Emirates Investment Bank P.J.S.C.

Report and consolidated financial statements
for the year ended 31 December 2020

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REPORT OF THE BOARD OF DIRECTORS
For the year ended 31 December 2020

The Directors are pleased to place before the shareholders of Emirates Investment Bank PJSC ("Bank") the consolidated financial statements for the year ended 31 December 2020.

The Bank has been repositioning itself with the objective of becoming a leading regional bank offering investment advisory and wealth management solutions and serving a select client base of high net worth individuals and institutional clients. During 2020, upon validation of our strategy, we continued to execute on this strategy while simultaneously building the infrastructure required for growth.

The Bank closed 2020 with an annual net loss of AED 29.3 million (2019: annual net profit of AED 8.9 million), while maintaining a healthy Capital Adequacy Ratio ("CAR") at 36.63% (27.48% in 2019). Over this period, customer deposits increased by 11% to reach AED 1,833 million (AED 1,646 million in 2019), while total balance sheet assets reached AED 2,483 million, a decrease of 20% over the previous year (AED 3,120 million).

The reported net loss resulted from a number of factors, both external, such as the Covid 19 pandemic and the associated slower business activity, and factors related to one-off provisions. The fundamentals of the Bank remain sound, as demonstrated by the CAR and the customer deposits, and the Bank is well positioned to take full advantage of the economic environment as it improves, thanks to revamped offerings and a new leadership.

The value of Bank's fiduciary assets decreased by 36% to AED 2,510 million (AED 3,898 million in 2019) for a total assets under the Bank's management of AED 4,993 million (AED 7,018 million in 2019).

As we continue our journey to build a leading regional bank offering investment advisory and wealth management solutions, we extend our gratitude to our clients for their support and to our staff for their dedication and hard work.

Board of Directors
18 February 2021

Dubai, United Arab Emirates

Independent auditor's report to the shareholders of Emirates Investment Bank P.J.S.C. Group

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Emirates Investment Bank PJSC (the "Bank") and its subsidiary (together the "Group") as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Mohamed ElBorno, Jacques Fakhoury, Douglas O'Mahony and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy

Independent auditor's report to the shareholders of Emirates Investment Bank P.J.S.C. Group (continued)

Our audit approach

Key Audit Matter	• Measurement of Expected Credit Losses (ECL)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses ("ECL"): The Group applies ECL on all the financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default, loss given default and determining exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria. The Group's impairment policy as per IFRS 9 is presented in Note 4 to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as Group applies significant judgments and makes a number of assumptions which have significantly increased as a result of Covid-19 affecting the staging criteria applied to the financial assets and in developing ECL models for assessing its impairment provisions.	We performed the following audit procedures on the computation of the ECL and the IFRS 7 and IFRS 9 disclosures included in the Group's consolidated financial statements for the year ended 31 December 2020: ➢ We tested the reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk, with specific consideration to COVID-19. ➢ For a sample of exposures, we checked the appropriateness of determining Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) including the consideration of repayments and the resultant arithmetical calculations. ➢ We tested the completeness and accuracy of the data used in calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's staging of financial instruments. ➢ We assessed the consolidated financial statements disclosures to ensure compliance with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of COVID-19 on ECL.

Independent auditor's report to the shareholders of Emirates Investment Bank P.J.S.C. Group (continued)

Other information

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

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

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

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

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

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

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group'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 the Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Independent auditor's report to the shareholders of Emirates Investment Bank P.J.S.C. Group (continued)

Report on other legal and regulatory requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the books of account of the Group;
- as disclosed in note 8 to the consolidated financial statements the Group has not purchased any shares during the financial year ended 31 December 2020;
- note 23 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group 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 in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2020; and
- based on the information that has been available to us, no social contributions were made during the year.

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.

PricewaterhouseCoopers
18 February 2021

Rami Sarhan
Registered Auditor Number 1152
Place: Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 AED'000	2019 AED'000
ASSETS			
Cash and balances with UAE Central Bank	5	**536,529**	359,270
Due from banks, net	6	**299,858**	364,444
Loans and advances, net	7	**418,455**	889,592
Investments, net	8	**1,205,002**	1,450,138
Other assets	10	**19,067**	50,896
Property, equipment and intangible assets	11	**4,270**	6,104
TOTAL ASSETS		**2,483,181**	3,120,444
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	12	**171,678**	926,650
Customer deposits	13	**1,832,718**	1,645,864
Other liabilities	14	**23,658**	54,724
TOTAL LIABILITIES		**2,028,054**	2,627,238
EQUITY			
Share capital	15	**70,000**	70,000
Legal reserve	15	**35,000**	35,000
Special reserve	15	**44,251**	44,251
Credit impairment reserve		**4,885**	23,742
Cumulative changes in fair value		**14,878**	23,642
Retained earnings		**285,885**	296,343
Equity attributable to equity holders of the Parent		**454,899**	492,978
Non-controlling interests		**228**	228
TOTAL EQUITY		**455,127**	493,206
TOTAL LIABILITIES & EQUITY		**2,483,181**	3,120,444

The consolidated financial statements were approved by the Board of Directors on 18 February 2021 and signed on its behalf by:

Omar Abdulla Al Futtaim
(Chairman)

Abdullah Al Turifi
(Director)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	2020 AED'000	2019 AED'000
Interest income	16	**40,188**	66,654
Net income from investments	17	**28,795**	68,328
		68,983	134,982
Interest expense		**(31,107)**	(55,474)
INTEREST AND INVESTMENT INCOME,NET		**37,876**	79,508
Fee, commission and other income	18	**18,764**	37,008
Exchange gain, net		**2,245**	3,740
OPERATING INCOME		**58,885**	120,256
General and administrative expenses	19	**(70,475)**	(87,339)
Net impairment loss on financial assets	9.1	**(17,725)**	(24,066)
OPERATING EXPENSES		**(88,200)**	(111,405)
(LOSS)/PROFIT FOR THE YEAR		**(29,315)**	8,851
Attributable to:			
Equity holders of the Parent		**(29,315)**	8,851
Non-controlling interests		**-**	-
(LOSS)/PROFIT FOR THE YEAR		**(29,315)**	8,851
BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in AED per share)	20	**(41.88)**	12.64

The accompanying notes from pages 13 to 64 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	2019
	AED'000	AED'000
(LOSS)/PROFIT FOR THE YEAR	**(29,315)**	8,851
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	**(5,688)**	571
Gain on sale of investment	**-**	113
Items that may be reclassified subsequently to profit or loss		
Changes in the fair value of debt instruments at fair value through other comprehensive income, net	**(3,076)**	13,718
Other comprehensive (loss)/income for the year	**(8,764)**	14,402
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(38,079)**	23,253
Attributable to:		
Equity holders of the Parent	**(38,079)**	23,253
Non-controlling interests	**-**	-
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(38,079)**	23,253

The accompanying notes from pages 13 to 64 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Credit impairment reserve* AED '000	Cumulative changes in fair value AED'000	Retained earnings AED'000	Equity attributable to equity holders of the Parent AED'000	Non-controlling interest AED'000	Total AED'000
Balance at 1 January 2020	**70,000**	**35,000**	**44,251**	**23,742**	**23,642**	**296,343**	**492,978**	**228**	**493,206**
Loss for the year	-	-	-	-	-	**(29,315)**	**(29,315)**	**-**	**(29,315)**
Other comprehensive loss for the year	-	-	-	-	**(8,764)**	-	**(8,764)**	-	**(8,764)**
Total comprehensive loss for the year	-	-	-	**-**	**(8,764)**	**(29,315)**	**(38,079)**	**-**	**(38,079)**
Excess provision under UAE central bank requirements over IFRS 9	-	-	-	**(18,857)**	**-**	**18,857**	**-**	**-**	**-**
Balance at 31 December 2020	**70,000**	**35,000**	**44,251**	**4,885**	**14,878**	**285,885**	**454,899**	**228**	**455,127**

** The Bank has created a special reserve titled as 'credit impairment reserve' in lieu of the general provision required to be created in accordance with the "Circular No 28/2010" issued by the UAE Central Bank and any reversal from the reserve will be governed by IFRS 9 implementation guidance issued by the UAE Central Bank in 2018. Where UAE Central Bank requirement is higher, excess over IFRS 9 requirement is charged to Impairment reserve.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Credit impairment reserve* AED '000	Cumulative changes in fair value AED'000	Retained earnings AED'000	Equity attributable to equity holders of the Parent AED'000	Non-controlling interest AED'000	Total AED'000
Balance at 1 January 2019	70,000	35,000	44,251	23,742	9,450	288,034	470,477	228	470,705
Changes on initial application of IFRS 16	-	-	-	-	-	(752)	(752)	-	(752)
Restated balance at 1 January 2019	70,000	35,000	44,251	23,742	9,450	287,282	469,725	228	469,953
Profit for the year	-	-	-	-	-	8,851	8,851	-	8,851
Other comprehensive income for the year	-	-	-	-	14,402	-	14,402	-	14,402
Total comprehensive income for the year	-	-	-	-	14,402	8,851	23,253	-	23,253
Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	-	-	(210)	210	-	-	-
Balance at 31 December 2019	70,000	35,000	44,251	23,742	23,642	296,343	492,978	228	493,206

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	**2020**	2019
		AED'000	AED'000
OPERATING ACTIVITIES			
(Loss)/Profit for the year		**(29,315)**	8,851
Adjustments for:			
Depreciation on property and equipment	11	**1,899**	1,767
Amortisation of intangible assets	11	**457**	583
Depreciation on right-of-use assets	10	**4,036**	4,036
Loss on disposal of property and equipment		**19**	-
Net impairment loss on financial assets	9.1	**17,725**	24,066
Operating (loss)/profit before changes in operating assets and liabilities		**(5,179)**	39,303
Change in UAE Central Bank statutory deposits	5	**133,951**	34,897
Change in due to bank	12	**(754,972)**	303,104
Change in loans and advances (net)		**454,788**	431,324
Change in investments (net)		**234,643**	(12,669)
Change in other assets	10	**27,793**	(20,408)
Change in customers' deposits	13	**186,854**	(1,235,414)
Change in other liabilities	14	**(31,066)**	13,372
Net cash generated from/(used in) operating activities		**246,812**	(446,491)
INVESTING ACTIVITIES			
Purchase of property and equipment	11	**(548)**	(1,216)
Proceeds from the disposal of property and equipment		**7**	
Net cash used in investing activities		**(541)**	(1,216)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**246,271**	(447,707)
Cash and cash equivalents at 1 January		**574,712**	1,022,419
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**820,983**	574,712
Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less:			
Cash and balances with the UAE Central Bank (excluding statutory deposits)	5	**520,455**	209,245
Due from banks	6	**300,528**	365,467
		820,983	574,712
Operational cash flows from interest and dividends			
Interest paid		**33,879**	57,324
Interest received (including interest from investments)		**80,555**	115,795
Dividends received		**9,148**	11,569

The accompanying notes from pages 13 to 64 form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Emirates Investment Bank P.J.S.C. (the "Bank") was incorporated on 17 February 1976 in Dubai, United Arab Emirates by a decree of HH The Ruler of Dubai. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) Of 1984 (as amended) as a Public Joint Stock Company. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 28 June 2015, replacing Federal Law No. 8 of 1984.

Federal Decree Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Company is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

The Bank is engaged in the business of investment advisory and wealth management. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

The consolidated financial statements for the year ended 31 December 2020 comprise the financial statements of the Bank and its subsidiary (together referred to as the "Group").

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 52.85% (2019: 52.85%) of the shares in the Bank.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

2.1 New and revised IFRS applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in this consolidated financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior years.

- **Definition of Material – Amendments to IAS 1 and IAS 8**
  The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

  • that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
  • the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

- **Definition of a Business – Amendments to IFRS 3**
  The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

- **Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39**
  The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms.

  The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries. The impact of this amendment is immaterial to the consolidated financial statement as the Group has no hedges as at 31 December 2020.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (continued)

2.1 New and revised IFRS applied on the consolidated financial statements (continued)

- **Revised Conceptual Framework for Financial Reporting -** The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

  • increasing the prominence of stewardship in the objective of financial reporting
  • reinstating prudence as a component of neutrality
  • defining a reporting entity, which may be a legal entity, or a portion of an entity
  • revising the definitions of an asset and a liability
  • removing the probability threshold for recognition and adding guidance on derecognition
  • adding guidance on different measurement basis, and
  • stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

  No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

- **Amendments to IFRS 16 - Covid-19-related Rent Concessions -** As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

  Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

2.2 New and revised IFRS in issue but not yet effective and not early adopted

The Group has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRS	Effective for annual periods beginning on or after
Classification of liabilities as current or non-current – Amendments to IAS 1	
The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023.The impact of the above amendment is expected to be immaterial to the consolidated financial statements of the Group.	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 and not early adopted (continued)

New and revised IFRS	Effective for annual periods beginning on or after
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16 The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The impact of the above amendment is expected to be immaterial to the consolidated financial statements of the Group.	1 January 2022
Reference to the Conceptual Framework – Amendments to IFRS 3 Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date. The impact of the above amendment is expected to be immaterial to the consolidated financial statements of the Group.	1 January 2022
Annual Improvements to IFRS Standards 2018–2020 The following improvements were finalised in May 2020: • IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. • IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives. • IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. • IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The impact of the above amendment is expected to be immaterial to the consolidated financial statements of the Group.	1 January 2022
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark (Phase 2 amendments) - For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. The impact of the above amendment is expected to be immaterial to the consolidated financial statements of the Group.	1 January 2022

The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

3 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared on the historical cost basis except for debt securities, equity shares and derivatives that are classified as either fair value through profit and loss (FVPL) or fair value through other comprehensive income (FVOCI) that are measured at fair value.

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

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

The accounting policies used in the preparation of this consolidated financial statements are consistent with those audited annual consolidated financial statements for the year ended 31 December 2019.

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRS IC") interpretations as issued by International Accounting Standards Board ("IASB") and applicable requirements of the laws of the United Arab Emirates ("UAE").

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2020. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if, and only if, the Bank has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect 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 or similar 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 or other parties;
- rights arising from the 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 at shareholders' meetings.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiary is attributed 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 a subsidiary to bring their accounting policies into line with the Group's accounting policies.

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

3 BASIS OF PREPARATION (continued)

3.2 Basis of consolidation (continued)

The following subsidiary in which the Bank exercises control are consolidated in these financial statements based on the financial statements of the subsidiary:

Name of subsidiary	***Country***	***% Holding***		***Principal activities***
		2020	2019	
EIB Investment Co. LLC*	U.A.E	**24%**	24%	Investment in commercial, industrial and agricultural enterprises and their respective management.

*The Bank has the ability to exercise control over EIB Investment Co. LLC (the entity) as it has rights to variable returns and has the ability to affect the returns. As the Bank has control over the entity, it has been consolidated in these consolidated financial statements. The entity has the following wholly owned subsidiary namely EIB Investment Management Cayman Ltd.

The entity has contributed a loss of AED 678 thousand (2019: AED Nil) for the current year. Total assets of the entity as at 31 December 2020 amounting to AED 228 thousand (31 December 2019: AED 880 thousand) have been recognised in these consolidated financial statements.

Special purpose entities (SPE)
A SPE is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. SPE are entities that often have restricted activities and are created to accomplish a narrow and well-defined objective such as the securitisation of assets or the execution of a specific financing transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risk and rewards, the Group concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates a SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over a SPE is carried out at inception and reassessed at each statement of financial position date.

3 BASIS OF PREPARATION (continued)

3.3 Significant management judgments and estimates

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Classification of financial assets

In accordance with IFRS 9 guidance, the Group classifies its financial assets based on the assessments of the business models in which the asset are held at a portfolio level and whether cash flows generated by assets constitute Solely Payments of Principal and Interest (SPPI). This requires significant judgement in evaluating how the Group manages its business model and on whether or not a contractual clause in all debt instruments of a certain type breaches SPPI and results in a material portfolio being recorded at FVPL.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Liquidity

The Group manages its liquidity by maintaining an adequate ratio of net liquid assets to liabilities which is set out in a table in the liquidity risk disclosure in note 24. The table requires judgment with regards to whether assets can be considered liquid.

3 BASIS OF PREPARATION (continued)

3.3 Significant management judgments and estimates (continued)

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transaction;
- current fair value of another investment that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimations. The Group calibrates the valuation techniques periodically and tests them for validity using either process from observable current market transactions in the same investment or from other available observable market data.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission, custody and management on fiduciary assets and advisory fees. Other fee income and expenses are recognised when earned or incurred.

Dividend income is recognised in the consolidated income statement when the Group's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Financial instruments

Initial recognition and measurement

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transactions costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fee and commissions. Transactions costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the income statement. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortised cost and at FVOCI, which results in accounting loss being recognized in income statement when an asset is newly originated.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Initial recognition and measurement (continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
b) In all other cases, the difference is deferred and the time of recognition of deferred day one profit or loss is determined individually. It is either amortised over life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Financial assets

Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI);and
- Amortised cost

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

Debt instruments:

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loan and advances and investments in debts securities as well the Sukuk.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the assets; and
(ii) the cash flow characteristics of the asset.

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement (continued)

Debt instruments (continued)

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

- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in income statement and debt instruments that were designated at fair value are presented under 'Net gain/loss from investment securities measure as fair value through profit or loss'. Interest income from these financial assets is included in 'Net income from investments'.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

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

Equity instruments:

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

The Group subsequently measures all equity instruments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity instrument at fair value through other comprehensive income. The Group's policy is to designate equity instruments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to income statement, including on disposal. On disposal of these equity investments, any related balance within the FVOCI reserve in reclassified to retained earnings. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in income statement as other income when the Group's right to receive payments is established.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment

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

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

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in income statement as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in income statement. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities

Classification and subsequent measurement

Financial liabilities (including money markets deposits and balances due to banks, repurchase agreements with banks, and customer deposits) are initially recognised as fair value and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit 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 and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition

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

Impairment of non-financial assets

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Trade and settlement date accounting

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

Cash and cash equivalents

Cash and cash equivalents for the purpose of consolidated statement of cash flows comprise balances with maturities of three months or less from the date of acquisition including cash and balances with UAE Central Bank and due from banks.

Due from banks

Due from banks are stated at amortised cost using the effective interest method less allowance for impairment, if any.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral, the counterparty liability is included in due to banks.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of principal market, in the most advantageous market for the asset and liabilities.

If an asset or a liability measured at fair value has a 'Bid' price and an 'Ask' price, then the Group measures assets and long positions at a 'Bid' price and liabilities and short positions at an 'Ask' price.

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

Fair value is applicable to both financial and non-financial instruments.

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices at the close of business on the statement of financial position date. Bid prices are used for assets and offer prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm's length market transactions, or is based on expected discounted cash flows or derived using other accepted valuation models.

The fair value of forward foreign exchange contracts is calculated by reference to forward exchange rates for contracts with similar maturities.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, equipment and intangible assets

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is recognised so as to write off the cost of assets (other than land and capital work in progress), using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	Years
Furniture and computer equipment	4
Motor vehicles	4

Intangible assets
Computer software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization on computer software is recognised so as to write off the cost of the assets (other than capital work in progress), using the straight line method over the estimated useful life of the respective assets from the date that it is available for use.

	Years
Computer software	4

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income statement.

One year after property and equipment are fully depreciated, they are maintained at a net book value of one currency unit by setting off accumulated depreciation against cost.

Capital work-in-progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Artwork and capital work in progress are not depreciated.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the financial position date. In addition, in accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE labour law. The expected liability at the date of leaving the service has been discounted to net present value using an appropriate discount rate based on management's assumption of average annual increment/promotion costs. The present value of the obligation as at 31 December 2020 is not materially different from the provision computed in accordance with the UAE Labour Law.

The provision arising is disclosed as 'provision for employees' end of service indemnity' in the consolidated statement of financial position under 'other liabilities' (note 14).

Pension and national contribution for UAE citizens are made by the Group in accordance with Federal Law No. 7 of 1999 and no further liability exists.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where 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, the 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.

Financial guarantees

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

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement in 'Other income' on a straight line basis over the life of the guarantee.

Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

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

Foreign exchange gain and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVPL, the foreign exchange component is recognised in the consolidated income statement;
- for financial assets that are monetary items and designated as at FVOCI, any foreign exchange component is recognized in consolidated income statement;
- for financial assets that are non-monetary items and designated as at FVOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and
- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated income statement.

Offsetting of financial assets and liabilities

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

Foreign currencies

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

Segment reporting

The Group's reporting is based on the following operating segments: Investment and Banking Services.

Operating segments are reported in a manner consistent with the internal reporting provided which is regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources and assess the performance of the operating segments of an entity.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps, credit default swap and options in the foreign exchange, interest rate and capital markets. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 financial instruments (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVPL.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not recognised in the consolidated statement of financial position.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

5 CASH AND BALANCES WITH UAE CENTRAL BANK

	2020 **AED'000**	2019 AED'000
Cash in hand	**451**	459
Balances with UAE Central Bank:		
Current account	**4**	58,786
Placement	**520,000**	150,000
Reserve requirements	**16,074**	150,025
	536,529	359,270

The reserve requirements are kept with the UAE Central Bank in AED and can be withdrawn entirely on any day for daily settlement purposes, provided that the daily average requirements over a 14 day reserve maintenance period is maintained. Cash on hand and current accounts and other balances are non-interest-bearing.

6 DUE FROM BANKS, NET

	2020 **AED'000**	2019 AED'000
Domestic	**29,556**	15,524
Regional	**7,687**	19,983
International	**263,285**	329,960
	300,528	365,467
Less: allowance for impairment (note 9)	**(670)**	(1,023)
	299,858	364,444

6 DUE FROM BANKS, NET (continued)

The average yield on bank placements was 1.2% per annum (2019: 1.9% per annum).

Part of the balances with banks amounting to AED 17,849 thousand (2019: AED 191,027 thousand) is pledged as collateral with banks against credit facilities. Refer note 12.1 for the detail of credit facilities as at reporting date.

7 LOANS AND ADVANCES, NET

	2020 AED'000	2019 AED'000
Gross loans and advances	**446,805**	902,504
Less: allowance for impairment (note 9)	**(26,536)**	(10,187)
Less: interest in suspense	**(1,814)**	(2,725)
Loans and advances, net	**418,455**	889,592

8 INVESTMENTS, NET

	2020 AED'000	2019 AED'000
Investment at fair value through profit or loss		
Debt instruments		
Quoted	**5,273**	5
Equity instruments		
Quoted	**23,469**	21,202
Unquoted	**90,008**	112,367
	113,477	133,569
Total investments at fair value through profit or loss	**118,750**	133,574
Investments at fair value through other comprehensive income		
Debt instruments		
Quoted	**340,160**	611,652
Equity instruments		
Quoted	**47,119**	52,808
Total investments measured at fair value through other comprehensive income	**387,279**	664,460
Investments measured at amortised cost		
Debt instruments		
Quoted	**709,775**	658,063
Total investments measured at amortised cost	**709,775**	658,063
Gross investments	**1,215,804**	1,456,097
Less: allowance for impairment (note 9)	**(10,802)**	(5,959)
Investments, net	**1,205,002**	1,450,138

Part of the proprietary investment portfolio of the Group having a carrying value of AED 203,389 thousand (2019: AED 865,348 thousand) is pledged as collateral with banks against credit facilities. Refer note 12.1 for the detail of credit facilities as at reporting date.

The Group has not purchased shares during the year ended 31December 2020 (2019: AED Nil)

8 INVESTMENTS, NET (continued)

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

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

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

As at 31 December 2020, the Group held the following investments measured as follows:

	Total 2020 AED'000	**Investments carried at fair value Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Investments carried at amortised cost AED'000**
Debt instruments:					
Domestic	**123,887**	**59,121**	-	-	**64,766**
Regional	**268,448**	**151,195**	-	-	**117,253**
International	**662,873**	**135,117**	-	**-**	**527,756**
Equity instruments:					
Domestic	**54,125**	**33,125**	**5**	***20,995**	-
Regional	**787**	**787**	**-**	-	-
International	**105,684**	**22,755**	**82,929**	**-**	-
Gross investments	**1,215,804**	**402,100**	**82,934**	**20,995**	**709,775**
Less: allowance for impairment (note 9)	**(10,802)**				
Investments, net	**1,205,002**				

The fair value of debt investments carried at amortised cost as at 31 December 2020 amounts to AED 722,512 thousand (31 December 2019: AED 662,703 thousand).

* Key inputs used in the valuation techniques for these investments are comparable sales transaction with appropriate haircut, Discounted cash flows (DCF) which included significant unobservable inputs of – hair cut for comparable transactions and interest rate and in term of relationship of unobservable inputs to fair value, any changes in comparable sale transaction and interest rate change in DCF will directly impact the fair value.

As at 31 December 2019, the Group held the following investments measured as follows:

	Total 2019 AED'000	Investments carried at fair value Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Investments carried at amortised cost AED'000
Debt instruments:					
Domestic	71,819	32,739	-	-	39,080
Regional	258,997	244,227	-	-	14,770
International	938,904	334,686	-	5	604,213
Equity instruments:					
Domestic	59,298	34,200	5	*25,093	-
Regional	904	904	-	-	-
International	126,175	20,374	105,801	-	-
Gross investments	1,456,097	667,130	105,806	25,098	658,063
Less: allowance for impairment (note 9)	(5,959)				
Investments, net	1,450,138				

8 INVESTMENTS, NET (continued)

During 2019 investments amounting to AED 12,105 thousand were transferred from Level 1 to Level 3. The transfers from Level 1 to Level 3 were made as the market in respect of these securities have not been active and the price of these securities have not been updated on the exchange.

The following table shows a reconciliation of the opening and closing amounts of level 3 investments recorded at fair value:

	2020 AED'000	2019 AED'000
At the beginning of the year	**25,098**	40,656
Transfer from Level 1	**-**	12,105
Addition	**-**	162
Disposal	**-**	(18,760)
Net unrealized loss recognised in other comprehensive income	**(4,610)**	-
Net unrealised gain/(loss) recognised in profit or loss	**507**	(766)
Impairment / write off	**-**	(8,299)
At the end of the year	**20,995**	25,098

The Group has assessed the sensitivity of the fair value measurement of investments under level 3 due to changes in inputs used. Such an assessment is performed on a quarterly basis by reviewing the changes in unobservable inputs which might result in higher or lower fair value measurement.

9 ALLOWANCE FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2020 AED'000	2019 AED'000
Due from banks		
Movement in allowances for impairment losses		
Balance at 1 January	**1,023**	757
Net impairment (reversal)/allowance for the year	**(353)**	266
	670	1,023
Loans and advances		
Balance at 1 January	**10,187**	902
Net impairment allowance for the year	**16,349**	9,285
	26,536	10,187
Investments – measured at amortised cost		
Movement in allowances for impairment losses		
Balance at 1 January	**5,959**	6,176
Net impairment allowance/(reversal) for the year	**4,843**	(217)
	10,802	5,959

9 ALLOWANCE FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS (continued)

Expected credit losses

The analysis of expected credit losses by stage for loans and advances, investment in debt instruments measured at amortised cost and due from banks is as follows:

	2020 AED'000	2019 AED'000
Expected credit losses -Lifetime ECL (Stage 3)	**27,328**	13,540
Expected credit losses- 12-months ECL (Stage 1)	**3,521**	2,304
Expected credit losses- lifetime ECL (Stage 2)	**7,159**	1,325
Expected credit losses	**10,680**	3,629
Total expected credit losses	**38,008**	17,169

9.1 – Net impairment loss on financial assets

	2020 AED'000	2019 AED'000
Impairment loss on loans and advances	**16,349**	9,285
Impairment loss on investments measured at amortized cost	**4,843**	(217)
Write off on investments measured at amortized cost	**-**	8,299
Impairment (reversal)/loss on investments measured at FVOCI	**(3,338)**	3,753
Impairment (reversal)/loss on due from banks	**(353)**	266
Impairment loss on other assets	**224**	2,680
	17,725	24,066

10 OTHER ASSETS

	2020 AED'000	2019 AED'000
Interest receivable	**10,030**	10,782
Right-of-use assets (note 10.1)	**2,181**	6,217
Other receivables and prepayments	**6,856**	33,419
Derivative financial assets (note 21)	**-**	478
	19,067	50,896

10.1 Right-of-use assets

This note provides information of leases where the Group is a lessee
(i) Amounts recognised in the statement of financial position

	2020 AED'000	2019 AED'000
Right-of-use assets		
Offices	**2,181**	6,217
Lease liabilities		
Current	**2,293**	4,191
Non-current	**-**	2,171
	2,293	6,362

10 OTHER ASSETS (continued)

10.1 Right-of-use assets (continued)

There were no additions to the right-of-use assets during the current year.

(ii) Amounts recognised in the income statement

	2020 AED'000	2019 AED'000
Depreciation charge of right-of-use assets		
Offices	**(4,036)**	(4,036)
Interest expense on lease liabilities	**(244)**	(244)

The total cash outflow for leases in 2020 was AED 4,313 thousand (2019: AED 4,398 thousand).

11 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Property and equipment		**Intangible assets**		
	Furniture, computer equipment and artwork AED'000	**Motor vehicles AED'000**	**Computer software AED'000**	**Capital work-in-progress AED'000**	**Total AED'000**
Cost					
At 1 January 2020	**16,558**	**83**	**5,278**	**1,135**	**23,054**
Additions	**286**	**-**	**29**	**233**	**548**
Transfers	**955**	**-**	**218**	**(1,173)**	**-**
Disposals	**(415)**	**-**	**-**	**-**	**(415)**
At 31 December 2020	**17,384**	**83**	**5,525**	**195**	**23,187**
Accumulated depreciation/amortisation:					
At 1 January 2020	**12,099**	**83**	**4,768**	**-**	**16,950**
Charge for the year	**1,899**	**-**	**457**	**-**	**2,356**
Disposals	**(389)**	**-**	**-**	**-**	**(389)**
At 31 December 2020	**13,609**	**83**	**5,225**	**-**	**18,917**
Net carrying values:					
At 31 December 2020	**3,775**	**-**	**300**	**195**	**4,270**

11 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (continued)

	Property and equipment		Intangible assets		
	Furniture, computer equipment and artwork AED'000	Motor vehicles AED'000	Computer software AED'000	Capital work-in-progress AED'000	Total AED'000
Cost					
At 1 January 2019	16,271	83	5,278	206	21,838
Additions	144	-	-	1,072	1,216
Transfers	143	-	-	(143)	-
At 31 December 2019	16,558	83	5,278	1,135	23,054
Accumulated depreciation/amortisation:					
At 1 January 2019	10,332	83	4,185	-	14,600
Charge for the year	1,767	-	583	-	2,350
At 31 December 2019	12,099	83	4,768	-	16,950
Net carrying values:					
At 31 December 2019	4,459	-	510	1,135	6,104

12 DUE TO BANKS

	2020 AED'000	2019 AED'000
Term deposits	**157,939**	**403,118**
Repurchase agreements	**13,739**	**523,532**
	171,678	**926,650**

12.1 Information on collateral

	Balance 2020 AED'000	**Collateral value 2020 AED'000**	Balance 2019 AED'000	Collateral value 2019 AED'000
Term deposits:				
Collateralized by investments	**141,875**	**189,373**	186,194	307,567
Collateralized by due from banks	**16,064**	**17,849**	171,924	191,027
	157,939	**207,222**	358,118	498,594
Repurchase agreements:				
Collateralized by debt instruments	**13,739**	**14,016**	523,532	557,781

The average cost on deposits and repurchase agreements were 1.6% per annum for the year ended 31 December 2020 (2019: 2.7% per annum).

The Group has no unsecured term deposits as at reporting date (2019: AED 45,000 thousand).

13 CUSTOMER DEPOSITS

	2020 AED'000	2019 AED'000
Time deposits	**1,267,566**	853,790
Call accounts	**565,152**	792,074
	1,832,718	1,645,864

14 OTHER LIABILITIES

	2020 AED'000	2019 AED'000
Interest payable	**6,893**	9,665
Lease liabilities (note 10.1)	**2,293**	6,362
Employees' end of service benefits	**5,991**	8,168
Fees payable	**830**	2,798
Derivative financial liability (note 21)	**-**	18,657
Others	**7,651**	9,074
	23,658	54,724

In accordance with the UAE Labour Law, the Group provides for end of service benefits for its expatriate employees. Movements in the liability recognised in the consolidated statement of financial position in respect of end of service benefits are as follows:

	2020 AED'000	2019 AED'000
At 1 January	**8,168**	9,150
Charges for the year	**1,322**	1,702
Amount paid	**(3,499)**	(2,684)
At 31 December	**5,991**	8,168

15 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2019: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 700,000 ordinary shares of AED 100 each (2019: 700,000 ordinary shares of AED 100 each).

b) Legal reserve

In accordance with the UAE Federal Law No. 2 of 2015 and the Bank's Articles of Association, 10% of the profit for the year is transferred to legal reserve till the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

c) Special reserve

The disposition of the Special reserve shall be in accordance with a resolution made by the Board of Directors in the interests of the Bank.

16 INTEREST INCOME

	2020 AED'000	2019 AED'000
Loans and advances	**39,357**	62,806
Bank placements	**831**	3,848
	40,188	66,654

17 NET INCOME FROM INVESTMENTS

	2020 AED'000	2019 AED'000
Interest income on investments in debt instruments	**39,615**	45,410
Net loss from interest rate swaps	**(5,127)**	(602)
Dividend income	**9,148**	11,569
Net realised gain/(loss) on investments measured at amortised cost and FVOCI	**532**	(66)
Net (loss)/gain from investment securities measured as fair value through profit or loss	**(14,631)**	12,917
Portfolio management fee paid to other financial institutions	**(742)**	(900)
	28,795	68,328

18 FEE, COMMISSION AND OTHER INCOME

	2020 AED'000	2019 AED'000
Fee from custody and advisory services	**13,087**	25,484
Product fees and transaction charges	**5,213**	9,550
Commission and other income	**464**	1,974
	18,764	37,008

19 GENERAL AND ADMINISTRATIVE EXPENSES

	2020 AED'000	2019 AED'000
Staff costs	**49,747**	64,416
Depreciation on right-of-use assets (note 10.1)	**4,036**	4,036
Consultancy charges	**3,736**	5,138
Communication and subscriptions	**3,471**	3,502
Depreciation on property and equipment (note 11)	**1,899**	1,767
Amortisation of intangible assets (note 11)	**457**	583
Others	**7,129**	7,897
	70,475	87,339

20 BASIC AND DILUTED LOSS/EARNINGS PER SHARE

Basic loss per share of AED 41.88 (31 December 2019: Basic earnings per share of AED 12.64) is calculated by dividing the loss attributable to the equity holders of the parent of AED 29,315 thousand for the year ended 31 December 2020 (31 December 2019: profit of AED 8,851 thousand) by the weighted average number of shares outstanding during the year of 700,000 of AED 100 each (31 December 2019: 700,000 shares of AED 100 each).

The figure for basic and diluted loss per share is the same as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

21 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business the Group enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The purpose of derivative financial instruments in the Group's business is to mitigate the risks arising from default, currency and interest fluctuations and other market variables. The Group uses forward foreign exchange contracts and options to mitigate the currency risk on certain investments.

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

31 December 2020

There are no derivative financial instruments held by the Group as at 31 December 2020.

31 December 2019

				Notional amount by term to maturity		
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Less than 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000
Derivatives:						
Forward foreign exchange contracts	350	14	48,974	48,974	-	-
Foreign exchange option contracts	128	128	42,710	42,710	-	-
Interest rate swaps*	-	18,515	255,724	-	-	255,724
	478	18,657	347,408	91,684	-	255,724

* Interest rate swaps were unwound during the year and the corresponding loss has been disclosed in note 17.

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have an impact on the profit or loss of the Group. The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

Derivative product type

Forwards
Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in over-the-counter markets.

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

Swaps
Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal.

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

Foreign exchange forward contracts, foreign exchange option contracts and interest rate swaps are valued using valuation techniques, which employs the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity.

Derivative related credit risk
Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group. With gross–settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation, but the counterparty fails to deliver the counter value.

Changes in counterparty credit risk have no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

All the foreign exchange contracts are recorded at fair value under level 2 of the fair value hierarchy.

22 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments and contingent liabilities
Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Letters of credit, guarantees and acceptances commit the Group to make payments on behalf of customers, contingent upon the failure of the customers to perform under the terms of the contract.

The Group has the following credit related contingent liabilities and commitments.

22 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

	2020 AED'000	2019 AED'000
Guarantees	**24,112**	76,829
Unutilised committed credit facilities*	**6,709**	23,024
	30,821	99,853

The Group has commitments of AED 30,416 thousand on account of investment in equity instruments (31 December 2019: AED 31,342 thousand).

* Unutilised committed credit facilities represent a contractual commitment to permit draw downs on a facility within a defined year subject to conditions precedent and termination clauses. As commitments may expire without being drawn down and since conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent exact future cash requirements.

A legal case in which the Group is a defendant in respect of the customer's investment in a commercial paper is in progress. The Group has performed an assessment and has concluded that it has no legal obligation to the counterparty in respect of this matter. Accordingly, no provision has been maintained by the Group as at 31 December 2020.

23 RELATED PARTY TRANSACTIONS

The Group enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. Transactions with such related parties are done on an arm's length basis, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Pricing policies and terms of related parties' transactions are approved by the Group's management.

The significant balances outstanding in respect of related parties included in the consolidated financial statements are as follows:

	2020 AED'000	2019 AED'000
Balances with shareholders:		
Customers' deposits	**1,061,726**	548,363
Commitments and contingencies	**16,894**	64,179
Other liabilities	**3,709**	3,714
Balances with directors, key management personnel and other related parties:		
Loans and advances	**-**	97
Investments	**2,405**	9,895
Customers' deposits	**585**	8,064
Other liabilities	**2**	59

23 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2020	2019
	AED'000	AED'000
Shareholders:		
Interest expense	**(17,555)**	(16,963)
Fee, commission and other income	**1,324**	2,460
General and administrative expenses	**(6,974)**	(7,467)
Directors, key management personnel and other related parties:		
Interest income	**3**	99
Interest expense	**(143)**	(92)
Fee, commission and other income	**112**	340
Director fees	**(540)**	(170)

Outstanding balances at the yearend arise in the normal course of business. For the year ended 31 December 2020, the Group has not recorded any impairment of amounts owed by related parties (2019: Nil).

Compensation of key management personnel:

	2020	2019
	AED'000	AED'000
Salaries and other benefits	**15,594**	16,085

24 RISK MANAGEMENT

Introduction

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

The Board of Directors holds the ultimate responsibility for the risk exposures. The Group has adopted a risk governance suggesting a "three line of defence approach" to risk management, which involves top management and business lines, strong risk management function, and capable independent internal audit.

The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

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

Risk management structure

The Board of Directors has the ultimate responsibility for setting Group's risk appetite and for the establishment and oversight of the Group's risk management framework. This is managed through a number of committees; namely Board Risk Committee (BRC) and Board Audit Committee (BAC).

The management level committees also actively manage risk particularly the, Credit Committee (CC), Asset and Liability Management Committee (ALCO) and the Risk Management department.

24 RISK MANAGEMENT (continued)

Risk management structure (continued)

Board Risk Committee
BRC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancement of the Group's risk management framework to best practice standards, monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc.) and compliance with the regulatory requirements.

Board Audit Committee
The primary role of the BAC is to have an oversight and review of financial audit and internal control issues as well as to oversee the independence and performance of Group's external and internal auditors.

Asset and Liability Management Committee
ALCO is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also responsible for managing the funding and liquidity risks of the Group.

Credit Committee
CC is management level committee which carries out credit lending decisions including but not limited to approval and renewal of credit facilities, review and monitor loan portfolio performance, decisions on loan settlement, provisioning write off and amendments to pricing and grading.

Risk Management Department
Risk management department within the Group is responsible for identifying, monitoring and managing the risk related to Credit, Market and Operational risks. Risk management department is responsible for reporting any deviation from policy, regulatory guidelines to senior management and ultimately to the BRC.

Internal Audit
Risk management processes throughout the Group are subject to an internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the BAC.

Risk measurement and reporting systems
Monitoring and controlling risks is primarily performed based on limits and the parameters established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled is examined and processed in order to analyse, identify and control early risks. This information, which includes aggregate credit exposure, liquidity ratios and risk profile changes, is presented to the management committees and ultimately to the BRC.

Periodic briefing is given by the Risk management department, to the relevant committees on the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage risks associated with the changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Group also constantly monitors its portfolio and ensures it remains diversified in order to mitigate risk in relation to concentration of exposure towards a particular business or geographical segment.

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

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

24 RISK MANAGEMENT (continued)

Credit risk

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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using the concept of Expected Loss which requires the following measures:

Probability of Default (PD)
Loss Given Default (LGD)
Exposure at Default (EAD)

Credit risk grading

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

Borrower risk ratings are mapped into the following grades:

Grade	**Definition**
Prime and high grade	Low risk
Standard grade	Satisfactory risk
Sub-standard grade	Watch List
Past due	Loss/Impaired

Expected credit loss measurement
IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition of a facility as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk (‘SICR’) since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired. The SICR is measured as a change in one year probability of default between the date of inception of the facility and the date that the IFRS9 ECL is calculated.
- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’.
- Financial assets in Stage 1 have their ECL measured at an amount equal to the expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a significant increase in credit risk when a significant change in one year probability of default occurs between the origination date of a specific exposure and the date that the IFRS 9 ECL is calculated.

Quantitative criteria

Loans and advances:
A borrower experiences a significant increase in credit risk if the following quantitative factors are triggered:

- Accounts being overdue between 30 to 90 days;
- Adverse findings for an account/borrower as per credit bureau data;

Investments:
- Significant increase in probability of default of the underlying instrument;
- Significant deterioration in credit rating of the underlying instrument.

Due from banks:
- Significant change in the expected performance and behavior of the counterparty.

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2020 and 2019.

Definition of default and credit-impaired assets

The Group defines a loan, due from bank and investment instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

According to the Basel definition, default is considered to have occurred with regard to particular obligors when any one of the following events has taken place:

- The Group considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Bank to actions like realizing security (if held).
- The Group puts the credit obligation on a non-accrued status.
- The Group makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure.
- The Group sells the credit obligation at a material credit-related economic loss.
- The Group consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
- The Group has filed for the obligor’s bankruptcy or similar order in respect of the obligor’s credit obligation to the Group.
- The obligor is past due more than 90 days on any material credit obligation to the Group.

An instrument is considered to no longer be in default (i.e. to have cured) when it meets the cooling period criteria provided by CBUAE. Any exposure is not directly upgraded from Stage 3 to Stage 1, it is upgraded to Stage 2 followed by a cooling period of 12-months to confirm risk has decreased sufficiently before upgrading such exposure to Stage 1. With regards to restructured accounts (where any sort of relaxation provided to customer on re-payment structure), Group observes a probationary period of minimum 3 instalments and 12 months whichever is longer before upgrading from Stage 3 to Stage 2.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Group has adopted a forward exposure method for computing the ECL for each facility. The Group has opted for a quarterly granular computation of PD, EAD and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure.
  LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a lifetime basis, where lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Lifetime expected credit losses are expected credit losses resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

Forward-looking economic information is also included in determining the 12-month and lifetime PD.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the UAE Central Bank and provide the best estimate view of the economy over the next three years.

The impact of observed and forward looking macro-economic indicators to estimate forward looking PD. LGD is as per IRB guidelines and EAD is estimated as the outstanding exposure at the time of default .

The Group has calculated ECL at an individual instrument level, hence does not require any grouping of instruments in the process of loss calculation.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

COVID-19 impact on credit risk

The economic fallout of COVID-19 crisis is expected to be significant and is rapidly evolving at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. The Central Bank of UAE ("CBUAE") has also announced multiple measures and incentives totalling to AED 256 billion to help banks support the economic sectors and individuals in the UAE impacted by this crisis.

COVID-19 impact on measurement of ECL

IFRS 9 framework requires the estimation of Expected Credit Loss (ECL) based on observed and forward looking economic conditions. In order to assess ECL under forecast economic conditions, the Group utilizes a range of economic scenarios (baseline, downturn and upturn) of varying severity, and with appropriate weightings, to ensure that ECL estimates are representative of a range of possible economic outcomes. .

The Group has reviewed the potential impact of COVID-19 outbreak on the inputs and assumptions for IFRS 9 ECL measurement in light of available information. Overall, the COVID-19 situation remains fluid and is rapidly evolving at this point. The Group is conducting frequent reviews of the Loan to Value ("LTV") ratios on the collateral held against loans given to customers. Accordingly, all staging and grouping decisions are subject to regular review to ensure these reflect an accurate view of the Group's assessment of the customers' creditworthiness, staging and grouping as of the reporting date.

The Group has reassessed its portfolio of Stage 1, Stage 2 and Stage 3 customers as at 31 December 2020. The Group has evaluated whether the investment portfolio has suffered a significant deterioration in credit quality. Based on ratings from external rating agencies and assessment of any increase in probability of default, the Group has concluded that there has been a significant increase in credit risk for certain investments and the ECL reflects the impact of significant increase in credit risk as at 31 December 2020.

The Group continues to work under CBUAE guidelines to refine and operationalize relief schemes being deployed to assist customers impacted by COVID-19, as applicable. This includes the Targeted Economic Support Scheme ("TESS") announced in UAE on 6 April 2020.

Analysis of customers benefitting from payment deferrals

The table below contains analysis of the deferral amount and outstanding balance of UAE customers benefiting from deferrals.

	2020
	AED'000
Deferral amount	
Loans and advances	**13,739**
Exposures	
Loans and advances	**13,739**
Less: Expected credit losses	**(27)**
	13,712
Number of customers	3

The Group has assessed profile of the customers who have opted for payment deferrals by looking at their payment history and these customers are facing short term liquidity issues without significant increase in credit risk (SICR). Based on the assessment, no additional ECL is provided and no modification loss resulted from the customers benefitting payment deferrals. Zero Cost Funding under the CBUAE TESS program availed by the Group amounts to AED 13,739 thousand which has been utilized to provide payment relief to the impacted customers. The Zero Cost Funding is collateralized by certain investments as disclosed in note 12.1 and is due for repayment before 30 June 2021.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

COVID-19 impact on measurement of ECL (continued)

Analysis of customers benefitting from payment deferrals (continued)

As per the requirements of the CBUAE, customers benefitting from payment deferrals can be divided into two groups as follows:

Group 1: includes those customers that are not expected to face substantial changes in their credit worthiness, beyond liquidity issues and are temporarily and mildly impacted by the Covid-19 crisis. For these customers, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers will remain in their current IFRS 9 stage, at least for the duration of the crisis, or their distress, whichever is shorter.

Group 2: includes those customers that are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals. For these customers, there is sufficient deterioration in credit risk to trigger IFRS 9 stage migration.

Based on the assessment performed by the Group, all the customers benefitting from payment deferrals are under Group 1 as at 31 December 2020.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position (excluding cash in hand and investments in equity instruments) including guarantees. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and before allowance and an impairment, if any.

	2020 **AED'000**	2019 AED'000
Balances with UAE Central Bank (note 5)	**536,078**	358,811
Due from banks (note 6)	**300,528**	365,467
Loans and advances (note 7)	**446,805**	902,504
Investments in debt instruments (note 8)	**1,055,208**	1,269,720
Other assets (note 10)	**14,436**	42,840
	2,353,055	2,939,342
Guarantees (note 22)	**24,112**	76,829
Total credit risk exposure	**2,377,167**	3,016,171

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by customer/counterparty, by geographical region. The maximum credit exposure to any customer or counterparty (excluding balances with UAE Central Bank) as of 31 December 2020 was AED 114,361 thousand (2019: AED 155,006 thousand) before taking account of collateral or other credit enhancements.

The Group's financial assets (excluding cash in hand and investments in equity securities) including guarantees, before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions:

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

	2020		2019	
	Assets AED'000	**Guarantees AED'000**	Assets AED'000	Guarantees AED'000
United Arab Emirates	**1,353,502**	**24,112**	1,538,047	76,829
North America	**84,160**	-	188,242	-
Europe	**307,282**	-	481,981	-
GCC & other ME	**337,680**	-	371,191	-
Others	**270,431**	-	359,881	-
	2,353,055	**24,112**	2,939,342	76,829

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality of the Group's financial assets (excluding cash in hand and investments in equity instruments), based on the Group's internal credit rating system.

	Neither past due nor impaired				
	Prime and high grade AED'000	**Standard grade AED'000**	**Sub-standard grade AED'000**	**Past due AED'000**	**Total AED'000**
2020					
Balances with UAE Central Bank	**536,078**	**-**	**-**	**-**	**536,078**
Due from banks	**184,384**	**111,879**	**4,265**	**-**	**300,528**
Loans and advances	**-**	**307,523**	**110,509**	**28,773**	**446,805**
Investments in debt instruments	**236,665**	**456,873**	**361,670**	**-**	**1,055,208**
Other assets	**1,637**	**9,008**	**3,791**	**-**	**14,436**
	958,764	**885,283**	**480,235**	**28,773**	**2,353,055**

	Neither past due nor impaired				
	Prime and high grade AED'000	Standard grade AED'000	Sub-standard grade AED'000	Past due AED'000	Total AED'000
2019					
Balances with UAE Central Bank	358,811	-	-	-	358,811
Due from banks	267,992	95,538	1,937	-	365,467
Loans and advances	-	739,844	81,872	80,788	902,504
Investments in debt instruments	489,988	445,288	334,444	-	1,269,720
Other assets	30,528	10,399	1,913	-	42,840
	1,147,319	1,291,069	420,166	80,788	2,939,342

24 RISK MANAGEMENT (continued)

Credit risk (continued)
Credit risk exposure of the Group's financial assets (excluding cash in hand and investments in equity instruments) for each internal risk rating.

	Moody's equivalent grades	Total 2020 AED'000	Total 2019 AED'000
Prime and high grade	Aaa-Aa3	**958,764**	1,147,319
Standard grade	Baa-Baa3	**885,283**	1,291,069
Sub-standard grade	Ba-B3	**480,235**	420,166
Past due		**28,773**	80,788
		2,353,055	2,939,342

It is the Group's policy to maintain accurate and consistent risk ratings across the credit and investment portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain exposures in each risk rating class as a number of them are based on the Group's internal rating.

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	ECL staging			
	Stage 1 12-month ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**Total AED'000**
As at 31 December 2020				
Balances with UAE Central Bank (note 5)	**536,078**	**-**	-	**536,078**
Due from banks (note 6)	**300,528**	**-**	-	**300,528**
Loans and advances (note 7)	**307,523**	**110,509**	**28,773**	**446,805**
Investments in debt instruments (note 8)	**705,865**	**338,046**	**6,024**	**1,049,935**
Other assets (note 10)	**14,436**	-	-	**14,436**
Total	**1,864,430**	**448,555**	**34,797**	**2,347,782**
Guarantees (note 22)	**24,112**	**-**	-	**24,112**
Total credit risk exposure	**1,888,542**	**448,555**	**34,797**	**2,371,894**

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	ECL staging			
	Stage 1 12-month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	Total
	AED'000	AED'000	AED'000	AED'000
As at 31 December 2019				
Balances with UAE Central Bank (note 5)	358,811	-	-	358,811
Due from banks (note 6)	365,467	-	-	365,467
Loans and advances (note 7)	739,844	81,872	80,788	902,504
Investments in debt instruments (note 8)	1,008,852	185,403	75,460	1,269,715
Other assets (note 10)	42,840	-	-	42,840
Total	2,515,814	267,275	156,248	2,939,337
Guarantees (note 22)	76,829	-	-	76,829
Total credit risk exposure	2,592,643	267,275	156,248	3,016,166

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and product parameters. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are generally cash, investment securities and real estate properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The table below details the fair value of the collateral, which is updated regularly:

	Loans and advances	
	2020	2019
	AED'000	AED'000
Against individually impaired loans and advances		
Secured by marketable securities	**9,450**	14,700
Secured by real estate	**3,640**	106,170
Total	**13,090**	120,870
Against loans and advances not impaired		
Secured by marketable securities	**839,450**	1,163,832
Secured by real estate	**432,065**	537,314
Secured by cash/deposits	**5,961**	26,072
Total	**1,277,476**	1,727,218

Collaterals are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Group seeks to ensure enforceability of the collateral. Major categories of collaterals are as included in the above table. Collaterals are revalued regularly as per the Group's credit policy. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately managed.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Movement in gross carrying amount

The following table explains the changes in the gross carrying amount from 1 January 2020 to 31 December 2020:

	2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Due from banks				
Gross carrying amount as at 1 January 2020	**365,467**	**-**	**-**	**365,467**
Transfers	-	-	-	-
New financial assets originated	604	-	-	**604**
Repayment and other movements	(65,543)	-	-	**(65,543)**
Gross carrying amount as at 31 December 2020	**300,528**	**-**	**-**	**300,528**

	2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Loans and advances				
Gross carrying amount as at 1 January 2020	**739,844**	**81,872**	**80,788**	**902,504**
Transfers				
Transfer from Stage 1 to Stage 2	(83,417)	83,417	-	-
Transfer from Stage 2 to Stage 3	-	(1,661)	1,661	-
New financial assets originated	10,334	-	-	**10,334**
Repayment and other movements	(359,238)	(53,119)	(53,676)	**(466,033)**
Gross carrying amount as at 31 December 2020	**307,523**	**110,509**	**28,773**	**446,805**

	2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Investments – measured at amortised cost				
Gross carrying amount as at 1 January 2020	**461,853**	**124,750**	**71,460**	**658,063**
Transfers				
Transfer from Stage 1 to Stage 2	(171,979)	171,979	-	-
Transfer from Stage 3 to Stage 2*	-	35,874	(35,874)	-
Transfer from Stage 2 to Stage 3	-	(1,848)	1,848	-
New financial assets originated	300,137	-	-	**300,137**
Repayment and other movements	(147,078)	(69,937)	(31,410)	**(248,425)**
Gross carrying amount as at 31 December 2020	**442,933**	**260,818**	**6,024**	**709,775**

*During the year, the Group has reassessed the staging of these securities.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Movement in gross carrying amount (continued)

	2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Due from banks				
Gross carrying amount as at 1 January 2019	834,176	-	-	834,176
Transfers	-	-	-	-
New financial assets originated	147	-	-	147
Repayment and other movements	(468,856)	-	-	(468,856)
Gross carrying amount as at 31 December 2019	365,467	-	-	365,467

	2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Gross carrying amount as at 1 January 2019	1,301,340	24,588	5,248	1,331,176
Transfers				
Transfer from Stage 1 to Stage 2	(111,737)	111,737	-	-
Transfer from Stage 1 to Stage 3	(31,934)	-	31,934	-
Transfer from Stage 2 to Stage 3	-	(15,933)	15,933	-
New financial assets originated	54,653	-	-	54,653
Repayment and other movements	(472,478)	(38,520)	27,673	(483,325)
Gross carrying amount as at 31 December 2019	739,844	81,872	80,788	902,504

	2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Investments – measured at amortised cost				
Gross carrying amount as at 1 January 2019	617,033	121,512	47,122	785,667
Transfers				
Transfer from Stage 1 to Stage 2	(69,782)	69,782	-	-
Transfer from Stage 2 to Stage 3	-	(36,873)	36,873	-
New financial assets originated	68,889	-	-	68,889
Repayment and other movements	(154,287)	(29,671)	(12,535)	(196,493)
Gross carrying amount as at 31 December 2019	461,853	124,750	71,460	658,063

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Movement in loss allowance

The following table explain the changes in the loss allowance from 1 January 2020 to 31 December 2020:

	2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Due from banks				
Loss allowance as at 1 January 2020	**1,023**	**-**	**-**	**1,023**
Transfers				
New financial assets originated	97	**-**	-	**97**
Changes in PDs/LGDs/EADs	(450)	-	-	**(450)**
Loss allowance as at 31 December 2020	**670**	**-**	**-**	**670**

	2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Loans and advances				
Loss allowance as at 1 January 2020	**172**	**368**	**9,647**	**10,187**
Transfers				
New financial assets originated	20	-	-	**20**
Changes in PDs/LGDs/EADs	416	212	15,701	**16,329**
Loss allowance as at 31 December 2020	**608**	**580**	**25,348**	**26,536**

	2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Investments – measured at amortised cost				
Loss allowance as at 1 January 2020	**1,109**	**957**	**3,893**	**5,959**
Transfers				
Transfer from Stage 1 to Stage 2	(1,662)	1,662	-	**-**
Transfer from Stage 3 to Stage 2	-	1,051	(1,051)	**-**
Transfer from Stage 2 to Stage 3	-	(96)	96	**-**
New financial assets originated	4,059	-	-	**4,059**
Changes in PDs/LGDs/EADs	(1,263)	3,005	(958)	**784**
Loss allowance as at 31 December 2020	**2,243**	**6,579**	**1,980**	**10,802**

All guarantees issued by the Group are collateralised by cash.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

Movement in loss allowance (continued)

	2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Due from banks				
Loss allowance as at 1 January 2019	757	-	-	757
Transfers				
New financial assets originated	11	-	-	11
Changes in PDs/LGDs/EADs	255	-	-	255
Loss allowance as at 31 December 2019	1,023	-	-	1,023

	2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Loss allowance as at 1 January 2019	840	-	62	902
Transfers				
Transfer from Stage 1 to Stage 2	(115)	115	-	-
Transfer from Stage 1 to Stage 3	(4)	-	4	-
New financial assets originated	2	-	-	2
Changes in PDs/LGDs/EADs	(551)	253	9,581	9,283
Loss allowance as at 31 December 2019	172	368	9,647	10,187

	2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Investments – measured at amortised cost				
Loss allowance as at 1 January 2019	1,379	1,859	2,938	6,176
Transfers				
Transfer from Stage 1 to Stage 2	(217)	217	-	-
Transfer from Stage 2 to Stage 3	-	(665)	665	-
New financial assets originated	256	-	-	256
Changes in PDs/LGDs/EADs	(309)	(454)	290	(473)
Loss allowance as at 31 December 2019	1,109	957	3,893	5,959

24 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory reserve with the Central Bank of UAE which can be withdrawn entirely on any day for daily settlement purposes, provided that the daily average requirements over a 14 day reserve maintenance period is maintained. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

Maturities of assets and liabilities at the date of statement of financial position are set out in the table below based on the remaining period to the contractual maturity date without taking account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

COVID 19 impact on liquidity management

Global stress in the markets brought on by the COVID-19 crisis has affected liquidity in global and regional markets. In this environment, the Group continues to focus on high level of liquidity and is strengthening its liquidity buffer through selective disbursals, raising local deposits, as well as adding new counterparties for secured funding.

The CBUAE has adopted a proactive approach in order to ensure flow of credit to the economy, especially sectors severely impacted by the COVID-19 crisis. The CBUAE announced a comprehensive TESS on 6 April 2020, allowing UAE Banks to access zero cost funding and pass on the benefit through Principal and Interest deferrals to their customers.

The CBUAE has introduced several measures to improve liquidity in order to help banks support the economy. This includes a reduction in the CB reserve requirement for demand liabilities from 14% to 7% and a reduction in the minimum level required for LCR/ELAR by 30%. The combination of above measures by the CBUAE along with prudent management of liquidity by the Group will help ensure that the Group is able to meet its customers' banking services requirements effectively and without disruption, even during a prolonged period of reduced access to the foreign funding markets.

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
31 December 2020									
ASSETS									
Cash and balances with UAE Central Bank	**536,529**	**-**	**-**	**536,529**	**-**	**-**	**-**	**-**	**536,529**
Due from banks, net	**299,858**	**-**	**-**	**299,858**	**-**	**-**	**-**	**-**	**299,858**
Loans and advances, net	**290,772**	**46,454**	**975**	**338,201**	**80,254**	**-**	**80,254**	**-**	**418,455**
Investments, net	**78,901**	**151,595**	**145,824**	**376,320**	**461,917**	**216,971**	**678,888**	**149,794**	**1,205,002**
Other assets	**7,190**	**3,045**	**4,971**	**15,206**	**305**	**-**	**305**	**3,556**	**19,067**
Property, equipment and intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,270**	**4,270**
Total assets	**1,213,250**	**201,094**	**151,770**	**1,566,114**	**542,476**	**216,971**	**759,447**	**157,620**	**2,483,181**
LIABILITIES AND EQUITY									
Due to banks	**171,678**	**-**	**-**	**171,678**	**-**	**-**	**-**	**-**	**171,678**
Customer deposits	**1,168,295**	**43,120**	**50,395**	**1,261,810**	**570,908**	**-**	**570,908**	**-**	**1,832,718**
Other liabilities	**10,574**	**1,573**	**667**	**12,814**	**4,853**	**-**	**4,853**	**5,991**	**23,658**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**455,127**	**455,127**
Total liabilities and equity	**1,350,547**	**44,693**	**51,062**	**1,446,302**	**575,761**	**-**	**575,761**	**461,118**	**2,483,181**
Net liquidity gap	**(137,297)**	**156,401**	**100,708**	**119,812**	**(33,285)**	**216,971**	**183,686**	**(303,498)**	

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
31 December 2019									
ASSETS									
Cash and balances with UAE Central Bank	359,270	-	-	359,270	-	-	-	-	359,270
Due from banks, net	364,444	-	-	364,444	-	-	-	-	364,444
Loans and advances, net	866,748	20,696	1,067	888,511	1,081	-	1,081	-	889,592
Investments, net	479,049	55,178	128,335	662,562	599,690	7,469	607,159	180,417	1,450,138
Other assets	33,708	4,157	6,919	44,784	2,556	-	2,556	3,556	50,896
Property, equipment and intangible assets	-	-	-	-	-	-	-	6,104	6,104
Total assets	2,103,219	80,031	136,321	2,319,571	603,327	7,469	610,796	190,007	3,120,444
LIABILITIES AND EQUITY									
Due to banks	926,650	-	-	926,650	-	-	-	-	926,650
Customer deposits	1,106,182	70,597	354,817	1,531,596	114,268	-	114,268	-	1,645,864
Other liabilities	34,493	1,817	4,296	40,606	5,950	-	5,950	8,168	54,724
Equity	-	-	-	-	-	-	-	493,206	493,206
Total liabilities and equity	2,067,325	72,414	359,113	2,498,852	120,218	-	120,218	501,374	3,120,444
Net liquidity gap	35,894	7,617	(222,792)	(179,281)	483,109	7,469	490,578	(311,297)	

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

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

	On demand AED'000	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Total AED'000**
2020					
Due to banks	**-**	**171,746**	**-**	**-**	**171,746**
Customer deposits	**565,152**	**603,544**	**94,833**	**625,151**	**1,888,680**
Other liabilities	**-**	**10,574**	**2,240**	**10,844**	**23,658**
	565,152	**785,864**	**97,073**	**635,995**	**2,084,084**

	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Total AED'000
2019					
Due to banks	-	929,222	-	-	929,222
Customer deposits	792,074	315,215	438,848	131,618	1,677,755
Other liabilities	-	34,493	6,114	14,116	54,724
	792,074	1,278,930	444,962	145,735	2,661,701

Derivatives financial instruments in the above table are indicated under other liabilities at the gross undiscounted cash flows. However, these amounts may be settled gross or net.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities

	On demand AED'000	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
2020						
Contingent liabilities	**7,922**	**17,844**	**353**	**4,702**	**-**	**30,821**
2019						
Contingent liabilities	26,089	48,182	19,594	5,988	-	99,853

The Group expects that not all of the contingent liabilities will be drawn before expiry of the commitments

24 RISK MANAGEMENT (continued)

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

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

The Board has established levels of interest rate risk by setting interest rate sensitivity limits.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate financial assets and financial liabilities held at the year end. The sensitivity of equity is calculated by revaluing fixed rate financial assets at year-end for the effect of assumed changes in interest rates. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve.

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

	Impact on net profit 2020 AED'000	**Impact on equity 2020 AED'000**	Impact on net profit 2019 AED'000	Impact on equity 2019 AED'000
Increase in 100 basis points	**(1,766)**	**(14,240)**	1,361	(3,566)

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

Major currency wise open positions of the Group are as follows:

	2020 Long/(short) AED'000	2019 Long/(short) AED'000
Euro	**241**	430
Pound Sterling	**9**	98
Swiss Francs	**116**	244
US Dollars	**425,070**	14,514

Since the UAE Dirham is pegged to the US Dollar, management believes that presently the Group is not exposed to any significant foreign currency risk in respect of the US Dollar.

24 RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's equity investment portfolio.

The effect on quoted equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in equity price 2020 %	**Effect on equity 2020 AED'000**	Change in equity price 2019 %	Effect on equity 2019 AED'000
Abu Dhabi Securities Market	**+/-10**	**613**	+/-10	680
Dubai Financial Market	**+/-10**	**4,091**	+/-10	4,593
Others	**+/-10**	**79**	+/-10	90

Operational risk

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

25 SEGMENTAL ANALYSIS

For operating purposes, the Group is organised into two major business segments: (a) Investments, which is principally involved in managing the Group's own investment portfolio and provides treasury services; and (b) Banking Services, which principally manages customers' investment portfolios, provides credit facilities and accepts deposits from corporate and individual customers. These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

25 SEGMENTAL ANALYSIS (continued)

	Investments		Banking Services		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Revenue *	**28,923**	60,109	**43,344**	91,555	**72,267**	151,664
Expenses	**(43,622)**	(57,620)	**(57,960)**	(85,193)	**(101,582)**	(142,813)
(Loss)/Profit for the year	**(14,699)**	2,489	**(14,616)**	6,362	**(29,315)**	8,851

* Revenue comprises of interest income, net income from investments, fee commission and other income and exchange gain less impairment loss on financial assets.

	Investments		Banking Services		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Segment assets	**2,051,452**	2,211,346	**431,729**	909,098	**2,483,181**	3,120,444
Segment liabilities and equity	**172,099**	973,230	**2,311,082**	2,147,214	**2,483,181**	3,120,444

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates.

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

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

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

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

26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

The following table shows an analysis of derivatives recorded at fair value by level of the fair value hierarchy.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2020				
Financial assets				
Derivative financial instruments (note 21)	-	-	-	-
Financial liabilities				
Derivative financial instruments (note 21)	-	-	-	-
31 December 2019				
Financial assets				
Derivative financial instruments (note 21)	-	478	-	478
Financial liabilities				
Derivative financial instruments (note 21)	-	18,657	-	18,657

Fair value hierarchy of investments is disclosed under note 8.

The table below sets out the Group's classification of each class of financial assets and liabilities, and their carrying values before provision, if any.

	At fair value through profit or loss AED'000	At fair value through OCI AED'000	Loans and receivables AED'000	Amortised cost AED'000	Total AED'000
2020					
Financial assets					
Cash and balances with UAE Central Bank	-	-	-	**536,529**	**536,529**
Due from banks	-	-	-	**300,528**	**300,528**
Loans and advances	-	-	**446,805**	-	**446,805**
Investments, net	**118,750**	**387,279**	-	**709,775**	**1,215,804**
Others	-	-	-	**14,436**	**14,436**
	118,750	**387,279**	**446,805**	**1,561,268**	**2,514,102**
Financial liabilities					
Due to banks	-	-	-	**171,678**	**171,678**
Customer deposits	-	-	-	**1,832,718**	**1,832,718**
Others	-	-	-	**23,658**	**23,658**
	-	-	-	**2,028,054**	**2,028,054**

26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

	At fair value through profit or loss AED'000	At fair value through OCI AED'000	Loans and receivables AED'000	Amortised cost AED'000	Total AED'000
2019					
Financial assets					
Cash and balances with UAE Central Bank	-	-	-	359,270	359,270
Due from banks	-	-	-	365,467	365,467
Loans and advances	-	-	902,504	-	902,504
Investments	133,574	664,460	-	658,063	1,456,097
Others	478	-	-	42,362	42,840
	134,052	664,460	902,504	1,425,162	3,126,178
Financial liabilities					
Due to banks	-	-	-	926,650	926,650
Customer deposits	-	-	-	1,645,864	1,645,864
Others	18,657	-	-	27,899	46,556
	18,657	-	-	2,600,413	2,619,070

With the exception of debt investments measured at amortised cost (where the fair values are disclosed in note 8), management considers that the carrying amounts of financial assets and liabilities measured at amortised cost in the consolidated financial statements approximate their fair values as these are substantially short term in nature and carry market rates of interest.

27 CAPITAL ADEQUACY

The Central Bank of UAE ('CBUAE') supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

Minimum capital requirements
The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

Additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced over and above the minimum CET1 requirement of 7%. CCyB is not in effect and is not required to keep for 2020.

27 CAPITAL ADEQUACY (continued)

Regulatory capital
The Bank's capital base is divided into two main categories, namely CET1 and Tier 2 (‘T2’), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under ‘CBUAE’ guidelines.
- T2 capital comprises undisclosed reserves.

The capital adequacy ratio as per Basel III framework is given below:

	2020 **AED’000**	2019 AED’000
Common Equity Tier 1 capital		
Issued capital	**70,000**	70,000
Legal reserve	**35,000**	35,000
Special reserve	**44,251**	45,136
Retained earnings	**285,885**	295,458
Fair value reserve	**6,695**	1,203
Total CET I capital	**441,831**	446,797
Tier II capital		
Eligible general provisions	**12,971**	17,528
Total tier II capital	**12,971**	17,528
Total eligible capital	**454,802**	464,325
Risk weighted exposure		
Credit risk	**1,037,665**	1,402,277
Market risk	**6,872**	19,883
Operational risk	**196,963**	267,754
Total	**1,241,500**	1,689,914

	Minimum capital requirement 2020	**2020**	2019
Capital Ratio			
Total capital ratio	13.00%	**36.63%**	27.48%
Tier I ratio	11.00%	**35.59%**	26.44%
CET I ratio	9.50%	**35.59%**	26.44%

Capital management policies, stress testing and capital management
The Bank has a robust capital adequacy assessment, monitoring and reporting process and is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel III.

The forward-looking internal capital adequacy assessment process (ICAAP) is based on the Bank’s financial budget projections. Various stress scenarios are considered to assess the strength of the Bank’s capital adequacy over a three year period.

27 CAPITAL ADEQUACY (continued)

The implemented ICAAP is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the form of cushion against unexpected losses. The Bank's quantification models have been subject to external scrutiny and validation.

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

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

28 FIDUCIARY ASSETS

	2020	2019
	AED'000	AED'000
Balance of fiduciary assets	**2,510,461**	3,897,754

The Group provides custody services for its customers' assets. These assets are held by the Group in a fiduciary capacity and are, accordingly, not included in these consolidated financial statements as assets of the Group.

29 COMPARATIVE FIGURES

Cash and cash equivalents comprise balances with maturities of three months or less from the date of acquisition including cash and balances with UAE Central Bank and due from banks.

Due to banks maturing within 3 months that were classified within cash and cash equivalents in the previous year have now been shown as part of operating activities in the cash flow statement to be consistent with the current year treatment.

30 SUBSEQUENT EVENTS

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements.