878,125	-	5,916,556	19,124,921
On-balance sheet	812,093	(2,609,179)	2,744,251	2,653,900	(3,601,065)	-
Off-balance sheet	2,799,634	-	-	-	5,150,712	7,950,346
Cumulative interest rate sensitivity gap	3,611,727	1,002,548	3,746,799	6,400,699	7,950,346	-

27 Risk management (continued)

Interest rate risk (continued)

31 December 2018	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Non Interest Sensitive AED'000*	*Carrying amount AED'000*
Assets						
Cash and balances with the UAE Central Bank	850,000	50,000	-	-	990,767	1,890,767
Due from other banks	403,975	-	-	-	116,197	520,172
Loans and advances	10,143,760	979,063	1,267,203	369,075	-	12,759,101
Investments	183,794	185,162	1,294,418	2,159,926	834	3,824,134
Property, equipment and capital work-in-progress	-	-	-	-	578,355	578,355
Other assets	-	-	-	-	938,488	938,488
Total assets	11,581,529	1,214,225	2,561,621	2,529,001	2,624,641	20,511,017
Liabilities and shareholders' equity						
Due to banks	1,215,190	722,465	183,625	-	30,168	2,151,448
Customers' deposits	5,108,842	4,244,940	883,069	-	3,802,108	14,038,959
Medium term borrowings	954,850	-	-	-	-	954,850
Other liabilities	-	-	-	-	836,300	836,300
Shareholders' equity	-	-	-	-	2,529,460	2,529,460
Total liabilities and shareholders' equity	7,278,882	4,967,405	1,066,694	-	7,198,036	20,511,017
On-balance sheet	4,302,647	(3,753,180)	1,494,927	2,529,001	(4,573,395)	-
Off-balance sheet	3,151,105	-	-	-	12,001,947	15,153,052
Cumulative interest rate sensitivity gap	7,453,752	3,700,572	5,195,499	7,724,500	15,153,052	-

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2019, including the effect of hedging instruments.

	2019		2018	
	Change in basis points	**Sensitivity of net interest income** AED'000	Change in basis points	Sensitivity of net interest income AED'000
Increase in rate	+25	23,944	+25	25,341
Decrease in rate	-25	(23,944)	-25	(25,341)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

The Bank is also exposed to fair value risk arising from its unhedged fixed rate bonds portfolio. A change in the fair value of these bonds by +/-5% will result in a positive/negative change in the fair value reserve in equity by AED 625,000 (2018: AED 2,900,000).

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). There is uncertainty over the timing and the methods of transition. The Bank is still in the process of evaluating the impact of this reform across its accounting, operational and risk management functions across its business lines.

27 Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and most of the GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicates the currencies to which the Bank had significant exposure at 31 December 2019 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the statement of income (due to the fair value of currency sensitive monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2019		2018	
Currency	**Change in currency rate in %**	**Effect on profit AED'000**	Change in currency rate in %	Effect on profit AED'000
EUR	+10	182	+10	(6)
GBP	+10	2	+10	1

Concentration of financial assets and liabilities by currency

	AED AED'000	*USD AED'000*	*Other AED'000*	*Total AED'000*
Cash and balances with UAE Central Bank	2,093,602	90,895	-	2,184,497
Due from other banks	101,608	597,428	40,301	739,337
Loans and advances and Islamic financing receivables	10,330,876	1,216,936	15,678	11,563,490
Investments and Islamic instruments	442	3,455,695	46,659	3,502,796
Property, equipment and capital work-in-progress	430,570	-	-	430,570
Other assets	647,580	55,934	717	704,231
Total assets	**13,604,678**	**5,416,888**	**103,355**	**19,124,921**
Due to banks	1,047,707	829,985	25	1,877,717
Customers' deposits and Islamic customer deposits	8,748,744	1,666,362	2,270,462	12,685,568
Medium term borrowings	-	1,487,363	-	1,487,363
Other liabilities	641,620	204,124	68,206	913,950
Total liabilities	**10,438,071**	**4,187,834**	**2,338,693**	**16,964,598**
Net shareholders' equity	**2,123,200**	**32,102**	**5,015**	**2,160,317**
Net balance sheet position	**1,043,407**	**1,196,952**	**(2,240,353)**	**6**
Off-balance sheet position	**(1,031,584)**	**(1,194,435)**	**2,236,416**	**10,397**

27 Risk management (continued)

Currency risk (continued)

Concentration of financial assets and liabilities by currency (continued)

	AED *AED'000*	*USD* *AED'000*	*Other* *AED'000*	*Total* *AED'000*
Cash and balances with UAE Central Bank	1,754,584	136,183	-	1,890,767
Due from other banks	10,689	462,863	46,620	520,172
Loans and advances and Islamic financing receivables	11,107,492	1,650,917	692	12,759,101
Investments and Islamic instruments	(880)	3,777,191	47,823	3,824,134
Property, equipment and capital work-in-progress	578,355	-	-	578,355
Other assets	875,790	62,017	681	938,488
Total assets	14,326,030	6,089,171	95,816	20,511,017
Due to banks	737,354	1,413,950	144	2,151,448
Customers' deposits and Islamic customer deposits	9,099,973	1,692,957	3,246,029	14,038,959
Medium term borrowings	-	954,850	-	954,850
Other liabilities	726,685	53,085	56,519	836,289
Total liabilities	10,564,012	4,114,842	3,302,692	17,981,546
Net shareholders' equity	2,591,827	(66,468)	4,105	2,529,464
Net balance sheet position	1,170,191	2,040,797	(3,210,981)	7
Off-balance sheet position	(1,168,622)	(2,016,277)	3,201,995	17,096

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

28 Segmental analysis

For the purposes of reporting to the chief operating decision makers, the Bank is organised into three segments:

Corporate banking	-	principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
Retail banking	-	principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services; and
Treasury	-	principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is debited / credited to business segments based on a pool rate which approximates the marginal cost of funds.

Segmental information for the year ended 31 December 2019 is as follows:

	Corporate banking AED'000	Retail Banking AED'000	Treasury AED'000	Total AED'000
Net interest income	217,279	93,930	79,757	390,966
Other operating income	98,083	18,182	37,533	153,798
Operating expenses	(163,799)	(95,706)	(54,555)	(314,060)
Net impairment losses	(434,546)	(16,895)	(250,016)	(701,457)
Profit for the year	(282,983)	(489)	(187,281)	(470,753)
Capital Expenditure				
- Property and equipment	12,558	3,810	8,303	24,671
31 December 2019				
Segment Assets	9,757,362	2,960,766	6,406,793	19,124,921
Segment Liabilities	10,957,734	2,506,306	3,500,567	16,964,607

28 Segmental analysis (continued)

Segmental information for the year ended 31 December 2018 was as follows:

	Corporate banking AED'000	Retail Banking AED'000	Treasury AED'000	Total AED'000
Net interest income	301,414	111,686	75,127	488,227
Other operating income	105,135	18,576	35,533	159,244
Operating expenses	(195,238)	(77,377)	(55,734)	(328,349)
Net impairment losses	(215,451)	(21,708)	(4,736)	(241,895)
Profit for the year	(4,140)	31,177	50,190	77,227
Capital Expenditure				
- Property and equipment	11,711	3,368	6,714	21,793
31 December 2019				
Segment Assets	11,021,975	3,170,333	6,318,709	20,511,017
Segment Liabilities	11,654,460	3,156,657	3,170,440	17,981,557

The Bank operates in only one geographic area, the Middle East. Accordingly, no geographical analysis of operating income, net profit and net assets is given.

29 Fair values of financial instruments

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 - techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data

29 Fair values of financial instruments (continued)

Financial instruments and assets recorded at fair value

The following table shows an analysis of financial instruments and assets recorded at fair value by level of the fair value hierarchy:

31 December 2019	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	10,627	-	10,627
Forward contracts	-	14,536	-	14,536
Currency swaps	-	-	-	-
	-	25,163	-	25,163
Financial investments FVOCI				
Quoted investments				
Government debt securities	1,418,613	-	-	1,418,613
Other debt securities	2,065,072	-	-	2,065,072
Equities	285	-	-	285
Unquoted Investments				
Equities	-	-	543	543
	3,483,970	-	543	3,484,513
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	131,363	-	131,363
Forward contracts	-	4,140	-	4,140
Currency options	-	-	-	-
	-	135,503	-	135,503

29 Fair values of financial instruments (continued)

Financial instruments and assets recorded at fair value (continued)

31 December 2018	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Available-for-sale investments				
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	21,152	-	21,152
Forward contracts	-	62,469	-	62,469
Currency swaps	-	15	-	15
	-	83,636	-	83,636
Financial investments FVTPL				
Quoted investments				
Government debt securities	183,794	-	-	183,794
Other debt securities	7,175	-	-	7,175
Equities	-	-	-	-
Unquoted Investments				
Equities	-	-	-	-
	190,969	-	-	190,969
Financial investments FVOCI				
Quoted investments				
Government debt securities	1,569,670	-	-	1,569,670
Other debt securities	2,015,232	-	-	2,015,232
Equities	291	-	-	291
Unquoted Investments				
Equities	-	-	543	543
	3,585,193	-	543	3,585,736
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	18,592	-	18,592
Forward contracts	-	45,496	-	45,496
Currency options	-	-	-	-
	-	64,088	-	64,088

The following is a description of the determination of fair value for financial instruments and assets which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

29.1 Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency options and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

29 Fair values of financial instruments (continued)

29.2 Financial investments

Financial investments valued using a valuation technique or pricing models primarily consist of unquoted equities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

29.3 Movements in level 3 financial instruments measured at fair value

During the year, the Bank has invested in unquoted shares of a company amounting to AED Nil (2018: AED 301,000) which have been categorised as level 3. There was no other movement between the levels of financial instruments during the year (2018: AED Nil).

29.4 Gains or losses on level 3 financial instruments included in the profit or loss for the year:

No gains or losses on level 3 financial instruments were included in the profit or loss for the year (2018: AED Nil).

29.5 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

29.6 Financial instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with UAE Central Bank, due from other banks, loans and advances, other assets (excluding derivative assets), due to banks, customers' deposits and other liabilities (excluding derivative liabilities) that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

29.6.1 Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

29.6.2 Financial instruments carried at amortised cost

The fair value of the quoted debt instruments at amortised cost as at 31 December 2019 amounted to AED 18,247,000 (2018: AED 48,628,000). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

30 Capital adequacy

The Bank actively manages the capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules / ratios") and adopted by the Central Bank of UAE in supervising the Bank.

30.1 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Bank manages its capital base and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital base, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio calculations, in accordance with the capital adequacy guidelines as per Basel II and III established for the global banking industry, are as follows:

Capital structure

The table below details the regulatory capital resources of the Bank:

	2019 **AED'000**	2018 AED'000
Tier 1 Capital		
Share capital	**2,062,550**	2,062,550
Statutory reserve	**504,671**	504,671
Special reserve	**422,116**	422,116
General reserve	**9,311**	9,311
Fair value reserves on investment securities at FVOCI	**26,538**	(42,855)
Accumulated losses	**(897,863)**	(426,926)
Total Tier 1	**2,127,323**	2,528,867
Tier 2 Capital		
Eligible general provision	**179,825**	197,306
Total Tier 2	**179,825**	197,306
Total Regulatory Capital	**2,307,148**	2,726,173
Risk weighted exposures		
Credit Risk	**14,385,957**	15,784,475
Market Risk	**2,440**	77,323
Operational Risk	**1,258,429**	1,416,305
	15,646,826	17,278,103

30 Capital adequacy (continued)

30.1 Capital management (continued)

Tier I and II Capital

	2019 AED'000	2018 AED'000
Tier I Capital	**2,127,323**	2,528,867
Tier II Capital	**179,825**	197,306
Capital Base	**2,307,148**	2,726,173

30.2 Capital Ratio:

Total regulatory capital as a percentage of total risk weighted assets	**14.7%**	15.8%
Total tier I regulatory capital as a percentage of total risk weighted assets	**13.6%**	14.6%

Minimum capital required under each of the above items including capital conservation buffer ("CCB") is as below;

Capital element	**2019**	2018
Minimum Common Equity Tier 1 (CET 1) ratio	**7%**	7%
Minimum tier 1 capital ratio	**8.5%**	8.5%
Minimum capital adequacy ratio	**10.5%**	10.5%
CCB	**2.5%**	1.875%

The Bank has complied with all the requirements as set by the Central Bank of UAE in respect of capital adequacy.

31 Social contribution

Social contributions (including donations and charity) made during the year to various beneficiaries amount to AED 735,600 (2018: AED 450,500).

32 Zakat

The articles of association of the Bank do not require the Bank to pay zakat on behalf of its shareholders. Consequently, distribution of the zakat is the responsibility of the shareholders of the Bank.

33 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these financial statements.

34 Legal proceedings

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Bank is expected to arise from legal claims as at 31 December 2019 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.