Ajman Bank PJSC

Report and financial statements
for the year ended 31 December 2020

These audited financial statements are subject to Central Bank of UAE approval and adoption by shareholders at the Annual General Meeting.

Ajman Bank PJSC

Report and financial statements for the year ended 31 December 2020

Contents **Pages**

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax:+971 (0) 4 376 8899
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Ajman Bank PJSC
Ajman
United Arab Emirates

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Ajman Bank PJSC** (the "Bank"), **Ajman, United Arab Emirates** which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows 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 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

Cont'd…

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Ajman Bank PJSC, Ajman (continued)

Key audit matters (continued)

Key audit matter	**How the matter was addressed in our audit**
Impairment of carrying value of Islamic financing and investing assets in accordance with IFRS 9	
As at 31 December 2020, the Bank's gross Islamic financing and investing assets amounted to AED 17 billion and the related impairment allowances amounted to AED 974 million, comprising AED 124 million of allowances against Stage 1 and 2 exposures and AED 850 million of allowances against exposures classified under Stage 3. The audit of the impairment of Islamic financing and investing assets is a key area of focus because of its size (representing 79 % of total assets) and due to the significance of the estimates and judgments used in classifying Islamic financing and investing assets into various stages, determining related provision requirements, and the complexity of the judgements, assumptions and estimates used in the Expected Credit Loss models. Refer to Note 4 to the financial statements for the accounting policy, Note 5 for critical judgements and estimation used by management and Note 6 for the credit risk disclosure. The Bank recognizes allowances for expected credit losses (ECLs) at an amount equal to 12-month ECL (Stage 1) or full lifetime ECL (Stage 2). A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective profit rate. The Bank employs statistical models for ECL calculations and the key variables used in these calculations are probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 4 to the financial statements.	We obtained a detailed understanding of the Bank's Islamic financing and investing assets business processes and the accounting policies of IFRS 9 including the critical accounting estimates and judgments used. We have involved our subject matter experts to assist us in auditing the IFRS 9 ECL models as at 31 December 2020. We tested the design, implementation and operating effectiveness of the relevant controls which included testing: • System-based and manual controls over the timely recognition of impaired Islamic financing and investing assets and advances; • Controls over the ECL calculation models; • Controls over collateral valuation estimates; and • Controls over governance and approval process related to impairment provisions and ECL Models including continuous reassessment by the management. We understood and evaluated the theoretical soundness of the ECL model by involving our internal experts to ensure its compliance with the minimum requirements of the standard. We tested the mathematical integrity of the ECL model by performing recalculations. We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment. For allowance against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Bank's provisioning methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. We assessed the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. We assessed the appropriateness of the Bank's staging on a sample basis.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Ajman Bank PJSC, Ajman (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Impairment of carrying value of Islamic financing and investing assets as per IFRS 9 (continued)	
The Corporate portfolio of Islamic Financing and Investing assets is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging override in accordance with the Bank's policies. The measurement of ECL allowances for retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention, however, it is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period. Retail exposures are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms. The impact of the Covid-19 pandemic and the resulting economic support and relief measurement programmes of governments and central banks have been incorporated in the Bank's measurement of ECL. The Group has updated its macro-economic forecasts and has applied portfolio-level ECL adjustments. Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral. The impairment loss is calculated based on the shortfall in the Islamic financing and investing assets carrying value compared to the net present value of future cash flows using original effective profit rate. The factors considered when determining impairment losses on individually assessed accounts include the customer's aggregate borrowings, risk rating, value of the collateral and probability of successful repossession and the costs involved to recover the debts.	For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. We have selected samples of Islamic financing and investing assets and checked the accuracy of the Exposure at Default (EAD), appropriateness of the Probability of Default (PD) and calculations of the Loss Given Default (LGD) used by the management in their ECL calculations. We held discussions with management to understand the Bank's assessment of the impact of Covid-19 and assessed the ECL overlays, which they had calculated. Furthermore we assessed, as part of our credit review, if the allowances relating to significant Stage 2 and Stage 3 customers, including those customers who availed Targeted Economic Support Scheme (TESS), were reasonable. For exposures determined to be individually impaired, we tested samples of Islamic financing and investing assets and examined management's estimate of future cash flows, we assessed their reasonableness and reperformed the resultant provision calculations. Further, we challenged the estimates and assumptions used by management around the LGD calculation for individually impaired exposures by testing the enforceability and adequacy of valuation of underlying collaterals and estimated recovery on default. We also, assessed the accuracy of disclosures in the consolidated financial statements to determine if they were in compliance with the requirements of IFRSs.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Ajman Bank PJSC, Ajman (continued)

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of 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.

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

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Ajman Bank PJSC, Ajman (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- 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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Ajman Bank PJSC, Ajman (continued)

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. (2) of 2015, we report that during the year ended 31 December 2020:

- we have obtained all the information 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 UAE Federal Law No. (2) of 2015;
- the Bank has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Bank's books of account;
- note 12 to the financial statements of the Bank discloses its investments in equity instruments during the financial year ended 31 December 2020;
- note 32 to the financial statements of the Bank discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2020; and
- note 37 to the financial statements discloses social contributions made during the financial year ended 31 December 2020.

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

Deloitte & Touche (M.E.)

Akbar Ahmad
Registration No. 1141
17 February 2021
Dubai
United Arab Emirates

Statement of financial position
as at 31 December 2020

	Notes	2020 AED'000	2019 AED'000
ASSETS			
Cash and balances with the Central Bank	9	**1,722,122**	2,546,097
Due from banks and other financial institutions	10	**613,271**	658,044
Islamic financing and investing assets, net	11	**16,960,858**	17,110,570
Islamic investments securities at FVTOCI	12	**1,319,691**	2,018,901
Investment in associate	13	**177,556**	74,282
Investment properties	14	**343,393**	783,362
Property and equipment	15	**131,141**	136,210
Other Islamic assets	16	**239,096**	298,324
Total assets		**21,507,128**	23,625,790
LIABILITIES AND EQUITY			
Liabilities			
Islamic customers' deposits	17	**14,226,163**	14,922,760
Due to banks and other financial institutions	18	**4,338,583**	5,733,478
Other liabilities	19	**439,791**	457,233
Total liabilities		**19,004,537**	21,113,471
Equity			
Share capital	20	**2,100,000**	2,100,000
Statutory reserve	21	**258,508**	253,168
Investment fair value reserve		**(60,355)**	(7,256)
General impairment reserve	22	**97,042**	111,583
Retained earnings		**107,396**	54,824
Total equity		**2,502,591**	2,512,319
Total liabilities and equity		**21,507,128**	23,625,790

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the financial statements present fairly in all material respects the financial position, financial performance and cash flows of the Bank.

H.H. Sheikh Ammar Bin Humaid Al Noaimi
Chairman

Mohamed Abdulrahman Amiri
Chief Executive Officer

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

Income statement
for the year ended 31 December 2020

	Notes	2020 AED'000	2019 AED'000
Operating income			
Income from Islamic financing and investing assets	24	**879,081**	989,570
Income from Islamic investments securities at FVTOCI	25	**109,045**	152,063
Fees, commission and other income	26	**48,762**	130,124
Share of results of associate	13	**12,607**	2,462
Total operating income before depositors' share of profit		**1,049,495**	1,274,219
Depositors' share of profits		**(434,815)**	(638,183)
Net operating income		**614,680**	636,036
Expenses			
Staff costs	27	**(182,046)**	(202,581)
General and administrative expenses	28	**(53,092)**	(55,880)
Depreciation of property and equipment	15	**(26,080)**	(16,945)
Impairment charge for financial assets	29.2	**(297,260)**	(276,228)
Impairment charge for non-financial assets	16	**(2,799)**	-
Total expenses		**(561,277)**	(551,634)
Profit for the year		**53,403**	84,402
Earnings per share (AED)	30	**0.025**	0.039

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

Statement of profit or loss and other comprehensive income for the year ended 31 December 2020

	2020 AED'000	2019 AED'000
Profit for the year	**53,403**	84,402
Other comprehensive (loss)/income:		
Items that will not be reclassified subsequently to profit or loss		
Movement in investment fair value reserve for equity instruments at FVTOCI	**(62,585)**	(8,820)
	(62,585)	(8,820)
Items that may be reclassified subsequently to profit or loss		
Fair value gain on investments securities at FVTOCI	**31,881**	110,264
Reclassification adjustments relating to investments securities at FVTOCI	**(24,960)**	(44,375)
	6,921	65,889
Other comprehensive (loss)/income for the year	**(55,664)**	57,069
Total comprehensive (loss)/income for the year	**(2,261)**	141,471

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

Statement of changes in equity
for the year ended 31 December 2020

	Share capital AED'000	Statutory reserve AED'000	Investment fair value reserve AED'000	General impairment reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2019	2,100,000	244,728	(64,325)	-	166,445	2,446,848
Profit for the year	-	-	-	-	84,402	84,402
Other comprehensive income	-	-	57,069	-	-	57,069
Total comprehensive income for the year	-	-	57,069	-	84,402	141,471
Transfer to statutory reserve	-	8,440	-	-	(8,440)	-
Transfer to general impairment reserve (Note 22)	-	-	-	111,583	(111,583)	-
Dividends (Note 23)	-	-	-	-	(73,500)	(73,500)
Directors' remuneration (Note 23)	-	-	-	-	(2,500)	(2,500)
At 31 December 2019	2,100,000	253,168	(7,256)	111,583	54,824	2,512,319
Profit for the year	-	-	-	-	53,403	53,403
Other comprehensive loss	-	-	(55,664)	-	-	(55,664)
Total comprehensive (loss)/income for the year	-	-	(55,664)	-	53,403	(2,261)
Transfer on disposal of equity instrument at FVTOCI	-	-	2,565	-	(2,565)	-
Transfer to statutory reserve	-	5,340	-	-	(5,340)	-
Transfer to general impairment reserve (Note 22)	-	-	-	(14,541)	14,541	-
Zakat	-	-	-	-	(6,217)	(6,217)
Directors' remuneration (Note 23)	-	-	-	-	(1,250)	(1,250)
At 31 December 2020	**2,100,000**	**258,508**	**(60,355)**	**97,042**	**107,396**	**2,502,591**

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

Statement of cash flows
for the year ended 31 December 2020

	2020 **AED'000**	2019 AED'000
Cash flows from operating activities		
Profit for the year	**53,403**	84,402
Adjustments for:		
Depreciation of property and equipment	**26,080**	16,945
Impairment charge on financial assets	**297,260**	276,228
Impairment charge on other non-financial assets	**2,799**	-
Impairment of property and equipment	-	28
Income from Islamic investments securities	**(83,367)**	(108,209)
Fair value adjustment of investment properties	**24,394**	3,194
Realized gain on disposal of Islamic investments securities	**(25,678)**	(43,854)
Share of results of associate	**(12,607)**	(2,462)
Operating cash flows before changes in operating assets and liabilities	**282,284**	226,272
Changes in operating assets and liabilities:		
Decrease/(increase) in Islamic financing and investing assets	**59,626**	(1,086,357)
Decrease in due from banks and other financial institutions	**42,996**	80,579
Decrease/(increase) in statutory deposit with the Central Bank	**275,484**	(22,862)
Decrease/(increase) in International murabahat with the Central Bank	**330,000**	(1,380,000)
Decrease in other assets	**48,906**	49,755
Decrease in Islamic customers' deposits	**(696,597)**	(2,280,773)
(Decrease)/increase in due to banks and other financial institutions	**(1,394,895)**	3,084,756
(Decrease)/increase in other liabilities	**(23,969)**	115,465
Cash used in operations	**(1,076,165)**	(1,213,165)
Payment of directors' remuneration	**(1,250)**	(2,500)
Net cash used in operating activities	**(1,077,415)**	(1,215,665)
Cash flows from investing activities		
Purchase of Islamic investments securities	**(2,089,919)**	(3,207,463)
Proceeds from sale of Islamic investments securities	**2,760,910**	3,181,408
Addition in investment in associate	-	(73,500)
Dividend received from investment in associate	**7,333**	1,680
Purchase of property and equipment	**(21,011)**	(32,361)
Profit income on Islamic investments securities	**80,882**	109,414
Additions to investment properties	**(5,827)**	(455,425)
Proceeds from disposal of investment properties	-	327,000
Proceeds from disposal of investment in subsidiary	**124,897**	-
Net cash generated from/(used in) investing activities	**857,265**	(149,247)
Cash flows from financing activities		
Dividends paid	-	(73,500)
Net cash used in financing activities	-	(73,500)
Net decrease in cash and cash equivalents	**(220,150)**	(1,438,412)
Cash and cash equivalents at the beginning of the year	**809,715**	2,248,127
Cash and cash equivalents at the end of the year (Note 31)	**589,565**	809,715

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

Notes to the financial statements
for the year ended 31 December 2020

1. General information

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

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

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

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these consolidated financial statements. In the current year, the Bank has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2020.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

New and revised IFRS	**Summary**
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments Disclosures* relating to interest rate benchmark reform	The changes ➢ modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform; ➢ are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform; ➢ are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and ➢ require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

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

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

New and revised IFRS	Summary
Amendment to IFRS 3 *Business Combinations* relating to definition of a business	The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They: ➢ clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; ➢ narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; ➢ add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; ➢ remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and ➢ add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* relating to definition of material	Three new aspects of the new definition should especially be noted: ➢ Obscuring. The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A). ➢ Could reasonably be expected to influence. The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote. ➢ Primary users. The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

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

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

New and revised IFRS	Summary
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2 *Share-based payment*, IFRS 3 *Business Combinations*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IFRS 14 *Regulatory Deferral Accounts*, IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IAS 34 *Interim Financial Reporting*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IAS 38 *Intangible Assets*, IFRIC 12 *Service Concession Arrangements*, IFRIC 19 *Extinguishing of Financial Liabilities with Equity Instruments*, IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*, IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, and SIC-32 *Intangible Assets – Web Site Costs* to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	The Bank has adopted the amendments to IFRS 2, IFRS 6, IFRS 15, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC 21 in the current year.
Amendments to IFRS 16 *Leases* relating to Covid-19-Related Rent Concessions	The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2020.

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

2.2 New and revised IFRS in issue but not yet effective

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

New and revised IFRSs	**Effective for annual periods beginning on or after**
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*) The amendments in Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.	1 January 2021
Amendments to IFRS 3 *Business Combinations* relating to Reference to the Conceptual Framework The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment* relating to Proceeds before Intended Use The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* relating to Onerous Contracts - Cost of Fulfilling a Contract The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).	1 January 2022

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRS	**Effective for annual periods beginning on or after**
Annual Improvements to IFRS Standards 2018 – 2020 Makes amendments to the following standards: • IFRS 1 *First-Time Adoption of International Financial Reporting Standards* – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. • IFRS 9 *Financial Instruments* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. • IFRS 16 *Leases* – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. • IAS 41 *Agriculture* – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.	1 January 2022
Amendments to IAS 1 *Presentation of Financial Statements* relating to Classification of Liabilities as Current or Non-Current The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.	1 January 2023
Amendments to IFRS 4 *Insurance Contracts* Extension of the Temporary Exemption from Applying IFRS 9 The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.	1 January 2023
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.	1 January 2023

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRS	**Effective for annual periods beginning on or after**
Amendments to IFRS 17 *Insurance Contracts* Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The main changes are: • Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023. • Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk. • Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination. • Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level. • Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements. • Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives. • Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held. • Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts. • Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.	1 January 2023
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures (2011)* relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	Effective date deferred indefinitely. Adoption is still permitted.

The Bank anticipates that these new standards, interpretations and amendments will be adopted in the Bank's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of Bank in the period of initial application.

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

2.2 New and revised IFRS in issue but not yet effective (continued)

IBOR Transition

Effective from 1 January 2020, the Bank has implemented amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures relating to interest rate benchmark reforms. The amendments (referred as Phase I of IBOR transactions project) addresses the hedge accounting requirements arising before Inter Bank Offer Rate ("IBOR") and proposed a hedging relief for such pre replacement hedges.

Currently, the Bank does not need to take any hedging relief under the amendments such as relief on forward looking analysis during the period of uncertainty beyond the year 2021 as the Bank does not hold any cash flow or fair value hedge instruments.

Phase 2 of the project relates to the replacement of benchmark rates with alternative risk-free rates. The impact of rate replacement on the Bank's product and services remain a key area of focus and accordingly the management and various stakeholders would assess and support the impact of the transition if it holds any hedge instruments in the near future.

3. Definitions

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

Murabaha

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

Wakala

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

3. Definitions (continued)

Istisna'a

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

Mudaraba

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

Musharaka

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

3. Definitions (continued)

Ijarah

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

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

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

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

Sukuk

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

4. Summary of significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws, including the UAE Federal Law No.2 of 2015 and Decretal Federal Law No.14 of 2019.

(b) Basis of preparation

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

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

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

4. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

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

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

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

(c) Basis of consolidation

The principal accounting policies are set out below:

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

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

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

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

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

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

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

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

4. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

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

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

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

(d) Cash and cash equivalents

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

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

(e) Due from banks

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

(f) Financial instruments

Financial assets and liabilities are recognised when Bank becomes a party to the contractual provisions of the instrument.

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

Business model assessment

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Business model assessment (continued)

The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected
- The frequency, volume and timing of sales in prior periods, the reasons for such sales; and
- Its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets

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

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

(i) financing instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

(ii) financing instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);

(iii) all other financing instruments (e.g. instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis;

Notes to the financial statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(iv) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and

(v) the Bank may irrevocably designate a financing instruments that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Islamic financing and investing assets

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

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

(i) Financing instruments at amortised cost or at FVTOCI

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

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

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

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

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

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

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

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

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

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

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

(ii) Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

Fair value option

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

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(iii) Reclassifications

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

(iv) Impairment

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

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

No impairment loss is recognised on Islamic equity investments.

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

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(iv) Impairment (continued)

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

(v) Credit-impaired financial assets

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

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

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

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

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

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

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(vii) Definition of default

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

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

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

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

(viii) Significant increase in credit risk

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

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

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

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(viii) Significant increase in credit risk (continued)

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

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

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

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

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

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

For retail financing, when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

(ix) Modification and derecognition of financial assets

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

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

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

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

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

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

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

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

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

(x) Write-offs

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

Financial liabilities

(i) Classification and subsequent measurement

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

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

  Effective profit method

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

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial liabilities (continued)

(ii) Derecognition

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

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

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

Financial guarantee contracts

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

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Islamic derivative financial instruments

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

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

(g) Investment in associate

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

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

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

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

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

4. Summary of significant accounting policies (continued)

(g) Investment in associate (continued)

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

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

(h) Property and equipment

Recognition and measurement

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

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

Subsequent costs

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

Depreciation

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

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

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

4. Summary of significant accounting policies (continued)

(h) Property and equipment (continued)

Depreciation (continued)

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

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

(i) Investment properties

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

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

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

(l) Provisions and contingent liabilities

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

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

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

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

(m) Zakat Payable

Zakat is accounted as per the instructions of the UAECB Notice No. CBUAE/BSD/N/2020/3519 dated 3rd August 2020 and is approved by the Bank Internal Sharia'a Supervision Committee (the "ISSC"). Zakat for shareholders is computed based on "Net Invested Funds Method" mentioned in AAOIFI Sharia Standard No.35 and AAOIFI Accounting Standard No.9 which is in accordance with the advice of the Internal Sharia'a Supervision Committee and is accounted for by the Bank as follows:

- Zakat is discharged from the retained earnings of the Bank;
- Zakat on Investment Risk Reserve (the "IRR") is calculated and deducted separately from the investment risk reserve balance held with the bank. Zakat on IRR is paid to M/s. Zakat Fund of the UAE; and
- 20% of Zakat paid to M/s. Zakat Fund of the UAE and the remaining amount is parked in Zakat Payable Account which shall be disbursed by a "Distribution Committee" under the supervision of the ISSC.

(n) Acceptances

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

(o) Revenue recognition

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

(p) Fees, commission and other income

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

(q) Dividend income

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

(r) Employees' benefits

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

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

(s) Impairment of non-financial assets

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

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

(t) Foreign currency transactions

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

(u) Segment reporting

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

(v) Fiduciary activities

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

(x) Offsetting of financial assets and liabilities

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

(w) Fair value measurement principles

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

When available, 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.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the 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, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the 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 for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

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

5. Critical accounting judgments and key sources of estimation of uncertainty

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

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

Critical judgments in applying the Bank's accounting policies

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

The COVID-19 pandemic continues to evolve and the economic environment in which we operate continues to be subject to sustained volatility, which could continue to negatively impact our financial results, as the duration of the COVID-19 pandemic and the effectiveness of steps undertaken by governments and central banks in response to the COVID-19 pandemic remain uncertain. The current environment requires particularly complex judgments and estimates in certain areas. We are closely monitoring the changing conditions and their impacts.

COVID-19 Impact on measurement of ECL

The Covid-19 pandemic has had a far-reaching impact on the UAE economy, but slowly the economy is getting back on track post ease of lockdown. The government and CBUAE has implemented a number of measures to assist the business and minimize the impact of the pandemic through Targeted Economic Support Scheme (TESS).

To incorporate the uncertainty, the bank has updated the IFRS-9 model using the latest macro-economic forecast along with override of post Covid-19 projection provided by World Economic Outlook (WEO). As the projection data is taken after Covid-19 shock, IFRS-9 provision model itself incorporates significant Covid-19 impact across the Bank's exposures. Further to applying this WEO override, the bank has used the overlay strategy with management consensus to assign additional ECL charge by removing the upturn scenario and increased the weight for downturn scenario. Taking into consideration broader level measures and guidelines provided by Central Bank of UAE under the Targeted Economic Support Scheme (TESS). The Bank has done the grouping of the customer based on significant increase in credit risk (SICR). The Bank has also considered guidelines issued by the International Accounting Standards Board (IASB) on 27 March 2020 and Basel Committee issued on 4 April 2020 on determination of expected credit losses.

As advised by CBUAE under TESS guidelines, customer grouping is done looking at the customer profile. Customers who have availed TESS and is facing short term liquidity issues without SICR is retained in group 1, while the customer's with SICR is moved to group 2. Under IFRS 9, Islamic financing and investing assets are required to be moved from Stage 1 to Stage 2 if they have been the subject of a significant increase in credit risk (SICR) since origination.

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

COVID-19 Impact on measurement of ECL (continued)

Reasonableness of Forward Looking Information and probability weights

Despite several challenges associated with doing IFRS-9 provision estimate by incorporating the overall impact of Covid-19. The Bank has refreshed the IFRS-9 provision model using the latest macro-economic forecast along with additional shock of macro-economic outlook provided WEO. All the macro-economic variable used within the model has been shocked and applied to incorporate the effect of Covid-19 and bring the forecast in line with recent forecast published by well-known institutions.

The Bank has used the workout LGD model which is purely based on Bank specific data based on its own curing, restructuring, recovery and collateral backing. In addition to incorporation of Covid-19 shock within the IFRS-9 model, the Bank has created additional overlay for corporate and retail portfolio using below set of mechanism.

For corporate portfolio, the Bank has done the grouping of the customers who have availed TESS and simultaneously changed the scenario probability weights, to create additional overlay. For the retail portfolio a level of segmentation has been done where in UAE local exposure has been kept out of the grouping consideration (given the financial stability assurance provided to them)

Additional overlay for Corporate & SME portfolio is estimated as follows:

- Group 1: Customers who have availed TESS, and are facing short term liquidity issues without significant increase in credit risk. 12-month ECL is estimated for these customers keeping them in Stage 1.
- Group 2: Customers who have availed TESS, and are facing significant increase in credit risk (SICR). Life time ECL is estimated for these customers after classifying them in Stage 2.
- Scenario probability weights are changed from existing (Baseline Scenario: 62.5%, Downturn Scenario: 18.75%, Upturn Scenario: 18.75%) to (Baseline Scenario: 75%, Downturn Scenario: 25%, Upturn Scenario: 0%). Upturn Scenario will remain zero during the uncertainty.

Additional overlay for Retail portfolio is estimated as follows:

- Bank ECL model for the retail portfolio is built on pool level data. Separate models are built for different segments of the retail portfolio (i.e. Home Finance, Auto Finance, and Personal Finance).
- Scenario probability weights are changed from existing (Baseline Scenario: 62.5%, Downturn Scenario: 18.75%, Upturn Scenario: 18.75%) to (Baseline Scenario: 75%, Downturn Scenario: 25%, Upturn Scenario: 0%). Upturn Scenario will remain zero during the uncertainty.
- All the retail exposure for UAE local customers who have availed TESS are not considered for grouping consideration as no significant increase in credit risk is anticipated because of financial assurance provided to them.
- By doing broader level assessment for all the expatriate's retail exposure who have availed TESS. Secured exposures which are backed by collateral (i.e. Home Finance, Auto Finance) looked more resilient than unsecured exposure (Personal Finance).
- Looking at overall TESS availed retail expatriates portfolio, 5% of the secured exposures will notice significant increase in credit risk and will move to Group 2 (i.e. Stage 2) whereas 15% of unsecured exposures in this segment will move to Group 2.

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

COVID-19 Impact on measurement of ECL (continued)

Reasonableness of Forward Looking Information and probability weights (continued)

The treasury segment of the portfolio comprises mostly of sukuk, and is classified as FVTOCI. Considering much higher level of due diligence for listed securities, any risk associated with the securities immediately gets reflected in the price. The Bank has kept the scenario weights intact for this segment of portfolio.

The Credit Department of the Bank will progressively keep on collecting all the information related to status of each customer who has applied for relief in the form of deferral during the current period. As soon as enough information is available to ascertain significant increase in credit risk, the department will classify those customers into Group 2. The same will be presented to the Credit committee for approval on the assignment of the customer to the appropriate stage.

Analysis of clients benefitting from payment deferrals

The table below contains analysis of the deferred amount and outstanding balances of customers benefitting from deferrals.

	Corporate banking AED'000	Consumer banking AED'000	Total AED'000
At 31 December 2020			
Deferral Amount			
Islamic Financing	**714,082**	**84,360**	**798,442**
	714,082	**84,360**	**798,442**
Exposures			
Islamic Financing	**4,546,252**	**1,587,212**	**6,133,464**
	4,546,252	**1,587,212**	**6,133,464**

Notes to the financial statements
for the year ended 31 December 2020 (continued)

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

COVID-19 Impact on measurement of ECL (continued)

The table below contains analysis of outstanding balances and related ECL of customers benefiting from deferrals.

	12-month ECL AED'000	Lifetime ECL not credit-impaired AED'000	Lifetime ECL credit-impaired AED'000	Total AED'000
Corporate Banking				
Group 1				
Islamic financing and investing assets	1,601,107	252,579	-	1,853,686
Less: Expected credit losses	(10,954)	(1,097)	-	(12,051)
	1,590,153	**251,482**	**-**	**1,841,635**
Group 2				
Islamic financing and investing assets	-	2,632,711	59,855	2,692,566
Less: Expected credit losses	-	(19,657)	(9,460)	(29,117)
	-	**2,613,054**	**50,395**	**2,663,449**
Consumer Banking				
Group 1				
Islamic financing and investing assets	1,334,736	129,339	-	1,464,075
Less: Expected credit losses	(6,069)	(20,794)	-	(26,863)
	1,328,667	**108,545**	**-**	**1,437,212**
Group 2				
Islamic financing and investing assets	-	90,976	32,161	123,137
Less: Expected credit losses	-	(7,755)	(2,940)	(10,695)
	-	**83,221**	**29,221**	**112,442**

The total changes in Exposure at Default (EAD) since December 2019

Below is an analysis of total changes in EAD since 31 December 2019 on customers benefitting from payment deferrals:

	AED'000
EAD as at 1 January 2020	6,446,578
Additions during the year	585,287
Repayments / de-recognition during the year	(898,401)
EAD as at 31 December 2020	**6,133,464**

Notes to the financial statements
for the year ended 31 December 2020 (continued)

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

COVID-19 Impact on measurement of ECL (continued)

Stage migrations estimated as EAD by portfolio since December 2019

Below is an analysis of stage migrations since 31 December 2019 on customers benefitting from payment deferrals:

	12-month ECL AED'000	Lifetime ECL not credit-impaired AED'000	Lifetime ECL credit-impaired AED'000	Total AED'000
Corporate Banking				
EAD as at 1 January 2020	**2,747,651**	**1,331,035**	**24,289**	**4,102,975**
Transferred from 12-month ECL	(1,392,495)	1,372,895	19,600	-
Transferred from Lifetime ECL not credit-impaired	60,040	(76,798)	16,758	-
Transferred from Lifetime ECL credit-impaired	-	1,114	(1,114)	-
Change in exposure	50,183	257,045	322	307,550
Originated during the year	138,165	-	-	138,165
Derecognised during the year	(2,438)	-	-	(2,438)
EAD as at 31 December 2020	**1,601,106**	**2,885,291**	**59,855**	**4,546,252**
Consumer Banking				
EAD as at 1 January 2020	**2,184,618**	**116,665**	**32,657**	**2,333,940**
Transferred from 12-month ECL	(142,909)	131,436	11,473	-
Transferred from Lifetime ECL not credit-impaired	14,569	(18,848)	4,279	-
Transferred from Lifetime ECL credit-impaired	554	28,860	(29,414)	-
Change in exposure	(61,697)	(26,409)	(622)	(88,728)
Originated during the year	50,377	6,322	15,214	71,913
Derecognised during the year	(710,778)	(17,710)	(1,426)	(729,914)
EAD as at 31 December 2020	**1,334,734**	**220,316**	**32,161**	**1,587,211**

Below is an analysis of change in ECL since 31 December 2019 on corporate customers benefitting from payment deferrals.

	AED'000
ECL allowance as at 1 January 2020	**42,506**
01 – Manufacturing	3,128
02 - Construction and real estate	(3,752)
03 – Education	33
04 – Trading	526
05 – Hospitals	(3,483)
06 – Transportation	(1,046)
07 – Others	3,256
ECL allowance as at 31 December 2020	**41,168**

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

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

During 2020, the Bank has initiated a program of payment relief for its impacted customers by deferring profit/principal due for a period of one month to nine months. These payment reliefs are considered as short-term liquidity to address customer cash flow issues. The relief offered to customers may indicate a SICR. However, the Bank believes that the extension of these payment reliefs do not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the Covid-19 outbreak to resume regular payments.

The accounting impact of the onetime extension of credit facilities due to Covid-19 has been assessed and has been treated as per the requirements of IFRS 9 for modification of terms of arrangement.

Business model assessment

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with7 the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continue to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk

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

Establishing groups of assets with similar credit risk characteristics

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

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

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

Re-segmentation of portfolios and movement between portfolios

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

Models and assumptions used

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

a) Classification of and measurement of financial assets and liabilities

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

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

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

b) Fair value measurement

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

c) Islamic derivative financial instruments

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

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

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

Models and assumptions used (continued)

c) Islamic derivative financial instruments (continue)

(i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

(ii) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

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

Extension and termination options are included in a number of tenancy lease agreement entered into the Bank. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

Key sources of estimation uncertainty

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

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

The determination of the Bank's lease liability depends on certain assumptions, including selection of appropriate discount rate. These determination of discount rate is considered to be a key source of estimation uncertainty as relatively small changes in discount rate may have a significant effect on the carrying amounts of lease liabilities and right to use asset.

6. Financial risk management

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

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

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

Risk Management Framework

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

6.1 Risk management structure

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

Board of Directors

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

Executive committee

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.1 Risk management structure (continued)

Audit committee

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

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

Internal Sharia Supervisory Committee (ISSC)

The ISSC is responsible for Sharia governance in terms of overview and approval of products and documentation in relation to Sharia compatibility and overall Sharia compliance as mentioned in Standard Re. Shari'ah Governance – issued by Central Bank of UAE under the notice No. CBUAE/BSD/N/2020/2123.

Risk Committee of the Board ("RC")

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

Compliance Committee of the Board ("CC")

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

Credit Committee

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

Asset and Liability Committee ("ALCO")

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

Remuneration committee

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

6. Financial risk management (continued)

6.1 Risk management structure (continued)

Risk Management Division ("RMD")

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

Internal Audit

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

6.1.1 Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed in relation to limits established by the Bank. These limits reflect 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.

6.1.2 Credit risk and concentrations of risk

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

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

6. Financial risk management (continued)

6.1.2 Credit risk and concentrations of risk (continued)

Credit risk measurement

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

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

Management of credit risk

The Bank's Credit Risk Management Framework includes:

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

6.1.3 Significant increase in credit risk

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

Internal credit risk ratings

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.1.3 Significant increase in credit risk (continued)

Internal credit risk ratings (continued)

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

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

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

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

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

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

6. Financial risk management (continued)

6.1.4 Measurement of ECL

The key elements used in the computation of ECL are:

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

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

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

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

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

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

6. Financial risk management (continued)

6.1.4 Measurement of ECL (continued)

Groupings based on shared risks characteristics:

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

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

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

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

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

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

	2020 **AED'000**	2019 AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and balances with Central Bank	**1,623,413**	2,456,169
Due from banks and other financial institutions	**613,636**	658,291
Islamic financing and investing assets	**17,934,683**	17,980,956
Islamic investments securities at FVTOCI	**1,118,061**	1,783,110
Other Islamic assets	**153,891**	163,410
	21,443,684	23,041,936
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	**371,424**	1,039,543

Risks relating to credit-related commitments

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the 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. The Bank monitors concentrations of credit risk by industry sectors and geographic location. Identified concentration of credit risk is controlled and managed accordingly.

Concentration of credit risk

By geographic location

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

On balance sheet items

2020	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
Cash and balances with Central Bank	**1,623,413**	**-**	**-**	**1,623,413**
Due from banks and other financial institutions	**536,416**	**56,057**	**21,163**	**613,636**
Islamic financing and investing assets:				
- Retail	**3,458,146**	**-**	**-**	**3,458,146**
- Corporate	**13,000,146**	**44,033**	**563,676**	**13,607,855**
- Treasury	**702**	**-**	**-**	**702**
- Investments	**867,980**	**-**	**-**	**867,980**
Islamic investments securities at FVTOCI	**550,080**	**563,553**	**4,428**	**1,118,061**
Other assets	**153,891**	**-**	**-**	**153,891**
Total	**20,190,774**	**663,643**	**589,267**	**21,443,684**

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Concentration of credit risk (continued)

By geographic location (continued)

On balance sheet items

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

Off balance sheet items

2020	**UAE AED'000**	**GCC AED'000**	**Other AED'000**	**Total AED'000**
Commitments	**138,440**	**-**	**-**	**138,440**
Letters of credit and guarantee	**232,984**	**-**	**-**	**232,984**
Total	**371,424**	**-**	**-**	**371,424**

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

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

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

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

	2020					2019
	Stage 1 12 months ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**POCI Life time ECL AED'000**	**Total AED'000**	Total AED'000
Normal	274,056	339,580	-	-	**613,636**	**658,291**
Watchlist	-	-	-	-		-
Substandard	-	-	-	-		-
Doubtful	-	-	-	-		-
Loss	-	-	-	-		-
Gross carrying amount	**274,056**	**339,580**	**-**	**-**	**613,636**	**658,291**
Impairment allowance	-	365	-	-	365	247
Carrying amount	**274,056**	**339,215**	**-**	**-**	**613,271**	**658,044**

- **Islamic financing and investing assets**

	2020					2019
	Stage 1 12 months ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**POCI Life time ECL AED'000**	**Total AED'000**	Total AED'000
Normal	10,050,713	5,566,836	-	-	15,617,549	15,797,590
Watchlist	-	214,691	-	-	214,691	386,717
Substandard	-	-	589,634	-	589,634	432,081
Doubtful	-	-	494,301	-	494,301	579,390
Loss	-	-	1,018,508	-	1,018,508	785,178
Gross carrying amount	**10,050,713**	**5,781,527**	**2,102,443**	**-**	**17,934,683**	17,980,956
Impairment allowance	32,292	91,805	849,728	-	973,825	870,386
Carrying amount	**10,018,421**	**5,689,722**	**1,252,715**	**-**	**16,960,858**	17,110,570

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Credit risk concentrations (continued)

- **Islamic investments securities at FVTOCI**

	2020					2019
	Stage 1 12 months ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**POCI Life time ECL AED'000**	**Total AED'000**	Total AED'000
Normal	1,115,880	-	-	-	1,115,880	1,780,211
Watchlist	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	54,506	-	54,506	54,506
Gross carrying amount	1,115,880	**-**	**54,506**	**-**	**1,170,386**	1,834,717
Impairment allowance	2,247	-	50,078	-	52,325	51,607
Carrying amount	**1,113,633**	**-**	**4,428**	**-**	**1,118,061**	1,783,110

- **Other financial assets**

	2020					2019
	Stage 1 12 months ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**POCI Life time ECL AED'000**	**Total AED'000**	Total AED'000
Normal	121,480	-	-	-	121,480	125,698
Watchlist	-	336	-	-	336	8,824
Substandard	-	-	14,861	-	14,861	43
Doubtful	-	-	118	-	118	88
Loss	-	-	17,096	-	17,096	28,757
Gross carrying amount	**121,480**	**336**	**32,075**	**-**	**153,891**	163,410
Impairment allowance	-	1	15,379	-	15,380	28,841
Carrying amount	**121,480**	**335**	**16,696**	**-**	**138,511**	134,569

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

- **Financial commitments and financial guarantees**

	2020					2019
	Stage 1 12 months ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**POCI Life time ECL AED'000**	**Total AED'000**	Total AED'000
Normal	357,669	-	-	-	357,669	1,017,315
Watchlist	987	-	-	-	987	4,037
Substandard	-	-	752	-	752	-
Doubtful	-	-	128	-	128	12,425
Loss	-	-	11,888	-	11,888	5,765
Gross carrying amount	**358,656**	**-**	**12,768**	**-**	**371,424**	1,039,542
Impairment allowance	2,174	-	9,818	-	11,992	11,682
Carrying amount	**356,482**	**-**	**2,950**	**-**	**359,432**	1,027,860

Expected credit loss allowance

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

	2020 AED'000	2019 AED'000
Due from banks and other financial institutions	**365**	247
Islamic financing and investing assets	**973,825**	870,386
Islamic investments securities at FVTOCI*	**52,325**	51,607
Other Islamic financial assets	**15,380**	28,841
Financial commitments and financial guarantees	**11,992**	11,682
Total	**1,053,887**	962,763

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

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Due from banks and other financial institutions

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2019	89	158	-	247
New financial assets recognized	-	365	-	365
Financial assets derecognized	(89)	(158)	-	(247)
Loss allowance as at 31 December 2020	**-**	**365**	**-**	**365**

Islamic financing and investing assets

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2019	49,621	81,158	739,607	870,386
Changes in the loss allowance				
- Transfer to stage 1	98	(98)	-	-
- Transfer to stage 2	(4,303)	7,278	(2,975)	-
- Transfer to stage 3	(219)	(12,675)	12,894	-
Change in credit risk	(3,390)	13,399	295,056	305,065
New financial assets recognized	12,996	23,962	440	37,398
Financial assets derecognized	(22,511)	(21,219)	(10,142)	(53,872)
Write-offs	-	-	(185,152)	(185,152)
Loss allowance as at 31 December 2020	**32,292**	**91,805**	**849,728**	**973,825**

Islamic investments securities at FVTOCI

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2019	1,529	-	50,078	51,607
Change in credit risk	(441)	-	-	(441)
New financial assets recognised	1,769	-	-	1,769
Financial assets derecognized	(610)	-	-	(610)
Loss allowance as at 31 December 2020	**2,247**	**-**	**50,078**	**52,325**

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Other Islamic financial assets

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2019	106	1	28,734	28,841
Change in credit risk	(106)	-	7,629	7,523
Write-offs	-	-	(20,984)	(20,984)
Loss allowance as at 31 December 2020	**-**	**1**	**15,379**	**15,380**

Financial commitments and financial guarantees

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 31 December 2019	2,235	-	9,447	11,682
Changes in the loss allowance				
- Transfer to stage 1	(1)	-	1	-
- Transfer to stage 2	-	-	-	-
- Transfer to stage 3	-	-	-	-
Change in credit risk	(125)		370	245
New financial assets recognised	426	-	-	426
Financial assets derecognised	(361)	-	-	(361)
Loss allowance as at 31 December 2020	**2,174**	**-**	**9,818**	**11,992**

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

	2020		2019	
	Gross carrying amount AED'000	**ECL AED'000**	Gross carrying amount AED'000	ECL AED'000
Normal or Past due up to 30 days	**15,576,651**	**177,686**	15,577,017	190,044
Past due 31 - 60 days	**145,907**	**5,664**	377,586	11,321
Past due 61 - 90 days	**299,373**	**13,400**	347,169	5,266
Past due 91 - 180 days	**455,077**	**41,400**	223,848	13,656
Past due of more than 180 days	**1,457,675**	**735,675**	1,455,336	650,099
	17,934,683	**973,825**	17,980,956	870,386

Collateral held as security and other credit enhancements

The Bank holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The Bank holds financial instrument of AED 3.9 billion for which no loss allowance is recognised because of collateral at 31 December 2020 (31 December 2019: AED 3.05 billion).

Mortgage financing

The Bank holds residential and commercial properties as collateral for the mortgage financing it grants to its customers. The Bank monitors its exposure to retail mortgage financing using the LTV ratio, which is calculated as the ratio of the gross amount of the finance, or the amount committed for financing commitments, to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. At 31 December 2020 the carrying amount of credit impaired mortgage financing was AED 125 million (2019: AED 148 million) and the value of the respective collateral was AED 213 million (2019: AED 239 million).

Personal financing

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

Corporate financing

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

For credit-impaired financing the Bank obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2020 the net carrying amount of credit impaired Islamic financing and investing assets to corporate customers was AED 1,904 million (2019: AED 953 million) and the value of the respective collateral was AED 1,845 million (2019: AED 1,424 million).

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Islamic investments securities

Islamic investments securities

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

The table below presents analysis of investments by external rating agency at 31 December 2020 and 2019:

	2020 **AED'000**	2018 AED'000
AA to AA-	**-**	-
A+ to A-	**492,353**	488,171
BBB+ to BBB-	**99,028**	197,405
BB+ to BB	**126,580**	90,488
B+ to B-	**66,926**	200,445
CCC	**-**	-
Unrated	**534,804**	1,042,392
	1,319,691	2,018,901

Assets obtained by taking possession of collateral

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

	2020 **AED'000**	2019 AED'000
Property	**50,131**	8,050
Total assets obtained by taking possession of collateral	**50,131**	8,050

6.3 Market risk

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.3 Market risk (continued)

The trading market risk framework comprises the following elements:

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

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

Profit rate risk

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

The Bank is exposed to the effects of fluctuations in the prevailing levels of profit rates which arise from the Islamic financing and investing assets amounting to AED 16,961 million (2019: AED 17,111 million), investment securities amounting to AED 1,118 million (2019: AED 1,783 million),International Murabaha with Central bank AED 1,175 million (2019: AED 1,820 million), Due from banks and financial institutions AED 589 million (2019: AED 556 million), customer deposits amounting to AED 11,055 million (2019: AED 12,137 million) and AED 3,664 million (2019: AED 5,538 million) from due to banks and other financial institutions.

Sensitivity analysis

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

	2020		2019	
	Total AED'000	**Effect on profit/(loss) AED'000**	Total AED'000	Effect on profit/(loss) AED'000
Profit bearing asset	**19,843,137**	**53,930**	21,269,674	67,275
Profit bearing liabilities	**14,719,011**	**37,795**	17,675,039	41,229

Currency risk

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.3 Market risk (continued)

Price risk

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

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

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

		Impact on equity	
	Benchmark	**2020** **AED'000**	2019 AED'000
Islamic investments securities at FVTOCI	± 5%	**65,985**	100,945

6.4 Liquidity risk management

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

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

Maturity profile:

The maturity profile of the assets and liabilities at 31 December 2020 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.4 Liquidity risk management (continued)

Maturity profile: **(continued)**

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Undated AED'000	Total AED'000
Assets							
Cash and balances with central bank	1,312,122	-	410,000	-	-	-	**1,722,122**
Due from banks and other financial institutions	312,770	218,806	81,695	-	-	-	**613,271**
Islamic financing and investing assets, net	2,009,194	1,716,821	2,199,066	5,361,468	5,674,309	-	**16,960,858**
Islamic investments securities at FVTOCI	59,558	87,809	-	555,230	617,094	-	**1,319,691**
Investment in associates	-	-	-	-	-	177,556	**177,556**
Investment properties	-	-	-	-	-	343,393	**343,393**
Property and equipment	-	-	-	-	-	131,141	**131,141**
Other Islamic assets	185,234	53,862	-	-	-	-	**239,096**
Total assets	**3,878,878**	**2,077,298**	**2,690,761**	**5,916,698**	**6,291,403**	**652,090**	**21,507,128**
Liabilities and equity							
Islamic customers' deposits	3,498,805	2,727,448	3,840,211	4,002,236	157,463	-	**14,226,163**
Due to banks and other financial institutions	2,635,081	494,102	1,116,981	92,419	-	-	**4,338,583**
Other liabilities	409,210	30,581	-	-	-	-	**439,791**
Equity	-	-	-	-	-	2,502,591	**2,502,591**
Total liabilities and equity	**6,543,096**	**3,252,131**	**4,957,192**	**4,094,655**	**157,463**	**2,502,591**	**21,507,128**

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Financial risk management (continued)

6.4 Liquidity risk management (continued)

Maturity profile:

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

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

6. Financial risk management (continued)

6.4 Liquidity risk (continued)

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

	2020	2019
At 31 December	**9%**	15%

6.5 Operational risks

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

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

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

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

6.6 Capital management

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

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

(i) Tier 1 capital, which is composed of;

a - Common equity tier 1 (CET 1) - comprise of share capital, statutory reserves, retained earnings and accumulated other comprehensive income reserves,

b - Additional tier 1 (AT 1)- comprise of any instrument which is not included in CET1.

(ii) Tier 2 capital, which includes general provisions (after implementation of IFRS - 9, the ECL classified that is classified under stage 1 and 2).

6. Financial risk management (continued)

6.6 Capital management (continued)

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

As per current requirement of the Central Bank of UAE, banks are required to maintain minimum capital levels as below:

	2020	2019
Capital element		
Minimum common equity tier 1 (CET 1) ratio	**7%**	7%
Minimum Tier I capital ratio	**8.5%**	8.5%
Minimum capital adequacy ratio	**10.5%**	10.5%
Capital conservation buffer (CCB)	**2.5%**	2.5%

However, effective from 15 March 2020 until 30 June 2021, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% as part of the measures adopted by the CBUAE to help banks deal with the COVID-19 crisis. Further, CBUAE has issued regulation regarding Accounting Provisions and Capital Requirements – Transitional Arrangements dated 22 April 2020. The prudential Filter allows banks to add back increases in IFRS 9 ECL provision, stage 1 and 2, from 31 December 2019 to the regulatory capital and transition over 5 years.

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

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

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

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

6. Financial risk management (continued)

6.6 Capital management (continued)

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

	2020	2019
	AED'000	AED'000
Tier 1 capital		
Share capital	**2,100,000**	2,100,000
Reserves	**305,549**	300,736
	2,405,549	2,400,736
Tier 2 capital		
General provision and fair value reserve	**188,272**	205,399
Total regulatory capital	**2,593,821**	2,606,135
Risk weighted assets		
Credit risk	**15,061,720**	16,431,951
Market risk	**463**	587
Operation risk	**1,125,368**	1,092,872
Total risk weighted assets	**16,187,551**	17,525,410
Capital adequacy ratio on regulatory capital	**16.02%**	14.87%
Capital adequacy ratio on Tier 1 capital	**14.86%**	13.70%

Capital allocation

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

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

7. Classification of financial assets and liabilities

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

	At fair value AED'000	Amortised cost AED'000	Total AED'000
2020			
Financial assets:			
Cash and balances with the central banks	**-**	**1,722,122**	**1,722,122**
Due from banks and other financial institutions	**-**	**613,271**	**613,271**
Islamic financing and investing assets	**-**	**16,960,858**	**16,960,858**
Islamic investments securities at FVTOCI	**1,319,691**	**-**	**1,319,691**
Other Islamic assets	**1,611**	**138,511**	**140,122**
Total	**1,321,302**	**19,434,762**	**20,756,064**
Financial liabilities:			
Islamic customers' deposits	**-**	**14,226,163**	**14,226,163**
Due to banks and other financial institutions	**-**	**4,338,583**	**4,338,583**
Other Islamic liabilities	**-**	**365,502**	**365,502**
Total	**-**	**18,930,248**	**18,930,248**
2019			
Financial assets:			
Cash and balances with the central banks	-	2,546,097	2,546,097
Due from banks and other financial institutions	-	658,044	658,044
Islamic financing and investing assets	-	17,110,570	17,110,570
Islamic investments securities at FVTOCI	2,018,901	-	2,018,901
Other Islamic assets	3,150	134,569	137,719
Total	2,022,051	20,449,280	22,471,331
Financial liabilities:			
Islamic customers' deposits	-	14,922,760	14,922,760
Due to banks and other financial institutions	-	5,733,478	5,733,478
Other Islamic liabilities	-	328,610	328,610
Total	-	20,984,848	20,984,848

8. Fair value measurement

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

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

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

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

8. Fair value measurement (continued)

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2020				
Financial assets				
Islamic investments securities at FVTOCI	**1,133,133**	**-**	**186,558**	**1,319,691**
Positive fair value of Islamic derivative financial instruments	**1,611**	**-**	**-**	**1,611**
	1,134,744	**-**	**186,558**	**1,321,302**
At 31 December 2019				
Financial assets				
Islamic investments securities at FVTOCI	1,819,242	-	199,659	2,018,901
Positive fair value of Islamic derivative financial instruments	3,150	-	-	3,150
	1,822,392	-	199,659	2,022,051

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

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

	2020 AED'000	2019 AED'000
Balance at 1 January	**199,659**	155,178
Purchases during the year	**29,380**	77,667
Fair valuation loss in other comprehensive income	**(38,960)**	-
Disposals during the year	**(3,521)**	(33,186)
Total	**186,558**	199,659

The effect of unobservable input on fair value measurement

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

8. Fair value measurement (continued)

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

	Effect on OCI	
	Favorable AED'000	**Unfavorable AED'000**
31 December 2020	**18,656**	**(18,656)**
31 December 2019	19,966	(19,966)

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

9. Cash and balances with the Central Bank

(a) The analysis of the Bank's cash and balances with the Central Bank as at 31 December 2020 and 2019 is as follows:

	2020 AED'000	2019 AED'000
Cash on hand	**98,709**	89,928
Balances with the Central Bank:		
Current accounts	**91,803**	4,075
Reserve requirements with the Central Bank (note 9 (b))	**356,610**	632,094
International murabahat with the Central Bank	**1,175,000**	1,820,000
Total	**1,722,122**	2,546,097

The cash and balances with the Central Bank as at 31 December 2020 and 2019 were held within the U.A.E.

(b) The reserve requirements are kept with the Central Bank are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the Central Bank. The level of reserve required changes periodically in accordance with the directives of the Central Bank.

**Notes to the financial statements
for the year ended 31 December 2020 (continued)**

10. Due from banks and other financial institutions

(a) The analysis of the Bank's due from banks and financial institutions as at 31 December 2020 and 2019 is as follows:

	2020 AED'000	2019 AED'000
Current accounts	**24,053**	102,049
Islamic deposits with banks and financial institutions	**589,583**	556,242
	613,636	658,291
Less: Impairment loss allowance (Note 29)	**(365)**	(247)
Total	**613,271**	658,044

(b) The geographical analysis of the due from banks and financial institutions as at 31 December 2020 and 2019 is as follows:

	2020 AED'000	2019 AED'000
Within the U.A.E.	**536,413**	471,662
Outside the U.A.E.	**76,858**	186,382
Total	**613,271**	658,044

Notes to the financial statements
for the year ended 31 December 2020 (continued)

11. Islamic financing and investing assets, net

(a) The analysis of the Bank's Islamic financing and investing assets, net, as at 31 December 2020 and 2019 is as follows:

	2020	2019
	AED'000	AED'000
Islamic financing assets		
Vehicles murabahat	**65,759**	95,548
Commodities murabahat	**8,427,433**	8,140,391
Total murabahat	**8,493,192**	8,235,939
Ijarahs	**10,338,901**	9,570,549
Istisna'a	**2,771**	25,178
Islamic credit cards	**23,932**	27,489
	18,858,796	17,859,155
Deferred income	**(1,062,614)**	(879,669)
Total Islamic financing assets	**17,796,182**	16,979,486
Islamic investing Assets		
Mudaraba	**20,646**	133,513
Wakalat	**117,855**	867,957
Total Islamic investing assets	**138,501**	1,001,470
Total Islamic financing and investing assets	**17,934,683**	17,980,956
Less: Impairment loss allowance (Note 29)	**(973,825)**	(870,386)
Total Islamic financing and investing assets, net	**16,960,858**	17,110,570

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

	2020	2019
	AED'000	AED'000
Property and mortgages	**10,549,538**	8,749,994
Deposits and equities	**3,940,498**	3,531,320

Notes to the financial statements
for the year ended 31 December 2020 (continued)

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

(c) Analysis of Islamic financing and investing assets, net by industry group and geography as at 31 December 2020 and 2019 are as follows:

	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
2020			
Economic sector			
Government	**1,829,572**	**275,488**	**2,105,060**
Manufacturing and services	**4,623,332**	**44,033**	**4,667,365**
Trade	**914,112**	**-**	**914,112**
Real estate	**6,958,156**	**288,188**	**7,246,344**
Consumer home finance	**1,479,722**	**-**	**1,479,722**
Consumer financing	**1,522,080**	**-**	**1,522,080**
	17,326,974	**607,709**	**17,934,683**
Provision for impairment (Note 11(a))			**(973,825)**
Total			**16,960,858**
2019			
Economic sector			
Government	1,897,007	477,425	2,374,432
Manufacturing and services	4,761,598	34,886	4,796,484
Trade	1,015,062	11,682	1,026,744
Real estate	6,270,782	317,270	6,588,052
Consumer home finance	1,668,831	1,426	1,670,257
Consumer financing	1,524,987	-	1,524,987
	17,138,267	842,689	17,980,956
Provision for impairment (Note 11(a))			(870,386)
Total			17,110,570

12. Islamic investments securities at FVTOCI

	2020 AED'000	2019 AED'000
Islamic investments securities measured at FVTOCI – sukuk instruments	**1,118,061**	1,783,110
Islamic investments securities measured at FVTOCI – equity instruments	**201,630**	235,791
	1,319,691	2,018,901

Notes to the financial statements for the year ended 31 December 2020 (continued)

12. Islamic investments securities at FVTOCI (continued)

(a) The geographical analysis of the Islamic investments securities at fair value as at 31 December 2020 and 2019 is as follows:

	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the World AED'000	Total AED'000
2020				
Sukuk instruments at FVTOCI				
Quoted	**597,261**	**486,372**	**-**	**1,083,633**
Unquoted	**30,000**	**-**	**4,428**	**34,428**
	627,261	**486,372**	**4,428**	**1,118,061**
Equity instruments at FVTOCI				
Quoted	**49,500**	**-**	**-**	**49,500**
Unquoted	**86,040**	**36,710**	**29,380**	**152,130**
	135,540	**36,710**	**29,380**	**201,630**
Total	**762,801**	**523,082**	**33,808**	**1,319,691**
2019				
Sukuk instruments at FVTOCI				
Quoted	1,408,849	339,833	-	1,748,682
Unquoted	30,000	-	4,428	34,428
	1,438,849	339,833	4,428	1,783,110
Equity instruments at FVTPL				
Quoted	70,560	-	-	70,560
Unquoted equity instruments	125,000	40,231	-	165,231
	195,560	40,231	-	235,791
Total	1,634,409	380,064	4,428	2,018,901

(b) Analysis of Islamic investments securities at fair value by industry group as at 31 December 2020 and 2019 is as follows:

	2020 AED'000	2019 AED'000
Government	**401,022**	896,991
Manufacturing and services	**193,890**	154,147
Real estate	**250,875**	232,521
Financial institutions	**473,904**	735,242
Total	**1,319,691**	2,018,901

Notes to the financial statements
for the year ended 31 December 2020 (continued)

12. Islamic investments securities at FVTOCI (continued)

(c) During the year ended 31 December 2020, the Bank recognized fair value gain on Islamic investments securities at FVTOCI of AED 32 million in the investment fair value reserve (31 December 2019: AED 110 million).

(d) Included in Islamic investments securities at FVTOCI is an amount of AED 458 million (31 December 2019: AED Nil), pledged under collateralized Murabaha with financial institutions.

13. Investment in associate

During the year, the Bank acquired 44% of the share capital in Makaseb 3 Real Estate Investment SPV Limited.

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

Name	Nature of Business	Country of incorporation	% Interest held	Measurement method
Makaseb Real Estate Investment SPV Limited	Real Estate Investments	United Arab Emirates	48%	Equity
Makaseb 3 Real Estate Investment SPV Limited	Real Estate Investments	United Arab Emirates	44%	Equity

Movement in investment in associate is as follows:

	2020 AED'000	2019 AED'000
At beginning of the year	**74,282**	-
Additions during the year	**98,000**	73,500
Share of results during the year	**12,607**	2,462
Distributions received during the year	**(7,333)**	(1,680)
Balance at the end of the year	**177,556**	74,282

Notes to the financial statements for the year ended 31 December 2020 (continued)

14. Investment properties

(a) Movement in investment properties during the years ended 31 December 2020 and 2019 is as follows:

	2020 AED'000	2019 AED'000
At beginning of the year	**783,362**	658,131
Additions during the year	**5,827**	455,425
Derecognised due to disposal of investment in subsidiary (Note 36)	**(421,402)**	-
Disposals during the year (Note 14 (d))	**-**	(327,000)
Decrease in fair value during the year (Note 26)	**(24,394)**	(3,194)
Balance at the end of the year	**343,393**	783,362

(b) Details of the Bank's investment properties and information about the fair value hierarchy as at 31 December 2020 and 31 December 2019 are as follows:

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Fair value AED'000**
31 December 2020	**-**	**-**	**343,393**	**343,393**
31 December 2019	-	-	783,362	783,362

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

(c) The valuations were carried out by professional valuers not related to the Bank who held recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued.

(d) During 2019, the Bank sold investment properties for a consideration of AED 327 million to a related party (Note 32 (b)).

Notes to the financial statements
for the year ended 31 December 2020 (continued)

15. Property and equipment

	Leasehold improvements AED'000	Furniture, fittings and equipment AED'000	Vehicles AED'000	Computer equipment and software AED'000	Right-of-use assets AED'000	Capital work in progress AED'000	Land and buildings AED'000	Total AED'000
Cost								
At 1 January 2019	57,111	37,171	1,246	75,902	-	27,081	68,315	266,826
Additions	179	256	-	2,340	17,610	11,976	-	32,361
Transfers	7,207	10,798	-	6,617	-	(24,622)	-	-
Write off	(2,734)	-	-	-	-	-	-	(2,734)
At 31 December 2019	61,763	48,225	1,246	84,859	17,610	14,435	68,315	296,453
Additions	622	134	-	1,722	-	17,962	571	21,011
Transfers	80	199	-	11,160	-	(11,439)	-	-
At 31 December 2020	**62,465**	**48,558**	**1,246**	**97,741**	**17,610**	**20,958**	**68,886**	**317,464**
Accumulated depreciation								
At 1 January 2019	46,843	29,441	817	63,197	-	-	5,706	146,004
Charge for year	3,386	3,643	123	6,277	2,023	-	1,493	16,945
Write off	(2,706)	-	-	-	-	-	-	(2,706)
At 31 December 2019	47,523	33,084	940	69,474	2,023	-	7,199	160,243
Charge for year	4,146	4,824	94	10,218	5,296	-	1,502	26,080
At 31 December 2020	**51,669**	**37,908**	**1,034**	**79,692**	**7,319**	**-**	**8,701**	**186,323**
Net book value								
At 31 December 2020	**10,796**	**10,650**	**212**	**18,049**	**10,291**	**20,958**	**60,185**	**131,141**
At 31 December 2019	14,240	15,141	306	15,385	15,587	14,435	61,116	136,210

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

16. Other Islamic assets

	2020 **AED'000**	2019 AED'000
Accrued income on Islamic financing and investing assets	**101,753**	92,501
Acceptances (Note 19)	**17,748**	67,599
Assets acquired in settlement of Islamic financing and investing assets*	**50,131**	47,066
Accrued income on Islamic investments securities	**11,547**	25,218
Prepaid expenses	**4,899**	6,307
Staff advances (Soft finance)	**10,998**	14,382
Foreign currency forward contracts	**1,611**	3,150
Other	**55,789**	70,942
	254,476	327,165
Less: Impairment loss allowance	**(15,380)**	(28,841)
	239,096	298,324

(*) During the year, the Bank charged an impairment of AED 2.8 million (2019: Nil) against Assets acquired in settlement of Islamic financing and investing assets.

17. Islamic customers' deposits

(a) The analysis of the Islamic customers' deposits as at 31 December 2020 and 2019 is as follows:

	2020 **AED'000**	2019 AED'000
Current accounts	**2,986,498**	2,605,119
Mudarba deposits:		
Savings accounts	**279,099**	212,607
Term deposits	**47,707**	64,434
	3,313,304	2,882,160
Wakala deposits	**10,727,822**	11,859,899
Escrow accounts	**147,384**	143,365
Margin accounts	**37,653**	37,336
	14,226,163	14,922,760

All Islamic customers' deposits as at 31 December 2020 and 2019 were held within the U.A.E.

Notes to the financial statements for the year ended 31 December 2020 (continued)

18. Due to banks and other financial institutions

(a) The analysis of the due to banks and other financial institutions as at 31 December 2020 and 2019 is as following:

	2020 AED'000	2019 AED'000
Current accounts	**33,335**	195,379
Investment deposits	**4,305,248**	5,538,099
Total	**4,338,583**	5,733,478

(b) The geographical analysis of the Bank's due to banks and other financial institutions as at 31 December 2020 and 2019 is as follows:

	2020 AED'000	2019 AED'000
Within the U.A.E.	**1,150,109**	1,945,324
Outside the U.A.E.	**3,188,474**	3,788,154
Total	**4,338,583**	5,733,478

19. Other liabilities

	2020 AED'000	2019 AED'000
Accrued profit on Islamic customers' deposits and placements by banks	**122,554**	286,818
Provisions for staff salaries and benefits	**21,154**	21,113
Managers' cheques	**224,492**	27,068
Acceptances (Note 16)	**17,748**	67,599
Lease liability	**8,946**	12,312
Zakat payable	**6,217**	-
Impairment loss allowance	**11,992**	11,682
Other	**26,688**	30,641
	439,791	457,233

20. Share capital

	2020 AED'000	2019 AED'000
Issued and fully paid:		
2,100,000,000 (31 December 2019: 2,100,000,000) shares of AED 1 each	**2,100,000**	2,100,000

Notes to the financial statements
for the year ended 31 December 2020 (continued)

21. Statutory reserve

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

22. General impairment reserve

In accordance with the requirements of the Central Bank of the U.A.E. the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance calculated under Stage 1 and Stage 2 as per IFRS 9 is transferred to 'General impairment reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends.

23. Dividends paid

During the year, AED 1.25 million (31 December 2019: AED 2.5 million) was approved as Directors' remuneration by the shareholders at the annual general meeting held on the 20th April 2020.

Cash dividends at 3.5% of the share capital amounting to AED 73.5 million were approved during the year ended 31 December 2019 for the year ended 31 December 2018.

24. Income from Islamic financing and investing assets

	2020 **AED'000**	2019 AED'000
Income from Ijarah	**505,543**	520,878
Income from Murabaha	**343,155**	419,230
Income from Mudaraba	**1,434**	18,911
Income from Wakala	**28,518**	28,978
Income from Istisna financing	**431**	1,573
	879,081	989,570

25. Income from Islamic investments securities at FVTOCI

	2020 **AED'000**	2018 AED'000
Income from Islamic investments securities at FVTOCI	**83,367**	108,209
Realized gain on disposal of Islamic investments securities at FVTOCI	**25,678**	43,854
Total	**109,045**	152,063

Notes to the financial statements
for the year ended 31 December 2020 (continued)

26. Fees, commission and other income

	2020 AED'000	2019 AED'000
Processing and evaluation fees	**10,452**	41,051
Arrangement fee	**7,764**	18,673
Foreign exchange income	**10,867**	14,949
Trade related commission and fees	**3,393**	4,606
Investment agent fees	**12,946**	20,615
Deposit and credit card fees	**6,385**	4,958
Income from investment properties	**16,474**	9,337
Fair value loss on investment properties	**(24,394)**	(3,194)
Other	**4,875**	19,129
Total	**48,762**	130,124

27. Staff costs

	2020 AED'000	2019 AED'000
Salaries and allowances	**116,596**	126,614
Other staff related cost	**65,450**	75,967
	182,046	202,581

28. General and administrative expenses

	2020 AED'000	2019 AED'000
Rental expenses	**1,125**	4,614
Communication expenses	**4,248**	3,518
Software license	**3,251**	2,420
Premises and equipment maintenance costs	**6,939**	8,457
Legal and professional fees	**3,978**	3,764
Security services including cash in transit services	**4,398**	3,229
Marketing, designing and product development expenses	**753**	915
Consultancy expenses	**4,482**	3,329
Printing and stationary	**2,101**	1,052
Finance lease charges	**355**	342
Other	**21,462**	24,240
	53,092	55,880

29. Impairment allowance

29.1 Allocation of impairment allowance is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
31 December 2020				
Due from banks and financial institutions	**-**	**365**	**-**	**365**
Islamic financing and investing assets	**32,292**	**91,805**	**849,728**	**973,825**
Islamic investments securities at FVTOCI	**2,247**	**-**	**50,078**	**52,325**
Other Islamic financial assets	**-**	**1**	**15,379**	**15,380**
Financial commitments and financial guarantees	**2,174**	**-**	**9,818**	**11,992**
Total	**36,713**	**92,171**	**925,003**	**1,053,887**
31 December 2019				
Due from banks and financial institutions	89	158	-	247
Islamic financing and investing assets	49,621	81,158	739,607	870,386
Islamic investments securities at FVTOCI	1,529	-	50,078	51,607
Other Islamic financial assets	106	1	28,734	28,841
Financial commitments and financial guarantees	2,235	-	9,447	11,682
Total	53,580	81,317	827,866	962,763

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

	Opening balance AED'000	**Net charge during the year AED'000**	**Other movement during the period AED'000**	**Closing balance AED'000**	Net charge 31 December 2019 AED'000
Due from banks and financial institutions	**247**	**118**	**-**	**365**	(193)
Islamic financing and investing assets (Note 11)	**870,386**	**288,591**	**(185,152)**	**973,825**	279,813
Islamic investments securities at FVTOCI*	**51,607**	**718**	**-**	**52,325**	(520)
Other Islamic financial assets	**28,841**	**7,523**	**(20,984)**	**15,380**	982
Financial commitments and financial guarantees	**11,682**	**310**	**-**	**11,992**	(3,854)
Total	**962,763**	**297,260**	**(206,136)**	**1,053,887**	276,228

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

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

30. Earnings per share

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

	2020	2019
Earnings per share		
Profit for the year ended (AED'000)	**53,403**	84,402
Directors' remuneration (AED'000)	**(1,250)**	(2,500)
Profit for the year after Directors' remuneration	**52,153**	81,902
Weighted average number of shares outstanding at 31 December (in thousands)	**2,100,000**	2,100,000
Earnings per share (AED)	**0.025**	0.039

As at 31 December 2020 and 2019, there were no potential dilutive shares outstanding.

31. Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash and balances with the Central Banks (Note 9)	**1,722,122**	2,546,097
Due from banks and other financial institutions (original maturity less than three months)	**274,053**	275,712
	1,996,175	2,821,809
Less: Statutory deposit with Central Banks (Note 9)	**(356,610)**	(632,094)
Less: International murabahat with the Central Bank (original maturity more than three months)	**(1,050,000)**	(1,380,000)
	589,565	809,715

32. Related parties transactions

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

32. Related parties transactions (continued)

(b) The Bank is controlled by Ajman Government who own 26% (2019: 26%) of the issued and paid capital.

Transactions

Transactions with related parties are shown below:

	2020			2019		
	Major shareholders AED'000	**Director and other related parties AED'000**	**Total AED'000**	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Depositors' share of profit	**106,837**	**1,558**	**108,395**	97,496	1,368	98,864
Income from Islamic financing and investing assets	**69,205**	**18,388**	**87,593**	58,608	10,054	68,662
Other	**-**	**-**	**-**	-	327,000	327,000

Balances

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

	2020			2019		
	Major shareholders AED'000	**Director and other related parties AED'000**	**Total AED'000**	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Islamic financing and investing assets	**2,018,111**	**499,961**	**2,518,072**	1,965,234	282,085	2,247,319
Customers' deposits	**3,877,712**	**118,058**	**3,995,770**	3,266,742	103,721	3,370,463

Compensation of management personnel

Key management compensation is as shown below:

	2020 AED'000	2019 AED'000
Short term employment benefits	**8,818**	9,311
Terminal benefits	**404**	469
Total	**9,222**	9,780

33. Contingencies and commitments

Capital commitments

At 31 December 2020, the Bank had outstanding capital commitments of AED 67 million (31 December 2019: AED 18 million), which will be funded within the next twelve months.

Credit related commitments and contingencies

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

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

	2020 **AED'000**	2019 AED'000
Commitments to extend credit	**138,440**	661,180
Letters of credit	**3,162**	21,119
Letters of guarantee	**229,822**	357,244
	371,424	1,039,543

34. Segment analysis

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

The Bank has three main business segments:

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2020 (continued)

34. Segment analysis

Segment results of operations

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

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Other AED'000	Total AED'000
At 31 December 2020						
Net income from Islamic financing and investing assets	**94,180**	**370,284**	**(31,898)**	**11,700**	**-**	**444,266**
Income from Islamic investments securities at fair value	**-**	**-**	**100,907**	**8,138**	**-**	**109,045**
Share of results of associate	**-**	**-**	**-**	**12,607**	**-**	**12,607**
Impairment charges	**(27,547)**	**(262,382)**	**(603)**	**(9,527)**	**-**	**(300,059)**
Fees, commission and other income	**8,793**	**23,733**	**8,187**	**11,680**	**(3,631)**	**48,762**
Staff costs	**(50,475)**	**(12,807)**	**(3,860)**	**(7,067)**	**(107,837)**	**(182,046)**
General and administrative expenses	**(30,087)**	**(5,880)**	**(5)**	**(906)**	**(16,214)**	**(53,092)**
Depreciation of property and equipment	**-**	**-**	**-**	**-**	**(26,080)**	**(26,080)**
Operating profit/(loss)	**(5,136)**	**112,948**	**72,728**	**26,625**	**(153,762)**	**53,403**
Segment assets	**3,306,953**	**12,779,717**	**2,543,311**	**1,915,245**	**961,902**	**21,507,128**
Segment liabilities	**3,387,947**	**10,694,992**	**3,477,419**	**968,284**	**475,895**	**19,004,537**

34. Segment analysis (continued)

Segment results of operations (continued)

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

Revenue from major products and services

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

Information about major customers

No single customer contributed 10% or more to the Bank's revenue for both years ended 31 December 2020 and 2019.

Notes to the financial statements for the year ended 31 December 2020 (continued)

35. Maturity profile of financial liabilities

	2020		
	Up to 1 year AED'000	**1 - 5 years AED'000**	**Total AED'000**
Islamic customers' deposits	**10,066,464**	**4,159,699**	**14,226,163**
Due to banks and other financial institutions	**4,246,164**	**92,419**	**4,338,583**
Other liabilities	**365,502**	**-**	**365,502**
	14,678,130	**4,252,118**	**18,930,248**
Commitments and contingent liabilities	**75,812**	**295,613**	**371,425**

	2019		
	Up to 1 year AED'000	1 - 5 years AED'000	Total AED'000
Islamic customers' deposits	11,368,868	3,553,892	14,922,760
Due to banks and other financial institutions	5,672,460	61,018	5,733,478
Other liabilities	328,610	-	328,610
	17,369,938	3,614,910	20,984,848
Commitments and contingent liabilities	339,069	700,474	1,039,543

36. Special purpose entities

On 5 December 2019, the Bank acquired 100% shares in a Special Purpose Entity, Makaseb 2 Real Estate Investments SPV Limited, a Company incorporated in U.A.E and engaged in real estate investments. During the year, the Bank has disposed of 100% shares in Makaseb 2 Real Estate Investments SPV Limited to an associate, Makaseb 3 Real Estate Investment SPV Limited. All incurred costs during the period were born by the Bank.

The Bank acquired 44% shares in Makaseb 3 Real Estate Investment SPV Limited during the period and accounted for it as an investment in associate.

37. Social contributions

The social contribution (including donations and charities) made during the year amounted to AED 0.02 million (2019: AED 0.05 million).

38. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on 17 February 2021.