Invest bank P.S.C.

Consolidated financial statements
for the year ended 31 December 2020

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Pages

بنك الإستثمار
Invest bank

Invest Bank P.S.C.

Board of Directors' Report

Dear Shareholders,

It is my pleasure to welcome you to our annual general meeting, and to present the Directors' Report, and accompanying audited consolidated financial statements, for the year ended 31 December 2020.

Last year proved to be very challenging for Invest Bank as the economic impact of the COVID-19 pandemic disrupted the Bank's recovery from its legacy issues. The uncertain operating environment in the Bank's key markets of the UAE and Lebanon, and particularly the weakness of key sectors to which the Bank had exposure, resulted in a decline in assets by the end of 2020.

Having set out on a transformational journey in 2019 to become a more efficient and productive organisation, the Bank continued to make progress in 2020 by further streamlining its operations and lowering costs. This included the reduction of the Bank's branch network to just five branches, a progressive development appropriate for a corporate bank. As a result of these efforts, the Bank's operating expenses were reduced from AED 250 million in 2019 to AED 181 million last year. This trend is expected to continue in 2021 as the expansion of the transformational strategy drives further efficiencies.

Invest Bank's corporate governance and risk management processes, which were significantly enhanced in 2018, have continued to allow the Bank to make more informed decisions that protect the interests of its stakeholders. Adhering to this more robust approach, the Bank, despite the economic impact of COVID -19, booked AED 363 million in impairment provisions during 2020, considerably lower than the AED 634 million booked in the previous year.

However, there is still a long way to go given the depth of the Bank's previous issues which continue to impact its financial performance today. The Bank posted operating income of AED 187 million in 2020 compared to AED 305 million in 2019. This was predominantly due to lower net interest income, and lower income from fees and commissions. As a result, the Bank reported a loss for the year of AED 356 million, down from AED 579 million in 2019.

Despite the Government of Sharjah's injection of AED 1.1 billion in exchange for a 50.07% stake in 2019, the bank's equity fell in 2020 to AED 910 million from AED 1,286.0 million, while its Capital Adequacy Ratio decreased to 10.24%. Total deposits also decreased by AED 2.8 billion as at 31 December 2020 compared to 31 December 2019. The Bank's majority shareholder, the Government of Sharjah, with ongoing guidance from the Central Bank of UAE, continues to coordinate efforts to bolster the Bank's liquidity and enhance its capital base.

The path ahead looks promising as the regional economy bounces back from the effects of the COVID-19 pandemic and business confidence is restored. The continued support from the Government of Sharjah and the Central Bank of UAE will ensure that Invest Bank can emerge from an undoubtedly difficult period in a relatively healthy position. Since the year-end, deposits have started to increase, reaching AED 8 billion during April 2021. This, alongside a number of other initiatives that the Bank has been working on internally and with partners, will support the management of liquidity going forward.

Over the coming months, Invest Bank will also seek to further improve its asset quality by focusing on the recovery of poor-performing loans and helping clients rebound from the adversity they may have also faced in 2020. The expectation is that in the medium term, this will enable the Bank to return to a trajectory of profitable growth as operating margins improve and new commercial opportunities are captured.

Personally and on behalf of the entire Board, I would like to express our sincere gratitude and

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appreciation to His Highness Sheikh Dr. Sultan bin Mohammed Al Qasimi, Member of the Supreme Council and Ruler of Sharjah, for his guidance and support, without which Invest Bank would not have been able to endure the severe conditions it has faced.

On your behalf, I would also like to thank the bank's management and staff for their hard work, dedication and commitment, and we all look forward to their continued contribution in this new era for Invest Bank.

H.E. Sheikh Sultan Bin Ahmed Bin Sultan Al Qasimi
Chairman

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Independent auditor's report to the shareholders of Invest bank P.S.C.

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 Invest bank P.S.C. (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 other 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.

Emphasis of matter

We draw attention to note 2 to the consolidated financial statements which states that as at 31 December 2020 the Bank was below the minimum regulatory Capital Adequacy Ratio ("CAR") of 11.5% and the regulatory minimum Eligible Liquid Asset Ratio ("ELAR") of 7%. The Bank has drawn on liquidity support from the Central Bank of the United Arab Emirates ("CBUAE") and continues to focus on a number of initiatives to manage its liquidity.

Our opinion is not modified in respect of this matter.

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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

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Independent auditor's report to the shareholders of Invest bank P.S.C. (continued)

Our audit approach

Overview

Key Audit Matter	• Measurement of expected credit losses under IFRS 9 • Management's assessment of the preparation of the consolidated financial statements on a going concern basis

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 under IFRS 9 The Group applies ECL on all its financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments and financial guarantee contracts. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2020: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal specialists to assess the following areas: • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. • ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial instruments.

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Independent auditor's report to the shareholders of Invest bank P.S.C. (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Measurement of expected credit losses under IFRS 9 (continued) For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Group's impairment policy under IFRS 9 is presented in Note 4.3.1 to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as the Group applies significant judgements and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.	• Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk. • For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral. ➢ In addition, for the Stage 3 corporate credit portfolio, we independently assessed the appropriateness of provisioning assumptions for a number of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files. ➢ We also assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9.
Management's assessment of the preparation of the consolidated financial statements on a going concern basis The Group has experienced significant declines in its customer deposits during the year by AED 2.8 billion. In the light of these conditions, management and the Board of Directors have assessed the appropriateness of preparing the consolidated financial statements on a going concern basis. In performing their assessment, management and the Board of Directors have considered the liquidity requirements of the Group, as well as the liquidity support provided by the Central Bank of the UAE ('CBUAE'), in particular, the AED 1.6 billion repurchase facility extended to the Group by the CBUAE subsequent to the year end. As a result of their assessment, which requires the use of significant assumptions and judgements, management and the Board of Directors have determined that it is appropriate to prepare the consolidated financial statements on a going concern basis.	We performed the following procedures in respect of judgement exercised by the Group in performing it's going concern assessment: ➢ Held inquiries with management, those charged with governance and CBUAE regarding the progress of the Group's liquidity plan. ➢ Discussed with the CBUAE regarding its commitment to ongoing liquidity support for the Bank. ➢ Sighted documentation and agreements with respect to an AED 1.6 billion liquidity facility with the CBUAE, subsequent to the year end, against a repurchase arrangement involving debt securities issued by the Government of Sharjah to the Group. ➢ Reviewed statements subsequent to the year end demonstrating a net receipt of approximately AED 0.8 billion, in respect of the above facility. ➢ Assessed the Group's liquidity requirements, deposit concentration and projected future depositor attrition.

Independent auditor's report to the shareholders of Invest bank P.S.C. (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
The going concern basis for the preparation of the consolidated financial statements is considered as a key audit matter in view of the significant judgements exercised by management and the assumptions made by it in performing its going concern assessment for the Group, particularly in view of the significant decline in the liquidity of the Group.	Assessed the adequacy of the Group's disclosures in note 2 on management's assessment of the going concern basis of preparation of the consolidated financial statements.

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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the 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 directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Independent auditor's report to the shareholders of Invest bank P.S.C. (continued)

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.

- 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 directors.

- Conclude on the appropriateness of the 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 threats or safeguards applied.

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Independent auditor's report to the shareholders of Invest bank P.S.C. (continued)

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

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.

Report on other legal and regulatory requirements

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

i) we have obtained all the information we considered necessary for the purposes of our audit;

ii) 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;

iii) the Group has maintained proper books of account;

iv) the financial information included in the Board of Directors' Report is consistent with the books of account of the Group;

v) as disclosed in note 8 to the consolidated financial statements the Group has not purchased shares during the year ended 31 December 2020;

vi) note 23 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

vii) 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 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

viii) note 19.1 to the financial statements discloses the social contributions made during the year ended 31 December 2020.

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

PricewaterhouseCoopers
3 May 2021

Douglas O'Mahony
Registered Auditor Number 834
Place: Dubai, United Arab Emirates

Invest bank P.S.C.

Consolidated statement of financial position

	Note	As at 31 December 2020 AED'000	2019 AED'000
Assets			
Cash and deposits with central banks	6	**518,893**	1,503,806
Due from banks	7	**165,187**	751,898
Investment securities	8	**122,515**	261,703
Loans and advances to customers	9	**7,243,637**	8,313,264
Other assets	10	**683,585**	873,846
Total assets		**8,733,817**	11,704,517
Liabilities			
Due to banks	12	**388,485**	164
Deposits from customers	13	**7,147,460**	9,906,117
Other liabilities	14	**288,055**	512,249
Total liabilities		**7,824,000**	10,418,530
Equity			
Share capital	15	**3,180,982**	3,180,982
Share discount	15	**(477,857)**	(477,857)
Legal reserve	15	-	450,688
Special reserve	15	-	450,688
Fair value reserve		**(41,169)**	(103,730)
Accumulated losses		**(1,752,139)**	(2,214,784)
Net equity		**909,817**	1,285,987
Total liabilities and equity		**8,733,817**	11,704,517

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 3 May 2021 and signed on its behalf by:

Chief Executive Officer

Chairman

Invest bank P.S.C.

Consolidated statement of profit or loss

	Note	For the year ended 31 December 2020 AED'000	2019 AED'000
Operating income			
Interest income	16	**347,827**	492,528
Interest expense	16	**(233,220)**	(292,056)
Net Interest income		**114,607**	200,472
Net fees and commission income	17	**85,551**	122,952
Net income from foreign currencies		**8,023**	11,472
Other income/(loss)	18	**(20,968)**	(30,059)
Total operating income		**187,213**	304,837
Operating expenses			
General and administrative expenses	19	**(180,451)**	(250,114)
Total operating expenses		**(180,451)**	(250,114)
Operating profit before impairment loss		**6,762**	54,723
Net impairment loss	20	**(363,074)**	(634,085)
Loss for the year		**(356,312)**	(579,362)
Loss per share (UAE Dirhams)	21	**(0.112)**	(0.182)

Invest bank P.S.C.

Consolidated statement of other comprehensive income

	For the year ended 31 December	
	2020	**2019**
	AED'000	**AED'000**
Loss for the year	**(356,312)**	(579,362)
Other comprehensive loss/profit:		
Items that will not be reclassified to profit or loss:		
Change in fair value of financial assets measured at fair value through other comprehensive income (FVTOCI)	**(19,858)**	3,164
Total items that will not be reclassified to profit or loss	**(19,858)**	3,164
Total comprehensive loss for the year	**(376,170)**	(576,198)

Consolidated statement of changes in equity

	Share capital AED'000	Share discount AED'000	Legal reserve AED'000	Special reserve AED'000	Fair value reserve AED'000	Accumulated losses AED'000	Total AED'000
Balance at 1 January 2019	1,588,125	-	450,688	450,688	(117,015)	(1,625,301)	747,185
Issue of shares (refer to note 15)	1,592,857	(477,857)	-	-	-	-	1,115,000
	3,180,982	(477,857)	450,688	450,688	(117,015)	(1,625,301)	1,862,185
Total comprehensive loss							
Loss for the year	-	-	-	-	-	(579,362)	(579,362)
Other comprehensive gain							
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	-	3,164	-	3,164
Total other comprehensive gain	-	-	-	-	3,164	-	3,164
Transfer of loss on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	-	-	10,121	(10,121)	-
Balance at 31 December 2019	3,180,982	(477,857)	450,688	450,688	(103,730)	(2,214,784)	1,285,987

Consolidated statement of changes in equity

	Share capital AED'000	Share discount AED'000	Legal Reserve AED'000	Special reserve AED'000	Fair value reserve AED'000	Accumulated losses AED'000	Total AED'000
Balance at 1 January 2020	**3,180,982**	**(477,857)**	**450,688**	**450,688**	**(103,730)**	**(2,214,784)**	**1,285,987**
Loss for the year	-	-	-	-	-	(356,312)	(356,312)
Other comprehensive gain/(loss)							
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	-	(19,858)	-	(19,858)
Transfer of loss on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	-	-	82,419	(82,419)	-
Total other comprehensive gain/(loss)	**-**	**-**	**-**	**-**	**62,561**	**(82,419)**	**(19,858)**
Transfer of legal and special reserve to accumulated losses (refer note 15)	-	-	(450,688)	(450,688)	-	901,376	-
Balance at 30 December 2020	**3,180,982**	**(477,857)**	**-**	**-**	**(41,169)**	**(1,752,139)**	**909,817**

Invest bank P.S.C.

Consolidated statement of cash flows

	Note	For the year ended 31 December 2020 AED'000	2019 AED'000
Cash flows from operating activities			
Loss for the year		**(356,312)**	(579,362)
Adjustments:			
Depreciation		**12,268**	24,098
Net gain on investment securities		**(12,395)**	(1,139)
Fair value loss on repossessed properties		**60,610**	68,466
Net impairment loss		**363,074**	634,085
Operating cash flows before changes in operating assets and liabilities		**67,245**	146,148
Change in reserves held with Central Bank		**157,083**	82,623
Change in loans and advances to customers		**807,480**	1,128,085
Change in other assets		**123,375**	132,400
Change in due to banks		**388,321**	(35)
Change in deposits from customers		**(2,758,657)**	(1,614,367)
Change in other liabilities		**(224,194)**	(130,950)
Net cash used in operating activities		**(1,439,347)**	(256,096)
Cash flows from investing activities			
Purchase of property and equipment		**(5,811)**	(5,151)
Purchase of investment securities		**(330,570)**	(110,565)
Proceeds from sale/redemption of investment securities		**462,023**	9,108
Proceeds from sale of investment properties		**-**	(741)
Net cash generated / (used in) investing activities		**125,642**	(107,349)
Net decrease in cash and cash equivalents		**(1,313,705)**	(363,445)
Cash and cash equivalents at 1 January		**1,902,473**	2,265,918
Cash and cash equivalents at 31 December	22	**588,768**	1,902,473

1 Legal status and activities

Invest bank P.S.C. ("Invest bank" or “the Bank”) is a public shareholding company with limited liability which was incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered address of the Bank is at Al Zahra Street, P.O.Box 1885, Sharjah, United Arab Emirates ("UAE").

Invest bank is licensed by the Central Bank of the UAE (the "CB UAE") to carry out banking activities and is principally engaged in the business of corporate and retail banking through its network of branches located in the Emirate of Sharjah, Dubai and Abu Dhabi. Invest bank also carries out banking activities through its branch ("the branch") in Beirut, Lebanon licensed by Banque Du Liban (the "CB Lebanon"). The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

The Bank has a fully owned subsidiary, ALFA Financial Services FZE with limited liability status in the Sharjah Airport International Free Zone to provide support services to the Bank.

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

2 Recapitalization and liquidity

Capital and liquidity position

Due to the subdued macroeconomic environment and deterioration of key sectors within the UAE & Lebanon, the Bank booked net impairment provisions of AED 0.4 billion in 2020 (including an impairment of deposits held with Banque du Liban). As a result, the Bank’s total equity reduced to AED 0.9 billion as of 31 December 2020 with the Bank’s Capital Adequacy Ratio ("CAR") decreasing to 10.24%, below the Central Bank of the UAE’s (“CBUAE”) regulatory minimum of 11.5%. In addition, and as a result of the reduced level of deposits, the Bank has seen a reduction in liquidity. The CBUAE has been kept apprised of this and offered to provide a standby credit line should it be required.

Capitalisation

On 13 December 2018, the Government of Sharjah entered into an investment agreement with the Bank, whereby it acquired a 50.1% controlling interest in the Bank through a ‘Strategic Investment’. Within the agreement, the Government has undertaken to underwrite a rights issue of up to AED 0.8 billion to be issued at a discounted price of AED 0.7 per share. This agreement was extended to 31 December 2020; however, as of the date of the approval of these financial statements, the Government of Sharjah has not yet subscribed to the rights issue. As the Bank’s majority shareholder, the Government of Sharjah continues to coordinate efforts to support the strengthening of the Bank’s capital base.

2 Recapitalization and strengthened liquidity (continued)

Liquidity

The Bank's Eligible Liquid Asset Ratio ("ELAR") has reduced from 15.5% as at 31 December 2019 to 1.3% as at 31 December 2020 below the Central Bank of the UAE's ("CBUAE") regulatory minimum of 7%. Total deposits have decreased by AED 2.8 billion as at 31 December 2020 compared to 31 December 2019. During December 2020, the Bank drew on liquidity support from a credit facility made available by the CBUAE.

The CBUAE had earlier made a public press announcement on 16 December 2018 and has subsequently reaffirmed that it will continue to provide support to the Bank through making available liquidity facilities.

In March 2021, the Bank entered into a repurchase arrangement in the normal course of business with the CBUAE, collateralised by investments held in Government of Sharjah bonds, enabling the Bank to draw on AED 1.6B in liquidity support.

Furthermore, the Bank has increased its deposits post year end and as of 7 April 2021 total deposits reached AED 8B. As a result of the above measures, the Bank's liquidity improved and its ELAR reached 11.65% as at 7 April 2021.

The Bank continues to focus on a number of initiatives to manage its liquidity and deposit balances including the attraction and retention of deposits. Given the liquidity support provided by the CBUAE and the Government of Sharjah's commitment to supporting the strengthening the Bank's capital base, the Board and management believe that the Bank will have the ability to meet its financial obligations as and when they fall due.

Accordingly, these financial statements have been prepared on a going concern basis

3 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS and the applicable provisions of UAE Federal Law No. 2 of 2015. The Bank in accordance with Article 302 of Federal Law No. 2 of 2015, should convene a General Assembly for the continuation of the Bank, within thirty days of the issue of these financial statements.

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the measurement of certain investment properties at fair value.

(c) Functional and presentation currency

This consolidated financial information has been presented in United Arab Emirates Dirhams (AED) rounded to the nearest thousand, which is the Group's functional and presentation currency.

3 Basis of preparation (continued)

(d) Use of estimates and judgements

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

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

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial information are described as follows:

(i) Classification of financial assets

In accordance with IFRS 9, the Group classifies its financial assets based on the assessments of the business models in which the assets 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 fair value through profit or loss (“FVTPL”).

(ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss (“ECL”) allowance for financial assets measured at amortised cost and fair value through other comprehensive income (“FVOCI”) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (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 (“SICR”);
- 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.

3 Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

(iii) Fair value of derivatives and unquoted securities

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values, these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however area such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

(iv) Repossessed properties

The fair value of repossessed properties were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's repossessed properties portfolio annually.

4 Summary of signifiant accountig policies

4.1 Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1 January 2020

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

- **Amendments to IFRS 3 -** This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- **Amendments to IAS 1 and IAS 8** - These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.
- **Amendments to IFRS 9, IAS 39 and IFRS 7** – Interest rate benchmark reform - These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform 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 Group has applied the hedging relief available under the amendment.

4 Summary of signifiant accountig policies (continued)

4.1 Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1 January 2020 (continued)

- **Amendments to Conceptual framework** – 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.

- **Amendment to IFRS 16, 'Leases'** – Covid-19 related rent concessions - As a result of the coronavirus (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. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such 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 concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The amendment is effective for reporting periods beginning 1 June 2020 but can be applied immediately. The impact of the amendment is immaterial on the consolidated financial statements of the Group.

4.2 Standards, amendments and interpretations that are effective for the Group's accounting period beginning on or after 1 January 2020

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	***Effective for annual periods beginning on or after***
IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.	1 January 2023
Amendments to IAS 1, Presentation of financial statements' on classification of liabilities - These 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 (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The impact of the above amendment is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2022

Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 9 and IFRS 16 Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'. The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2022
Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark (IBOR) reform The Phase 2 amendments that were issued on 27 August 2020 address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. 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. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform (for example, where lease payments are indexed to an IBOR rate).	1 January 2021

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. There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2020 that would be expected to have a material impact on the financial statements of the Bank.

4 Summary of signifiant accountig policies (continued)

4.3 Accounting policies

4.3.1 Financial assets and liabilities

(a) Measurement methods

(i) 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 recognised in the statement of income.

(ii) 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, for which interest income is calculated by effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(iii) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

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 consolidated statement of profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and at FVOCI, which results in accounting loss being recognised in the consolidated statement of profit or loss when an asset is newly originated.

4 Summary of signifiant accountig policies (continued)

4.3 Accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(a) Measurement methods (continued)

(iii) Initial recognition and measurement (continued)

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

- 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 recognised as a gain or loss.

- 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 realised through settlement.

(b) Financial assets

Debt instruments:

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

Classification and subsequent measurement of debt instruments depend on:

- the Group's business model for managing the assets; and
- 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 FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- 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 interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI).

4 Summary of signifiant accountig policies (continued)

4.3 Accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(b) Financial assets (continued)

- 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 recognised in the statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the statement of income and recognised in 'Other income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

(i) Classification and subsequent measurement

  - Fair value through profit or loss: 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 investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of income within 'Other income' in the period in which it arise. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

  - 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 FVTPL. 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.

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(b) Financial assets (continued)

(i) Classification and subsequent measurement (continued)

- 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. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate 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 investment in 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.

<u>Equity instruments:</u>

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 investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments 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 recognised in OCI and are not subsequently reclassified to the statement of income, including on disposal. 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 recognised in the consolidated statement of profit or loss as other income when the Group's right to receive payments is established.

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(b) Financial assets (continued)

(ii) Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises 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.

(iii) 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 derecognises the original financial asset and recognises 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 recognised 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 recognised in the statement of income as a gain or loss on derecognition.

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(b) Financial assets (continued)

(iii) Modification of loans (continued)

If the terms are not substantially different, the renegotiation or modification does not result in the derecogntion, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the statement of income.

The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised 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 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(c) Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as 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 (eg. Short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at FVTPL presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in the statement of income;
- 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.

(ii) Derecognition

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

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in the covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

4.3.1 Financial assets and liabilities (continued)

(d) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

(e) Loan commitments

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the underdrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

(f) Basis of consolidation

Subsidiary

A subsidiary is an investee controlled by the Group. The Group controls an investee if it is exposed to, 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. The financial statements of a subsidiary are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but to the extent that there is no evidence of impairment.

3 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

(g) Fees and commission income and expense

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are generally recognised on an accrual basis when the related service obligations are performed by the Group. When a loan commitment is not expected to result in the draw-down of a loan, commitment fees are recognised on a straight line basis over the commitment period. Other fees and commission expenses are expensed as the related services are received.

(h) Dividend income

Dividend income is recognised in the consolidated statement of profit or loss when the Group's right to receive such income is established. Usually this is the ex-dividend date for equity securities.

(i) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(j) Fair value measurement principles

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

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

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

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

(j) Fair value measurement principles (continued)

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

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

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

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

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

(k) Derivative financial instruments - Other non trading derivatives

The Group enters into derivative financial instruments primarily to meet its customer requirements. Derivatives held for internal risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value through profit or loss in the consolidated statement of financial position.

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

(l) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirhams at the spot foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in UAE Dirhams at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.
Non monetary assets and liabilities that are measured at fair value in a foreign currency are translated to UAE Dirhams at the spot exchange rate at the date on which the fair value is determined. Non monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in consolidated statement of profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into UAE Dirhams at spot exchange rate at the reporting date. The income and expenses of foreign operations are translated to UAE Dirhams at spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to non-controlling interest ("NCI").

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in OCI, and accumulated in the translation reserve within equity.

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

(m) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their useful lives and is generally recognised in consolidated statement of profit or loss. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

	Years
Buildings	20 to 30
Office installations and improvements	10
Office furniture and equipment	2 to 5
Motor vehicles	3

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. No depreciation is charged on freehold land and capital-work-in-progress. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of profit or loss.

(n) Repossessed properties

The Group holds repossessed properties acquired through the enforcement of security over loans and advances. Repossessed property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the consolidated statement of profit or loss. The Group determines fair value on the basis of valuations provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the repossessed property being valued. The Bank earns rental income from leasing the properties until the properties have been disposed.

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

(o) Staff terminal benefits

The Group provides for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed based on a projected unit credit method.

The Group contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Group's contributions are charged to the consolidated statement of profit or loss in the period to which they relate. In respect of this scheme, the Group has a legal and constructive obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows to reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

(r) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

(s) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, balances with central banks, amounts due from other banks and deposits from other banks that are held for the purpose of meeting short term cash commitments.

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

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

(t) Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and the Group does not intend to sell immediately in the near future.

Loans and advances are initially measured at fair value plus incremental direct transaction costs. Subsequent to the initial recognition loans and advances are measured at amortised cost using the effective interest method, except when the Group recognises the loans and advances at fair value through profit or loss.

(u) Investment securities

Investment securities are initially measured at fair value plus in case of investment securities not at fair value through profit or loss, incremental direct transaction cost. Subsequent to initial recognition investment securities are accounted for depending upon their classification as either amortised cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortised cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flow and the contractual terms of financial assets give rise, on specific dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity and debt instruments held for strategic purpose in other comprehensive income. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

Gains and losses on such equity instruments are not reclassified to consolidated statement of profit or loss and no impairment is recognised in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (continued)

4.3 Accounting policies (continued)

(v) Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Bank's shareholders.

(w) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(x) Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. The recoverable amount of a non-financial asset is the greater of its value in use and its fair value less cost to sell. The reduction in value is recognised in the consolidated statement of profit or loss.

An impairment loss is reversed only to the extent that assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(y) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the management of the Group to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

(z) Government Grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. The impact is immaterial on the consolidated financial statements of the Group.

5 Accounting classification of financial assets and financial liabilities

The table below shows a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

At 31 December 2020	FVTPL AED'000	FVTOCI AED'000	Others at amortized cost AED'000	Total carrying amount AED'000
Financial assets				
Cash and deposits with central banks	-	-	518,893	518,893
Due from banks	-	-	165,187	165,187
Investment securities	2,482	10,136	109,897	122,515
Loans and advances to customers	-	-	7,243,637	7,243,637
Customers' indebtedness for acceptances	-	-	112,002	112,002
Other financial assets	-	-	40,637	40,637
	2,482	10,136	8,190,253	8,202,871
Financial liabilities				
Due to banks	-	-	388,485	388,485
Deposits from customers	-	-	7,147,460	7,147,460
Liabilities under acceptances	-	-	112,002	112,002
Other financial liabilities	-	-	112,983	112,983
			7,760,930	7,760,930

5 Accounting classification of financial assets and financial liabilities (continued)

	FVTPL	**FVTOCI**	**Others at amortized cost**	**Total carrying amount**
At 31 December 2019	AED'000	AED'000	AED'000	AED'000
Financial assets				
Cash and deposits with central banks	-	-	1,503,806	1,503,806
Due from banks	-	-	751,898	751,898
Investment securities	9,202	135,032	117,469	261,703
Loans and advances to customers	-	-	8,313,264	8,313,264
Customers' indebtedness for acceptances	-	-	190,249	190,249
Other financial assets	-	-	97,257	97,257
	9,202	135,032	10,973,943	11,118,177
Financial liabilities				
Due to banks	-	-	164	164
Deposits from customers	-	-	9,906,117	9,906,117
Liabilities under acceptances	-	-	190,249	190,249
Other financial liabilities	-	-	271,676	271,676
	-	-	10,368,206	10,368,206

6 Cash and deposits with central banks

	2020 AED'000	2019 AED'000
Cash in hand	**17,873**	39,602
Deposits with central banks	**405,578**	1,110,752
Reserve requirements with the CB (refer note 6.1)	**196,369**	353,452
Less: Allowance for impairment (ECL) (refer note 6.2 & 16)	**(100,927)**	-
	518,893	1,503,806

6.1 Statutory reserve deposits are required to be maintained as per regulations of the Central Bank of the UAE and the Central Bank of Lebanon.

6.2 Allowance for impairment pertains mainly to ECL on the amount in foreign currency held with the Central Bank of Lebanon as a prudent measure in light of the recent default by the country on its Eurobond issue that occurred in March 2020. A +/-5% change in the allowance rate would result in a AED +/-12 million change in ECL.

Due to the deteriorating situation in Lebanon management believes that Lebanon has now become a hyperinflationary economy and IAS 29 will be applicable for periods ending on or after 31 December 2020.

In practice, non-financial assets are exposed to hyperinflation. Monetary assets are less exposed to hyperinflationary accounting, as their pricing is adjusted in accordance with the fair market value. As per management’s assessment, hyperinflation accounting does not have a material impact on the consolidated financial statements of the Bank.

7 Due from banks

	2020 AED'000	2019 AED'000
Money market placements	**70,000**	599,816
Balances with other banks	**95,317**	152,303
Less: Allowance for impairment (ECL)	**(130)**	(221)
	165,187	751,898
The geographical concentration is as follows:		
-Within the U.A.E	**98,000**	532,222
-Outside the U.A.E	**67,317**	219,897
	165,317	752,119
Less: Allowance for impairment (ECL)	**(130)**	(221)
	165,187	751,898

8 Investment securities

The details of investments are as follows:

	Domestic	Other GCC Countries	Others	Total
	AED'000	AED'000	AED'000	AED'000
At 31 December 2020				
Financial assets measured at fair value through profit or loss (FVTPL):				
Investments in quoted equity securities	**2,482**	**-**	**-**	**2,482**
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in quoted equity securities	**9,669**	**-**	**-**	**9,669**
Investments in un-quoted equity securities	**467**	**-**	**-**	**467**
Financial assets at amortised cost:				
Investments in debt securities (refer note 8.2)	**110,190**	**-**	**-**	**110,190**
	122,808	**-**	**-**	**122,808**
Less: Allowance for impairment (ECL)	**(293)**	**-**	**-**	**(293)**
	122,515	**-**	**-**	**122,515**
At 31 December 2019				
Financial assets measured at fair value through profit or loss (FVTPL):				
Investments in quoted equity securities	2,401	-	-	2,401
Investments in un-quoted funds	-	-	6,801	6,801
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in quoted equity securities	133,423	1,142	-	134,565
Investments in un-quoted equity securities	467	-	-	467
Financial assets at amortised cost:				
Investments in debt securities (refer note 8.2)	117,490	-	-	117,490
	253,781	1,142	6,801	261,724
Less: Allowance for impairment (ECL)	(21)	-	-	(21)
	253,760	1,142	6,801	261,703

8.1 The Group has not purchased any equity investments during the year ended 31 December 2020 (31 December 2019: Nil).

8.2 At 31 December 2020 AED 110M (2019: Nil) of investments in debt securities were pledged under repurchase agreements with banks.

9 Loans and advances to customers

	2020	2019
	AED'000	AED'000
Overdrafts	**5,992,281**	5,943,106
Bills discounted	**129,504**	312,940
Trust receipts	**473,245**	451,401
Term loans	**5,995,966**	6,342,517
	12,590,996	13,049,964
Allowances for impairment (refer note 9.1 and 9.2)	**(5,347,359)**	(4,736,700)
Net loans and advances to customers	**7,243,637**	8,313,264

9.1 The stage wise movement in product balance during the year is as follows:

Stage wise analysis of products		**2020**		
Products	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Overdraft	**1,238,009**	**710,761**	**4,043,511**	**5,992,281**
Bills discounted	**30,772**	**9,823**	**88,909**	**129,504**
Trust receipts	**134,115**	**21,789**	**317,341**	**473,245**
Term loans	**1,637,684**	**1,488,295**	**2,869,987**	**5,995,966**
	3,040,580	**2,230,668**	**7,319,748**	**12,590,996**
		2019		
Overdraft	915,414	1,687,851	3,339,841	5,943,106
Bills discounted	195,716	36,950	80,274	312,940
Trust receipts	127,818	94,322	229,261	451,401
Term loans	1,966,814	1,672,369	2,703,334	6,342,517
	3,205,762	3,491,492	6,352,710	13,049,964

9 Loans and advances to customers (continued)

9.2 The movement during the year in the impairment provision is as follows:

	2020			2019		
	Provision AED'000	**Interest in suspense AED'000**	**Total AED'000**	Provision AED'000	Interest in suspense AED'000	Total AED'000
At 1 January	**4,074,580**	**662,120**	**4,736,700**	3,460,085	282,674	3,742,759
Charge	**319,851**		**319,851**	667,967	-	667,967
Write back	**(27,871)**		**(27,871)**	-	-	-
Recoveries	**(29,369)**	**(14,179)**	**(43,548)**	(33,582)	-	(33,582)
Interest not recognised in the consolidated P&L	**-**	**446,874**	**446,874**	-	383,256	383,256
Transferred to other provisions	**-**	**-**	**-**	(18,490)	-	(18,490)
Amounts written off	**(67,143)**	**(17,504)**	**(84,647)**	(1,400)	(3,810)	(5,210)
	4,270,048	**1,077,311**	**5,347,359**	4,074,580	662,120	4,736,700

10 Other assets

	2020 AED'000	2019 AED'000
Interest receivable	**17,422**	31,886
Repossessed properties (refer note 10.1)	**457,374**	517,984
Property plant and equipment (refer note 11)	**74,535**	80,992
Prepayments and other assets	**22,252**	52,735
Customers' indebtedness for acceptances	**112,002**	190,249
	683,585	873,846

10.1 Repossessed properties were acquired in settlement of loans and advances.

11 Property and equipment

	Land and buliding AED'000	**Office installation and impro- -vements AED'000**	**Office furniture and equipment AED'000**	**Motor vehicles AED'000**	**Total AED'000**
At 31 December 2020	**103,349**	**50,251**	**105,486**	**460**	**259,546**
Accumulated depreciation at 31 December 2020	**45,396**	**41,870**	**97,285**	**460**	**185,011**
Net book value at 31 December 2020	**57,953**	**8,381**	**8,201**	**-**	**74,535**
Net book value at 31 December 2019	60,901	11,779	8,312	-	80,992

11.1 Depreciation charges have been captured in other general and administrative expenses (note 19).

12 Due to banks

	2020 AED'000	2019 AED'000
Balances with other banks	**99**	164
Zero cost facility from Central Bank of the U.A.E	**273,000**	-
Repo against fixed income securities	**115,386**	-
	388,485	164

12.1 During the year the Bank entered into Repo transactions with a local bank against the sale of certain investments in debt securities amounting to AED 331 million. Out of these Repos AED 110 million was outstanding at 31 December 2020, which was also settled subsequent to the reporting date.

13 Deposits from customers

	2020 AED'000	2019 AED'000
Time deposits	**5,363,020**	7,829,670
Savings accounts	**119,082**	127,358
Current and other accounts	**1,665,358**	1,949,089
	7,147,460	9,906,117
Customer deposits by geographical area are as follows:		
Within the UAE	**7,002,797**	9,806,567
Others	**144,663**	99,550
	7,147,460	9,906,117

14 Other liabilities

	2020 AED'000	2019 AED'000
Interest payable	**54,339**	96,268
Unearned commission income	**22,436**	27,945
Staff benefits payable	**16,050**	19,367
Accrued expenses	**19,652**	24,978
Manager's cheques	**20,631**	4,823
Liabilities under acceptances	**112,002**	190,249
Others	**42,945**	148,619
	288,055	512,249

15 Share capital and reserves

Share capital

	2020	2019
	AED'000	AED'000
Authorised share capital *6,300,000 thousand shares of AED 1 each* *(2019: 6,300,000 thousand shares of AED 1 each)*	**6,300,000**	6,300,000
Issued and paid-up capital *3,180,982 thousand shares of AED 1 each* *(2019: 3,180,982 thousand shares of AED 1 each)*	**3,180,982**	3,180,982

Share discount

At the General Meeting held on 10 April 2019 it was approved to issue of 1,592,857,143 shares of AED 1 each, to the Government of Sharjah at a discounted price of AED 0.7 per share. The resulting share discount of AED 478 million is shown as a debit balance within equity as a share discount.

Dividend

At the annual general meeting of the Bank held on 30 June 2020, no cash dividend was approved by the shareholders (2019: Nil).

Reserves

Legal reserve and special reserve

At the annual general meeting of the Bank held on 30 June 2020, a special resolution was passed to transfer the legal and special reserve to partially offset the accumulated losses.

16 Net interest income

	2020	2019
	AED'000	AED'000
Interest income:		
Deposits with banks	**12,415**	30,344
Debt securities	**8,522**	1,152
Loans and advances to customers	**326,890**	461,032
	347,827	492,528
Interest expense:		
Due to banks	**(482)**	(80)
Time deposits	**(228,563)**	(282,239)
Call deposits	**(2,783)**	(6,588)
Savings accounts and others	**(1,392)**	(3,149)
	(233,220)	(292,056)
Net interest income	**114,607**	200,472

17 Net fees and commission income

	2020 AED'000	2019 AED'000
Fees and commission income:		
Letters of credit fee	**7,716**	13,979
Letters of guarantee fee	**54,953**	75,658
Retail and corporate lending fees	**10,006**	15,167
Commission on transfers	**2,180**	2,574
Others	**11,010**	15,939
	85,865	123,317
Fees and commission expenses:		
Service charges and other expense	**(314)**	(365)
Net fee and commission income	**85,551**	122,952

18 Other income / (loss)

	2020 AED'000	2019 AED'000
Dividend on investment securities	**5,340**	4,890
Rental income	**9,279**	20,392
Realised gain on investment securities at FVTPL	**11,933**	370
Fair value adjustment for financial assets at fair value through profit or loss	**462**	769
Fair value loss on repossessed properties	**(60,610)**	(68,466)
Other operating income	**12,628**	11,986
	(20,968)	(30,059)

19 General and administrative expenses

	2020 AED'000	2019 AED'000
Personnel and related costs	**(111,997)**	(156,310)
Premises and related expenses	**(11,422)**	(21,087)
Professional expenses	**(2,865)**	(2,045)
Depreciation and other expenses (refer note 19.1)	**(54,167)**	(70,672)
	(180,451)	(250,114)

19.1 Includes social contributions made during the year, which amounts to AED 873,000 (2019: AED 110,000).

20 Net impairment loss

	2020 AED'000	2019 AED'000
Impairment charge for the year (refer note 9.1)	**319,851**	667,966
Impairment charge on cash and deposits with central banks (refer note 6.2)	**100,927**	-
Impairment charge (others)	**180**	61
Recoveries (refer note 20.1)	**(57,884)**	(33,942)
	363,074	634,085

20.1 Includes AED 0.6 million (2019: AED 0.4 million) recovered from balances previously written off.

21 Earnings per share

Basic earnings per share is based on the loss attributable to ordinary shareholders of the Bank and weighted average number of ordinary shares.

	2020 AED'000	2019 AED'000
Loss attributable to ordinary shareholders	**(356,312)**	(579,362)
Weighted average number of shares outstanding at 31 December	**3,180,982**	3,180,982
Earnings per share (UAE Dirhams)	**(0.112)**	(0.182)

At reporting date the Group does not have any instrument resulting in dilution of basic earnings per share.

22 Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash and deposits with central banks excluding reserve requirements with CB UAE and CB Lebanon (refer note 6)	**423,451**	1,150,354
Due from banks maturing within three months including allowance for impairment (refer note 7)	**165,317**	752,119
	588,768	1,902,473

23 Related party transactions

In the normal course of business, the Group enters into various transactions with related parties including Board of directors, their related companies and key management personnel having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties. The volume of related party transactions, outstanding balances at the year end, and related income and expenses for the year are as follows:

	2020 AED'000		**2019** AED'000	
	Board of directors	**Other exposures associated with Board of directors**	**Board of directors**	**Other exposures associated with Board of directors**
Loans				
Loans	**47,874**	**589,012**	95,420	836,872
Interest income	**5,505**	**28,888**	5,591	32,866
Outstanding letters of credit and guarantees	**-**	**758**	-	761
Deposits				
Deposits	**7,332**	**1,110,592**	6,331	2,012,846
Interest expense	**178**	**51,519**	172	81,098

* Other exposures include Government of Sharjah exposure of AED 250 million (2019: 250 million) under loans and AED 0.6 million (2019: AED 218 million) under deposits.

None of the loans granted to related parties are classified as impaired or past due as at 31 December 2020 (31 December 2019: Nil).

The loans extended to directors during the year are repayable over 1 year and bear interest at rates ranging from 4% to 10% per annum (2019: 4% to 10%). At 31 December 2020, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 304.2 million (2019: AED 558.4 million).

Key management compensation

	2020 AED'000	2019 AED'000
Salaries and other short term benefits	**11,366**	10,751
Termination benefits	**476**	490
	11,842	11,241

* No remuneration was paid to the Board of Directors in 2020 and 2019.

24 Commitments and contingent liabilities

At any time, the Group has outstanding commitments to extend credit. These commitments take the form of approved loan facilities. Outstanding loan commitment have committed periods that do not extend beyond the normal underwriting and settlement period.
The Group provides financial guarantees and letter of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend up to a period of one year.
The contractual amount of commitments and contingent liabilities are set out in the following table by category.

	2020	2019
	AED'000	AED'000
Letters of credit	**99,520**	171,876
Letters of guarantee	**3,331,940**	4,445,297
Irrevocable commitments to extend credit	**81,224**	135,344
Foreign exchange and forward commitments	**21,474**	350,000
	3,534,158	5,102,517

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect third parties to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Exposure by geography as on 31 December

	Irrevocable commitments to extend credit		**Foreign exchange and forward commitments**		**Contingent liabilities**	
	2020	2019	**2020**	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
United Arab Emirates	**81,224**	135,344	**21,474**	350,000	**3,419,294**	4,571,655
Other Arab Countries	**-**	-	**-**	-	**12,166**	45,518
	81,224	135,344	**21,474**	350,000	**3,431,460**	4,617,173

24 Commitments and contingent liabilities (continued)

Exposure by currency as on 31 December

	Irrevocable commitments to extend credit		Foreign exchange and forward commitments		Other commitments and contingent liabilities	
	2020	2019	**2020**	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Foreign currency	**-**	-	**21,474**	350,000	**216,788**	244,843
AED	**81,224**	135,344	**(21,474)**	(350,000)	**3,214,672**	4,372,330
Total	**81,224**	135,344	**-**	-	**3,431,460**	4,617,173

Exposure by industry segment as on 31 December

	Irrevocable commitments to extend credit		Foreign exchange and forward commitments		Other commitments and contingent liabilities	
	2020	2019	**2020**	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Agriculture, and allied activities	**-**	-	**-**	-	**1,844**	2,683
Mining and quarrying	**-**	-	**-**	-	**3,024**	6,315
Manufacturing	**-**	-	**-**	-	**282,880**	416,157
Construction and real estate	**37,337**	80,926	**-**	-	**2,199,355**	3,051,268
Trade	**-**	1,215	**21,474**	350,000	**360,879**	442,737
Transport, storage and communication	**-**	-	**-**	-	**78,319**	88,690
Financial institutions	**865**	-	**-**	-	**179,751**	152,941
Other services	**20,000**	10,703	**-**	-	**289,394**	306,553
Loans to individuals	**-**	-	**-**	-	**1,511**	126
Loans to high net worth individuals	**23,022**	42,500	**-**	-	**8,778**	10,624
Others	**-**	-	**-**	-	**25,725**	139,079
Total	**81,224**	135,344	**21,474**	350,000	**3,431,460**	4,617,173

Exposure by maturity as on 31 December

	2020	2019	**2020**	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Less than 3 months	**14,343**	52,805	**21,474**	350,000	**971,603**	1,204,451
More than 3 months	**66,881**	82,539	**-**	-	**2,459,857**	3,412,722
Total	**81,224**	135,344	**21,474**	350,000	**3,431,460**	4,617,173

25 Segmental analysis

Reportable segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker, in order to allocate resources to the segment and to assess its performance

The Group operates in the United Arab Emirates and Lebanon, and its results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

	2020			**2019**		
	Commercial banking AED'000	**Treasury & investments** AED'000	**Total** AED'000	**Commercial banking** AED'000	**Treasury & investments** AED'000	**Total** AED'000
Net interest and other income	**143,746**	**43,467**	**187,213**	262,037	42,800	304,837
Net impairment loss	**(363,020)**	**(54)**	**(363,074)**	(634,762)	677	(634,085)
(Loss)/profit for the year	**(393,589)**	**37,277**	**(356,312)**	(618,079)	38,717	(579,362)
Segment capital expenditure	**5,811**	**-**	**5,811**	5,151	-	5,151
Segment depreciation	**12,268**	**-**	**12,268**	24,077	21	24,098
At 31 December						
Segment total assets	**7,140,627**	**1,593,190**	**8,733,817**	9,424,785	2,279,732	11,704,517
Segment total liabilities	**7,548,718**	**275,282**	**7,824,000**	10,418,474	56	10,418,530

Commercial banking includes corporate and retail portfolio.

26 Fair value of assets and liabilities

(a) Fair value hierarchy of assets/liabilities measured at fair value

The fair values of assets and liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other assets/liabilities, the Group determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

26 Fair value of assets and liabilities (continued)

(a) Fair value hierarchy of assets/liabilities measured at fair value (continued)

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2020	AED'000	AED'000	AED'000	AED'000
Financial assets				
FVTPL - equity securities	**2,482**	**-**	**-**	**2,482**
FVTOCI - equity securities	**9,669**	**-**	**467**	**10,136**
Non-financial assets				
Repossessed properties	**-**	**-**	**457,374**	**457,374**
	12,151	**-**	**457,841**	**469,992**
At 31 December 2019				
Financial assets				
FVTPL - equity securities	2,401	-	6,801	9,202
FVTOCI - equity securities	134,565	-	467	135,032
Non financial assets				
Repossessed properties	-	-	517,984	517,984
	136,966	-	525,252	662,218

26 Fair value of assets and liabilities (continued)

(a) Fair value hierarchy of assets/liabilities measured at fair value (continued)

The following table analyses the movement of level 3 fair value assets

	31 Dec 2020		31 Dec 2019	
	Investment Securities	**Investment properties**	**Investment Securities**	**Investment properties**
	AED'000		AED'000	
Balance as at 1 January	**7,268**	**517,984**	6,898	587,191
Fair value changes:				
- in profit or loss		**(60,610)**	370	(68,466)
- in OCI		**-**	-	-
Additions		**-**	-	-
Disposals	**(6,801)**	**-**	-	(741)
Balance as at 31 December	**467**	**457,374**	7,268	517,984

Although the Bank believes that its estimates at fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurement in level-3, changing the assumptions by 5% (+/-), would not have any significant impact on the Group's consolidated financial statements.

Valuation of investment securities

The Bank constantly monitors the progress of its investments by conducting its own valuation assessment. Depending on the nature of the underlying asset, quantitative methods are used such as residual value, DCF/scenario analysis or comparable market valuation. The unobservable inputs are selected based on various industry and macroeconomic factors that management considers as reasonable. Qualitative methods which involve taking into consideration the market and economic outlook are also employed.

Valuation of repossessed properties

The fair value of repossessed properties were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's repossessed properties portfolio annually.

26 Fair value of assets and liabilities (continued)

(a) Fair value hierarchy of assets/liabilities measured at fair value (continued)

Valuation technique and significant unobservable inputs

The Group has adopted the most appropriate fair value measurement of its repossessed properties.

The following table shows the valuation technique used in measuring the fair value of repossessed properties, as well as the significant unobservable inputs to the valuation.

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurements
Comparative sales method:	The sale or transaction prices of similar sites or comparable properties in the vicinity within an appropriate historical timeframe.	A decrease in sale or transaction prices of similar sites or comparable properties will decrease the fair value.
Capitalization method:	The net operating income of the property.	A decrease in net operating income will decrease the fair value.
	The capitalization rate applicable to the property.	An increase in the capitalization rate will decrease the fair value.
Depreciated cost method:	The original cost of construction of the property.	A decrease in the original cost of construction will decrease the fair value.
	The useful life of the property.	A decrease in the useful life of the property will decrease the fair value.

(b) Financial instruments not measured at fair value

The fair values of financial instruments not measured at fair value are not materially different from the respective carrying value.

27 Risk management

(a) Introduction and overview

The Group has exposure to several risk categories and it has frameworks to cover all material risks across the Bank, in addition to the following primary risks:

• Credit risk
• Liquidity risk
• Market risk
• Operational risk

The other distinct risks assessed by the Bank are concentration, business / strategic, regulatory, compliance, reputation and legal risks. Furthermore, information security risk is a critical risk in the current business environment and the Bank has put in place a robust infrastructure to manage the risk.

This note presents information about the Group's exposure to each of the above primary risks, the Group's objectives, risk management frameworks, policies and processes for measuring and managing risks, and the Group's capital management plan.

Governance and Risk Management Framework (RMF)

The Board of Directors (the "Board" or "BOD") has the ultimate responsibility for the establishment and oversight of the Group's Risk Management Framework. For that purpose the Board has formulated, in line with international best practices, the following committees at Board level to help manage various risks the Bank faces:

a. Board Audit & Compliance Committee;
b. Board Risk Committee;
c. Board Executive Credit Committee; and
d. Board Nomination and Remuneration Committee.

The Board Risk Committee has been entrusted with the mandate of risk management and the Board Executive Credit Committee has been entrusted with the approval of the credit and investment decisions as per delegation from the Board of Directors.

The various Board Committees are assisted by the following Senior Management Committees: Asset Liability Committee (ALCO); Management Committee; Management Credit Committee, Management Remedial Committee; IT Committee; and an Information Security Committee.

Bank has implemented the Basel III Frameworks, IFRS 9 and has established other specific committees / working groups with assigned responsibilities to members of the senior management.

Regular audit of business units and credit processes are undertaken by internal audit. Furthermore, Control and Compliance functions have also been enhanced.

27 Risk management (continued)

(a) Introduction and overview (continued)

Under the purview of the Risk Management Department, the Group has made steady progress in its initiatives to embrace an Enterprise Risk Management (ERM) framework to enable the business and functional units to manage all risks in a pro-active manner while integrating concepts of strategic planning, operational risk management, internal controls, and compliance. These include methods and processes, encompassing all risk dimensions to seize the opportunities related to the achievement of the Group’s objectives.

Credit Risk Management Department (CRMD) has formulated Credit Risk policies aligned with Group's strategies, goals vis-a-vis risk appetite, including collateral management policies, credit assessment, risk grading and reporting, risk rating in compliance with regulatory requirements.

The Bank has a Board Approved risk appetite statement (the “RAS”) with threshold limits and benchmarks clearly defined and monitored with monthly update to Management and the Board.

Review of risk management policies and systems is a continuous activity to reflect changes in market conditions, products and services offered by the Group in order to present a comprehensive view of risk from a strategic and operational perspective and have a process to address risk proactively.

(b) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, contingent liabilities, balances due from banks, Deposits and reserve with the Central Bank excluding cash on hand, other assets and debt securities.

It is also the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to whom the Group is exposed to - in the form of counterparty default risk, or (credit) spread risk, or market risk concentrations.

Management of credit risk

The Board of Directors has delegated the responsibilities of the management of credit risk to Board Executive Credit Committee (BECC), Management Credit Committee (MCC) and Management Remedial Committee (MRC). Changes to discretionary limits are subject to the Board's approval. Similarly, facilities in excess of discretionary limits are approved by the BECC or the Board of Directors.

A separate and centralized credit risk management division ("CRMD") is responsible for oversight of the Group's credit risk, which comprises of various independent functions, including but not limited to credit assessment and evaluation, monitoring, control, administration and documentation. In addition, the Bank has established Central Credit Operations (CCO) unit to centralize credit operations encompassing, amongst others, activities like validation, settlement and utilisation of limits.

27 Risk management (continued)

(b) Credit Risk (continued)

Management of credit risk (continued)

The broad functions of CRMD include:

- Formulating credit policies in consultation with business units, covering credit assessment, collateral requirements, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;

- Reviewing and assessing credit risk in accordance with delegation & authority structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same rigorous review process;

- Limiting concentrations of credit exposure to counterparties and industries in line with the RAS by establishing exposure caps and monitoring sectoral exposures. Preferred sectors are identified and reviewed regularly in line with market dynamics;

- Reviewing compliance on an ongoing basis with approved exposure limits relating to counterparties, group caps including Board exposure caps, industries and countries. Regular reports are provided to the management, MCC, BECC and the Board of Directors on the quality of portfolios, breaches, if any and appropriate corrective action is initiated when necessary; and

- Providing advice, guidance and specialised training to business units to promote best practices throughout the Group in the management of credit risk.

For financial institutions, the Group uses external ratings issued by Standard and Poor’s, Moody's, Fitch, Capital Intelligence or other recognised credit rating agencies in order to manage its credit risk exposure.

The Group has adopted the ‘Standardised Approach’ for credit risk and market risk and ‘Basic Indicator Approach’ for Operational Risk, in line with Central Bank regulations. Models for Internal Risk Rating, categorizing the exposures according to the degree of risk of default have been developed and are in use since 2012. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and mitigation through collateral or other credit risk mitigants. In order to build a strong credit database, the Group introduced online processing of credit applications and rating of all counterparties.

27 Risk management (continued)

(b) Credit Risk (continued)

Loans and advances (including loan commitments, LCs and LGs)

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 and of the associated loss ratios for counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

COVID-19 and expected credit loss

Impact of COVID-19

On 11 March 2020, the World Health Organisation ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus. This note describes the impact of the outbreak on the Bank's operations and the significant estimates and judgements applied by management in assessing the values of assets and liabilities as at 31 December 2020.

In response to the COVID-19 outbreak, the Bank's Risk management division identified the vulnerable sectors that are significantly impacted by this stressed situation, and reviews are being conducted on a more frequent basis. The existing corporate credit lines are being reviewed and the utilization is being closely monitored.

The Bank has been extra vigilant in underwriting to companies in the vulnerable sectors, especially for any New-to-Bank customers.

In addition to the above and as explained below, for clients benefitting from payment deferrals, the Bank has classified its customers into two Groups, Group 1 and Group 2, as required by the Joint Guidance issued in April 2020. The Bank has considered the following principles for the classification.

***Group 1**: clients that are temporality and mildly impacted by the COVID-19 crisis.*

For these clients, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These clients are expected to face liquidity constraints without substantial changes in their creditworthiness.

For these clients, the Bank holds the view that, despite being subject to payment deferrals, there is insufficient deterioration in credit quality to trigger a stage migration. These clients will remain in their current stage, at least for the duration of the crisis, or their distress, whichever is the shorter. For instance, this would apply to industries that are expected to rapidly return to normal business conditions, once confinement policy decisions are over.

27 Risk management (continued)

(b) Credit Risk (continued)

COVID-19 and expected credit loss (continued)

Group 2: *clients that are expected to be significantly impacted by COVID-19 in the long term.*

These clients are expected to face substantial changes in their creditworthiness beyond liquidity issues. For these clients, there is sufficient deterioration in credit risk to trigger a migration to stage 2, and this migration should take place.

Due to the possibility of later economic rebound, these clients are not expected to migrate to IFRS 9 stage 3 based on their financial performance during the period of the crisis. In exceptional circumstances, such stage 3 migration can be triggered by liquidation/ bankruptcy caused by

(i) non-financial events (such as fraud) or;

(ii) significant disruptions threatening the long-term sustainability of the clients' business model.

As at 31 December 2020, the proportion of clients benefitting from deferrals along with their exposures and ECL by industry is as follows:

At 31 December 2020	Total exposure AED'000	ECL AED'000	Group 1 Deferred exposure AED'000	Group 2 Deferred exposure AED'000
Manufacturing	152,899	18,628	5,134	15,526
Construction	55,729	1,614	892	-
Real Estate	256,698	38	11,119	-
Trade	344,493	14,585	49,834	11,803
Transport, Storage and Communication	15,048	801	1,552	-
Financial Institutions	247,200	-	247,200	-
Educational	-	-	-	-
Individuals	2	-	2	-
High Net Worth Individuals	152,101	2,825	17,492	-
All Other Services	41,831	1,333	4,203	636
	1,266,001	**39,824**	**337,428**	**27,965**

27 Risk management (continued)

(b) Credit Risk (continued)

COVID-19 and expected credit loss (continued)

As at 31 December 2020, the proportion of clients benefitting from deferrals along with their exposures and ECL by product is as follows:

At 31 December 2020	Total exposure AED'000	Group 1 Deferred exposure AED'000	Group 1 ECL AED'000	Group 2 Deferred exposure AED'000	Group 2 ECL AED'000
Overdraft	90,511	3,018	765	-	-
Trust receipts	93,118	304,611	409	14,412	12,698
Term loans	1,082,372	29,799	15,031	13,553	10,921
	1,266,001	**337,428**	**16,205**	**27,965**	**23,619**

Reconciliations from the opening to the closing balance of the exposure at default (EAD) can be seen below.

	31 December 2020 Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**1,118,538**	**603,141**	**-**	**1,721,679**
Transfer to Stage 1	**57,695**	**(57,695)**	**-**	**-**
Transfer to Stage 2	**(17,541)**	**17,541**	**-**	**-**
Transfer to Stage 3	**-**	**(32,529)**	**32,529**	**-**
Changes in EADs	**(428,711)**	**(28,321)**	**1,354**	**(455,678)**
Balance at 31 December 2020	**729,981**	**502,137**	**33,883**	**1,266,001**

Reconciliations from the opening to the closing balance of the loss allowance of the deferred exposure can be seen below.

	31 December 2020 Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**7,826**	**25,919**	**-**	**33,745**
Transfer to Stage 1	**1,376**	**(1,376)**	**-**	**-**
Transfer to Stage 2	**(1,255)**	**1,255**	**-**	**-**
Transfer to Stage 3	**-**	**(1,551)**	**1,551**	**-**
Changes in PDs/ LGDs/ EADs	**(4,848)**	**(3,341)**	**14,268**	**6,079**
Balance at 31 December 2020	**3,099**	**20,906**	**15,819**	**39,824**

The Bank continues to monitor the creditworthiness of these clients, particularly indications of potential inability to pay any of their obligations as and when they become due.

27 Risk management (continued)

(b) Credit Risk (continued)

COVID-19 and expected credit loss (continued)

The reconciliation grouping decisions will take into consideration the specific circumstances of clients in the context of the COVID-19 outbreak. The Bank has performed analyses by incorporating the following principles:

For Corporate clients

a) Grouping decisions are relied on a mixture of quantitative analysis and a judgmental approach based on the views of Risk management department of the Bank.
b) Grouping decisions are in line with IFRS 9 stages; relying on the assessment of credit risk over the lifetime of facilities. Hence the necessary distinction between clients that are impacted over the short term vs. long term is appropriately considered.
c) It is expected that clients will face a range of impact intensity and duration. Therefore, grouping will be achieved by establishing cut-offs based on judgments. Industries and sectors are used as a commonly accepted starting point for segmentation.
d) For clients to which the Bank has a material exposure, analyses are performed on a case-by-case basis. For clients with less material exposures, analyses are performed on a portfolio basis based on credit risk drivers, mainly industry, tenor and rating.
e) For the purpose of establishing priorities in this grouping exercise, the Bank has organized its portfolio by materiality and susceptibility to the crisis, and has started with the most material/susceptible segments.
f) The Bank has assessed if its clients have put in place appropriate measures to cope with the crisis, in particular, decisions related to the management of their cash position, inventories, fixed costs and financial costs.
g) Considerations related to parent/government guarantee and collateral is also included in the grouping decision, as such decision should consider potential credit enhancement.

Use of estimates and judgements

The Bank exercises significant judgement in assessing and estimating areas such as Expected Credit Losses. Given the uncertainty and limited forward looking information, the Bank has taken the approach of implementing a judgmental overlay to the ECL model by changing its macroeconomic weightages. Going forward, the Bank will continue to monitor and evaluate the impact of the outbreak, and will consider adjusting its ECL model in subsequent periods, if required.

27 Risk management (continued)

(b) Credit Risk (continued)

COVID-19 and expected credit loss (continued)

Governance around IFRS 9 ECL models and calculations

Given the significant impact that the macro economic scenarios and weightages will have on the Bank's Expected Credit Losses, the Bank has further strengthened its processes, controls and governance frameworks around macro economic forecasting and the computation of Expected Credit Losses. The Bank's IFRS 9 Committee, which reports to the Executive Management, has primary responsibility for overseeing the Bank's ECL models.

The IFRS 9 Committee has reviewed the inputs and assumptions for IFRS 9 ECL measurement in light of available information. While it is challenging to estimate the impact of COVID-19 on our ECL estimates as the situation is still evolving, it is expected to have a deep impact on the macro-economic environment.

The Bank considers a range of possible outcomes and their respective probabilities, and to apply judgement in determining what constitutes reasonable and forward looking information. The volatility caused by the current situation has been reflected through adjustment in the methods of forward looking scenario construction. These adjustments reflect the macroeconomic overlays as suggested in the Joint Guidance Note on IFRS 9 by CBUAE.
Sensitivity analysis performed, has not resulted in a significant impact on ECL.

Credit risk grading

The Group uses internal credit risk grading's that reflect its assessment of the probability of default of individual counterparties. The rating models are tailored to various asset classes. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model.

The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between an A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

The following are additional considerations for each type of portfolio held by the Group:

Retail:

After the initial recognition of credit grade, for retail business, the repayment behavior of the borrower is monitored to establish the grade of the customer based on the stage of delinquency/account conduct.

Corporate:

For corporate business, the rating is determined at the borrower level. Relationship managers incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, relationship managers also update information about the creditworthiness of the borrower every year from sources such as financial statements. This determines the updated internal credit rating and PD. Duly authorized overrides are applied on the ratings when the actual performance of the borrower does not align with the model output.

27 Risk management (continued)

(b) Credit Risk (continued)

Treasury:

For investments in debt instruments, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

(i) Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized 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.
- 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 portion of lifetime 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 from all possible default events over the lifetime.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:
<u>Quantitative criteria</u>

Corporate Loans:

For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- A credit risk rating (CRR) downgrade of 2 or more notches is considered significant in case the origination rating is below BBB+, hence the related facility shall be classified at Stage 2. Facilities with rating movement between AAA+ and A- are not subject to this criteria on account of low credit risk.
- If the origination rating is B+ (6+) and below (inclusive), a CRR downgrade of 1 or more notches is considered significant, hence the related facility shall be classified at Stage 2 since the movement of related PD is higher.
- Loan facilities restructured in the last 12 months;
- Loan facilities that are past due for 30 days and above but less than 90 days;
- Any facility of a performing customer being Stage 3.

27 Risk management (continued)

(b) Credit Risk (continued)

(i) Expected credit loss measurement (continued)

Retail:

For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Loan rescheduling before 30 days past due;
- Accounts overdue between 30 and 90 days.

Significant increase in credit risk (SICR)

Treasury:

- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the financial instruments' expected performance and behavior of borrower.

Qualitative criteria:

Corporate Loans:
For corporate loans, if the borrower experiences a significant increase in probability of default, which can be triggered by the following qualitative factors:

- Net worth erosion
- Fraudulent activity
- Distressed restructure
- Financial covenants breach
- Significant operations disruption
- Bad news in public domain
- Significant reputation damage
- Subject to material litigation

Backstop:

A backstop is applied and the financial asset considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

(ii) Definition of default and credit-impaired assets

The Group defines a financial 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 obligor is more than 90 days past due on its contractual obligation to the Group.

27 Risk management (continued)

(b) Credit Risk (continued)

(ii) Definition of default and credit-impaired assets (continued)

Significant increase in credit risk (SICR)

Qualitative criteria:

The Group considers a default to have occurred with regard to particular obligors when either one of the following events have taken place:

- The Group considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Group to actions like realizing security (if held).
- The Group puts the credit obligation on a non-accrual 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 criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group’s expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months.

27 Risk management (continued)

(b) Credit Risk (continued)

Measuring ECL - Inputs, assumptions and estimation techniques

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

- 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 is expecting to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (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).

The ECL is determined by projecting the PD, LGD and EAD for each quarterly period and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in previus period). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortising products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation, based on analysis of the Group's recent default data.

27 Risk management (continued)

(b) Credit Risk (continued)

Measuring ECL - Inputs, assumptions and estimation techniques (continued)

The LGDs are based on the average expectation of recoveries as recommended by regulators adjusted for the availability of collateral. Bank is in the process of estimating LGD based on its own recovery experience however till such time will continue to apply LGD as per above approach.

Forward-looking economic information is also included in determining the 12M and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer below for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

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 are oil prices and UAE equity prices.

Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Group's asset portfolio (except the retail portfolio) and thus asset pricing, portfolio management, determining finance loss provisions and reserves. A grading system is being used by the Group which is based on the Group's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group's Management Credit Committee ("MCC") / Board Executive Credit Committee ("BECC") within the authorities delegated by the Board of Directors.

Credit monitoring

The Group regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer and Board Risk Committee (BRC), containing information on key variables including RAS; portfolio delinquency and financing impairment performance.

27 Risk management (continued)

(b) Credit Risk (continued)

Measuring ECL - Inputs, assumptions and estimation techniques (continued)

Credit monitoring (continued)

All corporate accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier to assess any deterioration in account conduct. The Group has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines. An early warning process is in place for regular review of accounts.

All non-performing accounts are monitored closely by the Remedial Management Unit (RDL) of the Group directly reporting to the Chief Risk Officer (CRO). Such accounts are re-evaluated and remedial actions are agreed and monitored on a periodic basis and discussed in the MRC every month. Remedial actions include, but are not limited to, exposure reduction, security enhancement, asset search, employing litigation/recovery agencies, defining litigation strategy and exit of the account.

With respect to the Group's retail portfolio, asset quality is monitored closely with 30/60/90 days past due accounts and delinquency trends monitored continuously for each Retail Product of the Group. Accounts which are past due are subject to collection processes that are managed independently.

Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, plant and machinery; marketable securities and bank guarantees etc. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types to arrive at their fair values and the respective bank valuations. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure.

27 Risk management (continued)

(b) Credit Risk (continued)

Credit risk exposure - Financial instrument subject to impairment

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets on the next page also represents the Group's maximum exposure to credit risk on these assets:

	2020				2019
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000	Total AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:					
Cash and balances with central banks	**619,820**	**-**	**-**	**619,820**	1,503,806
Expected credit loss/ impairment loss	**(100,927)**	**-**	**-**	**(100,927)**	-
Carrying amount	**518,893**	**-**	**-**	**518,893**	1,503,806
Due from banks					
Investment-grade	**157,725**	**-**	**-**	**157,725**	659,784
BB+ & below	**7,592**	**-**	**-**	**7,592**	92,335
	165,317	**-**	**-**	**165,317**	752,119
Expected credit loss/ impairment loss	**(130)**	**-**	**-**	**(130)**	(221)
Carrying amount	**165,187**	**-**	**-**	**165,187**	751,898
Customer exposures Central Bank classification					
Standard	**3,040,580**	**2,113,498**	**-**	**5,154,078**	6,068,979
Watch list	**-**	**117,170**	**-**	**117,170**	628,275
Substandard	**-**	**-**	**795,204**	**795,204**	951,864
Doubtful	**-**	**-**	**1,002,211**	**1,002,211**	1,143,936
Loss	**-**	**-**	**5,522,333**	**5,522,333**	4,256,910
	3,040,580	**2,230,668**	**7,319,748**	**12,590,996**	13,049,964
Expected credit loss/ impairment loss	**(41,368)**	**(184,695)**	**(5,121,296)**	**(5,347,359)**	(4,736,700)
Carrying amount	**2,999,212**	**2,045,973**	**2,198,452**	**7,243,637**	8,313,264
Investments in Debts securities and Sukuk					
Investment-grade	**110,190**	**-**	**-**	**110,190**	117,490
Loss allowance	**(293)**	**-**	**-**	**(293)**	(21)
Carrying amount	**109,897**	**-**	**-**	**109,897**	117,469

27 Risk management (continued)

(b) Credit Risk (continued)

Gross exposure

The following table explains the changes in the gross exposure between the beginning and the end of the annual period:

	2020			
	Stage 1 AED'000	**Stage 2** AED'000	**Stage 3** AED'000	**Total** AED'000
Due from banks				
Gross exposure as at 1 January	**752,119**	**-**	**-**	**752,119**
Changes in exposure	**(586,802)**	**-**	**-**	**(586,802)**
Gross exposure as at 31 December 2020	**165,317**	**-**	**-**	**165,317**
Gross exposure as at 31 December 2019	752,119	-	-	752,119
Customer exposures				
Gross exposure as at 1 January	**3,205,762**	**3,491,492**	**6,352,710**	**13,049,964**
Transfers				
Transfer from Stage 1 to Stage 2	**(527,862)**	**527,862**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(2,257)**	**-**	**2,257**	**-**
Transfer from Stage 2 to Stage 1	**844,838**	**(844,838)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(779,058)**	**779,058**	**-**
Transfer from Stage 3 to Stage 1	**-**	**-**	**-**	**-**
Transfer from Stage 3 to Stage 2	**-**	**121,614**	**(121,614)**	**-**
Changes in PDs/LGDs/EADs	**(479,901)**	**(286,404)**	**307,337**	**(458,968)**
Gross exposure as at 31 December 2020	**3,040,580**	**2,230,668**	**7,319,748**	**12,590,996**
Gross exposure as at 31 December 2019	3,205,762	3,491,492	6,352,710	13,049,964
Investments in debts and sukuk – at amortized cost				
Gross exposure as at 1 January	**117,490**	**-**	**-**	**117,490**
Changes in exposure	**(7,300)**	**-**	**-**	**(7,300)**
Gross exposure as at 31 December 2020	**110,190**	**-**	**-**	**110,190**
Gross exposure as at 31 December 2019	117,490	-	-	117,490

27 Risk management (continued)

(b) Credit Risk (continued)

Loss allowance

The following table explains the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	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	**221**	**-**	**-**	**221**
Changes in PDs/LGDs/EADs	**(91)**	**-**	**-**	**(91)**
Loss allowance as at 31 December 2020	**130**	**-**	**-**	**130**
Loss allowance as at 31 December 2019	221	-	-	221
Customer exposures				
Loss allowance as at 1 January	**36,208**	**123,462**	**4,577,030**	**4,736,700**
Transfers				
Transfer from Stage 1 to Stage 2	**(2,693)**	**2,693**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(22)**	**-**	**22**	**-**
Transfer from Stage 2 to Stage 1	**2,032**	**(2,032)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(42,032)**	**42,032**	**-**
Transfer from Stage 3 to Stage 1	**-**	**-**	**-**	**-**
Transfer from Stage 3 to Stage 2	**-**	**46,332**	**(46,332)**	**-**
Changes in PDs/LGDs/EADs	**5,843**	**56,272**	**548,544**	**610,659**
Loss allowance as at 31 December 2020	**41,368**	**184,695**	**5,121,296**	**5,347,359**
Loss allowance as at 31 December 2019	36,208	123,462	4,577,030	4,736,700
Investments in debts and sukuk – at amortized cost				
Loss allowance as at 1 January	**21**	**-**	**-**	**21**
Changes in PDs/LGDs/EADs	**272**	**-**	**-**	**272**
Loss allowance as at 31 December 2020	**293**	**-**	**-**	**293**
Loss allowance as at 31 December 2019	21	-	-	21

27 Risk management (continued)

(b) Credit Risk (continued)

Gross credit exposure by industry segment

	2020				2019
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**	Total AED'000
Manufacturing	**89,259**	**210,932**	**1,998,643**	**2,298,834**	2,304,585
Construction	**326,070**	**512,357**	**2,915,548**	**3,753,975**	3,734,310
Real Estate	**239,249**	**823,294**	**795,191**	**1,857,734**	2,070,027
Trade	**177,191**	**276,173**	**702,843**	**1,156,207**	1,213,847
Transport, Storage and Communication	**10,480**	**75,947**	**26,217**	**112,644**	108,309
Financial Institutions	**1,026,219**	**4,923**	**103,659**	**1,134,801**	1,286,089
Other Services	**607,422**	**32,659**	**209,140**	**849,221**	808,128
Government	**422,573**	**-**	**-**	**422,573**	434,098
Individuals	**12,269**	**2,412**	**13,608**	**28,289**	43,792
High Net Worth Individuals	**113,035**	**280,190**	**367,580**	**760,805**	775,504
All others	**16,813**	**11,781**	**187,319**	**215,913**	271,275
Gross loans and advances	**3,040,580**	**2,230,668**	**7,319,748**	**12,590,996**	13,049,964

9.5 Expected credit loss by industry segment

	2020				2019
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**	Total AED'000
Manufacturing	**898**	**23,871**	**1,467,374**	**1,492,143**	1,428,351
Construction	**6,401**	**43,546**	**2,190,140**	**2,240,087**	2,139,178
Real Estate	**1,529**	**27,799**	**306,487**	**335,815**	109,794
Trade	**1,225**	**29,692**	**542,930**	**573,847**	539,243
Transport, Storage and Communication	**75**	**21,009**	**16,160**	**37,244**	15,007
Financial Institutions	**676**	**54**	**85,027**	**85,757**	86,344
Other Services	**16,537**	**1,971**	**161,871**	**180,379**	149,635
Government	**6,176**	**-**	**-**	**6,176**	-
Individuals	**6,003**	**646**	**9,999**	**16,648**	13,854
High Net Worth Individuals	**1,229**	**34,501**	**186,791**	**222,521**	173,274
All others	**619**	**1,606**	**154,517**	**156,742**	82,020
Loss allowances	**41,368**	**184,695**	**5,121,296**	**5,347,359**	4,736,700

27 Risk management (continued)

(b) Credit Risk (continued)

Other financial assets exposed to credit risk are as follows:

	2020 AED'000	2019 AED'000
Deposits and reserves with central banks (excluding cash in hand)	**501,020**	1,464,204
Due from banks	**165,187**	752,119
Debt securities	**110,190**	117,490
Customer acceptance	**112,002**	190,249
Letter of credit and irrevocable commitments to extend credit	**265,383**	307,221
Other financial assets	**40,637**	97,257
	1,194,419	2,928,540

The table below sets out the credit quality of debt securities which is based on the rating of the respective debt security. The analysis has been based on 'Standard & Poor's ratings (or its equivalent) where applicable on gross values.

	Government bonds		**Corporate bonds**		**Total**	
	2020 AED’000	2019 AED’000	**2020 AED’000**	2019 AED’000	**2020 AED’000**	2019 AED’000
Rated A- and above		-	-	7,300	**-**	7,300
Rated BBB+ to BB	**110,190**	110,190	-	-	**110,190**	110,190
	110,190	110,190	-	7,300	**110,190**	117,490

Impaired loans and advances

Impaired loans and advances are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are classified as substandard, doubtful or loss, as appropriate, which is in accordance with the guidelines issued by the CB UAE.

Past due but not impaired loans

These are loans and advances where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of a repayment source such as assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Group.

27 Risk management (continued)

(b) Credit Risk (continued)

Allowances for impairment

The Group establishes allowance for impairment losses that represents its estimate for losses in its loan portfolio. The main components of this allowance are specific losses that relates to individually significant exposures and a collective impairment established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Write-off policy

The Group writes off loans/securities (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the loans are uncollectible. The decision is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and there is no scope to pursue any other avenues, by writing down the debt to a nominal value.

Collateral and other credit enhancements

The Group holds collateral against funded and unfunded financing facilities in the form of cash margins, pledges/liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Group accepts guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporates and high net worth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are generally updated during annual reviews or earlier as the Group deems it prudent given the circumstances and market trend / conditions. Collateral is generally not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Group's policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities/collaterals. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below. Collateral values reflect the maximum exposure or the value of the collateral whichever is lower.

27 Risk management (continued)

(b) Credit Risk (continued)

	2020 AED'000	2019 AED'000
Against neither past due nor impaired		
Cash	**2,025,753**	2,255,023
Commercial and industrial property	**1,291,702**	1,592,834
Equities	**348,099**	381,367
Other	**132,170**	235,361
	3,797,724	4,464,585
Against past due but not impaired		
Cash	**13,354**	61,623
Commercial and industrial property	**59,055**	109,434
Equities	**13,191**	502
Other	**41,937**	51,938
	127,537	223,497
Against impaired		
Cash	**56,499**	58,866
Commercial and industrial property	**897,408**	1,041,855
Equities	**5,010**	9,178
Other	**266,703**	157,174
	1,225,620	1,267,073
Total collateral held	**5,150,881**	5,955,155

27 Risk management (continued)

(b) Credit Risk (continued)

In accordance with the disclosure requirement of BASEL II Pillar 3 and the CB UAE guidelines, concentration of credit risk by industry segment and currency are as follows:

	Loans and advances		**Debt securities**		**Due from banks**	
	2020	2019	**2020**	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Gross credit exposure by industry segment						
Agriculture, fishing and related activities	**235**	103	**-**	-	-	-
Mining and quarrying	**2,753**	3,610	**-**	-	-	-
Manufacturing	**2,298,834**	2,304,585	**-**	-	-	-
Construction	**3,753,975**	3,734,310	**-**	-	-	-
Real estate	**1,857,734**	2,070,027	**-**	-	-	-
Trade	**1,156,207**	1,213,847	**-**	-	-	-
Transport, storage and communication	**112,644**	108,309	**-**	-	-	-
Financial institutions	**1,134,801**	1,286,089	**-**	-	**165,187**	752,119
Other services	**849,221**	808,128	**-**	-	**-**	-
Government	**422,573**	434,098	**110,190**	110,190	**-**	-
Loans to individuals	**28,289**	43,792	**-**	-	**-**	-
Loans to high net worth individuals	**760,805**	775,504	**-**	-	**-**	-
Others	**212,925**	267,562	**-**	7,300	**-**	-
Total	**12,590,996**	13,049,964	**110,190**	117,490	**165,187**	752,119
Gross credit exposure by currency						
Foreign currency	**229,990**	399,793	**110,190**	117,490	**88,743**	314,269
AED	**12,361,006**	12,650,171	**-**	-	**76,444**	437,850
Total	**12,590,996**	13,049,964	**110,190**	117,490	**165,187**	752,119
Concentration by location						
United Arab Emirates	**12,092,051**	12,521,148	**110,190**	117,490	**97,961**	546,230
Other G.C.C.	**21,824**	24,060	**-**	-	**6,652**	55,088
Other Arab countries	**126,530**	166,492	**-**	-	**700**	35,019
Western Europe and others	**350,591**	338,264	**-**	-	**59,874**	115,782
Total	**12,590,996**	13,049,964	**110,190**	117,490	**165,187**	752,119

27 Risk management (continued)

(b) Credit Risk (continued)

Overdue 90 days & above and impaired loans by industry segment and geographical location as defined by the CB UAE:

2020	Overdues 90 days and above	Expected credit loss/ impairment allowance	Net impaired assets	Adjustments Write-offs	Adjustments Write-backs
Concentration by industry segment					
Mining and quarrying	**2,753**	**599**	**2,155**	**-**	**298**
Manufacturing	**2,026,781**	**1,467,374**	**559,407**	**19,557**	**2,787**
Construction and real estate	**3,801,367**	**2,496,627**	**1,304,740**	**48,831**	**11,029**
Trade	**725,991**	**542,930**	**183,061**	**8,496**	**6,135**
Transport, storage and communication	**67,444**	**16,160**	**51,284**	**390**	**68**
Financial institutions	**103,659**	**85,027**	**18,632**	**-**	**-**
Other services	**210,205**	**161,871**	**48,334**	**-**	**1**
Loans to individuals	**14,363**	**9,999**	**4,364**	**2,161**	**543**
Loans to high net worth individuals	**420,419**	**186,791**	**233,628**	**4,735**	**2,440**
Others	**187,265**	**153,917**	**33,347**	**478**	**-**
Total	**7,560,247**	**5,121,295**	**2,438,952**	**84,648**	**23,301**
Concentration by geography					
United Arab Emirates	**7,442,088**	**5,054,778**	**2,387,310**	**84,648**	**23,301**
Others	**118,159**	**66,518**	**51,642**	**-**	**-**
Total	**7,560,247**	**5,121,296**	**2,438,952**	**84,648**	**23,301**
2019					
Concentration by industry segment					
Mining and quarrying	3,608	1,690	1,918	-	-
Manufacturing	1,629,397	1,380,203	249,194	130	4,741
Electricity, gas and water	-	-	-	-	-
Construction and real estate	3,134,233	2,173,160	961,073	23	15,789
Trade	630,159	521,066	109,093	10	1,703
Transport, storage and communication	24,954	14,501	10,453	-	-
Financial institutions	102,509	83,433	19,076	-	-
Other services	192,135	144,591	47,544	-	94
Loans to individuals	17,021	13,387	3,634	74	1,248
Loans to high net worth individuals	434,278	167,433	266,845	4,973	765
Others	184,416	77,566	106,851	-	140
Total	6,352,710	4,577,030	1,775,681	5,210	24,480
Concentration by geography					
United Arab Emirates	6,240,829	4,518,566	1,722,264	5,210	24,480
Others	111,881	58,464	53,417	-	-
Total	6,352,710	4,577,030	1,775,681	5,210	24,480

27 Risk management (continued)

(b) Credit Risk (continued)

Analysis of the Group's exposure based on BASEL II standardized approach:

All figures in AED '000

2020	On balance sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
Asset classes	**Gross outstanding**	**Gross outstanding**	**Exposure before CRM**	**CRM**	**After CRM**	
Claims on sovereign	**1,135,507**	**-**	**1,034,580**	**-**	**1,034,581**	**149,697**
Claims on banks	**165,317**	**99,250**	**264,567**		**213,247**	**81,136**
Claims on corporates and GREs	**4,269,569**	**2,744,481**	**6,970,084**	**2,236,418**	**5,789,953**	**3,690,293**
Claims included in retail portfolio*	**73,908**	**158,385**	**231,778**	**97,444**	**165,627**	**52,577**
Claims secured by commercial real estate	**264,162**	**62,963**	**327,125**	**34,693**	**276,755**	**242,061**
Past due loans	**7,307,988**	**585,488**	**2,877,867**	**61,022**	**2,610,522**	**3,057,756**
High risk categories	**733,435**	**-**	**457,374**	**-**	**457,374**	**686,061**
Other assets	**411,660**	**-**	**407,706**	**-**	**407,707**	**389,302**
Total	**14,361,546**	**3,650,567**	**12,571,081**	**2,429,578**	**10,955,766**	**8,348,882**
2019						
Asset classes						
Claims on sovereign	2,008,940	-	2,008,940	-	2,008,940	109,873
Claims on banks	752,119	446,603	1,198,722	-	806,180	233,955
Claims on corporates and GREs	4,244,465	2,409,974	6,641,847	1,757,937	5,619,742	3,858,999
Claims included in retail portfolio*	1,145,163	1,689,178	2,819,537	581,049	2,058,075	1,480,580
Claims secured by commercial real estate	364,670	56,481	421,151	24,231	375,966	351,735
Past due loans	6,713,232	690,530	2,918,225	100,922	2,630,240	3,106,481
High risk categories	733,435	-	517,984	-	517,984	776,976
Other assets	541,498	-	519,025	-	519,025	479,655
Total	16,503,522	5,292,766	17,045,431	2,464,139	14,536,152	10,398,254

*Includes claims on SME portfolio (customers with annual turnover up to AED 75 million) amounting to AED 61 million (2019: AED 672 million) for on balance sheet and AED 158 million (2019: AED 1,005 million) for off balance sheet.

27 Risk management (continued)

(b) Credit Risk (continued)

Analysis of the Group's exposure based on BASEL II Standardized Approach externally rated and unrated:

2020 *All figures in AED '000*

	Gross Credit Exposures		
Asset classes	**Rated**	**Unrated**	**Exposure before CRM**
Claims on sovereign*	**110,190**	**1,025,317**	**1,034,580**
Claims on banks	**186,574**	**77,993**	**264,567**
Claims on corporates and GREs	**-**	**7,014,051**	**6,970,084**
Claims included in retail portfolio	**-**	**232,293**	**231,778**
Claims secured by commercial real estate	**-**	**327,125**	**327,125**
Past due loans	**-**	**7,893,476**	**2,877,867**
High risk categories	**-**	**733,435**	**457,374**
Other assets		**411,660**	**407,706**
Total	**296,764**	**17,715,350**	**12,571,081**

2019

	Gross Credit Exposures		
Asset classes	**Rated**	**Unrated**	**Exposure before CRM**
Claims on sovereign*	-	2,008,940	2,008,940
Claims on banks	1,068,419	130,303	1,198,722
Claims on corporates and GREs	7,300	6,647,139	6,641,847
Claims included in retail portfolio	-	2,834,341	2,819,537
Claims secured by commercial real estate	-	421,151	421,151
Past due loans	-	7,403,762	2,918,225
High risk categories	-	733,435	517,984
Other assets	-	541,498	519,025
Total	1,075,719	20,720,569	17,045,431

*Rated exposure includes exposure where risk weighted assets are calculated using external rating .

27 Risk management (continued)

(c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with it's financial liabilities as they become due and at a reasonable cost. Liquidity risk can be segregated into three categories: -

(i) Mismatch or structural liquidity risk: the risk in the Group's current consolidated statement of financial position structure due to maturity transformation in the cash flows of individual positions;

(ii) Contingency liquidity risk: the risk that future events may require a significantly larger amount of cash than what the Group's projections allow. This can arise due to unusual deviations of timing of cash flows (term liquidity risk), e.g., non-contractual prolongation of loans, or unexpected draw downs on committed loan facilities (call/ withdrawal liquidity risk); and

(iii) Market liquidity risk: the risk that the Group cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

Management of liquidity risk

Liquidity risk management has remained at the helm of risk management and receives close attention of the Board of Directors. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. All liquidity policies and procedures are subject to review and approval by Board & ALCO. The group is strengthening its Liquidity and Market Risk framework including setting up a limits management framework and monitoring of Financial Institutions Limits. The key elements of the Group's liquidity strategy are as follows:

(i) Maintaining a diversified funding base consisting of customer deposits (both retail and corporate), wholesale market deposits, maintaining contingency facilities, annual budgeting and planning exercise forms the basis for developing the Bank's funding strategy.
(ii) Carrying a portfolio of high-quality liquid assets, diversified by counterparty and maturity.
(iii) Monitoring liquidity ratios (ELAR, ASRR, LTD), maturity mismatches, behavioural characteristics of the Group's financial assets and liabilities, and the extent to which the Group's assets are encumbered and hence not available as potential collateral for obtaining funding.
(iv) Carrying out stress testing of the Group's liquidity position.
(v) Maintaining adequate liquidity buffers.
(vi) Active communication with the CBUAE regarding liquidity requirements and requesting liquidity support with respect to those requirements.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the Liquid Asset Ratio (LAR), ratio of net liquid assets (i.e. total assets by maturity against total liabilities by maturity) and its loans to deposit ratio. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

27 Risk management (continued)

(c) Liquidity Risk (continued)

Maturities of assets and liabilities

	Less than 3 months AED'000	3 months to 1 year AED'000	1 year and above AED'000	Total AED'000
At 31 December 2020				
Assets				
Cash and deposits with central banks	**509,711**	**-**	**9,182**	**518,893**
Due from banks	**165,187**	**-**	**-**	**165,187**
Investment securities	**12,618**	**-**	**109,897**	**122,515**
Loans and advances to customers	**572,393**	**2,482,605**	**4,188,639**	**7,243,637**
Customers' indebtedness for acceptances	**95,753**	**16,249**	**-**	**112,002**
Other assets	**20,761**	**27,440**	**523,382**	**571,583**
Total assets	**1,376,423**	**2,526,294**	**4,831,100**	**8,733,817**
Liabilities and equity				
Due to banks	**388,485**	**-**	**-**	**388,485**
Deposits from customers	**2,496,162**	**4,638,845**	**12,453**	**7,147,460**
Liabilities under acceptances	**95,753**	**16,249**	**-**	**112,002**
Other liabilities	**89,907**	**42,269**	**43,877**	**176,053**
Total liabilities	**3,070,307**	**4,697,363**	**56,330**	**7,824,000**
Net liquidity positions	**(1,693,884)**	**(2,171,069)**	**4,774,770**	**909,817**

Deposits from customers in “Less than 3 months” bucket include AED 1,772 million of current and savings account deposits (2019: AED AED 2,054). Further, the majority of deposits due for maturity have been renewed on maturity.

27 Risk management (continued)

(c) Liquidity Risk (continued)

Maturities of assets and liabilities (continued)

	Less than 3 months AED'000	3 months to 1 year AED'000	1 year and above AED'000	Total AED'000
At 31 December 2019				
Assets				
Cash and deposits with central banks	1,494,624	-	9,182	1,503,806
Due from banks	751,898	-	-	751,898
Investment securities	144,213	-	117,490	261,703
Loans and advances to customers	590,496	3,097,772	4,624,997	8,313,264
Customers' indebtedness for acceptances	128,828	60,729	691	190,249
Other assets	40,587	70,454	572,556	683,597
Total assets	3,150,646	3,228,955	5,324,916	11,704,517
Liabilities and equity				
Due to banks	164	-	-	164
Deposits from customers	4,799,677	5,046,289	60,152	9,906,117
Liabilities under acceptances	128,828	60,729	691	190,249
Other liabilities	204,903	79,028	38,069	322,000
Total liabilities	5,133,572	5,186,046	98,912	10,418,530
Net liquidity positions	(1,982,926)	(1,957,091)	5,226,004	1,285,987

Residual contractual maturity of financial liabilities

The following table shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flow on these instruments may vary significantly from this analysis, for example demand deposits from customers are expected to maintain a stable or increasing balance and unrecognized loan commitments are not expected to be drawn down immediately.

27 Risk management (continued)

(c) Liquidity Risk (continued)

Residual contractual maturity of financial liabilities

2020	Carrying amount AED'000	Undiscounted cash flows AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative financial liabilities					
Due to banks	**388,485**	**(388,566)**	**(388,566)**	**-**	**-**
Deposits from customers	**7,147,460**	**(7,319,071)**	**(2,518,033)**	**(4,788,116)**	**(12,922)**
Liabilities for acceptances	**112,002**	**(112,002)**	**(95,753)**	**(16,249)**	**-**
Other liabilities	**176,053**	**(176,053)**	**(89,907)**	**(42,269)**	**(43,877)**
Total liabilities	**7,824,000**	**(7,995,692)**	**(3,092,259)**	**(4,846,634)**	**(56,799)**
2019					
Non-derivative financial liabilities					
Due to banks	164	(164)	(164)	-	-
Deposits from customers	9,906,117	(10,187,400)	(4,856,628)	(5,270,141)	(60,631)
Liabilities for acceptances	190,249	(190,249)	(128,828)	(60,729)	(691)
Other liabilities	322,000	(322,000)	(204,903)	(79,028)	(38,069)
Total liabilities	10,418,530	(10,699,813)	(5,190,523)	(5,409,898)	(99,391)

(d) Market Risk

Market Risk is the risk that changes in market prices - such as interest rates, equity prices and foreign exchange rates will affect the Group's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios mainly include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group has a very limited trading portfolio, hence it is not exposed to any significant market risk in respect of its trading portfolio.

27 Risk management (continued)

(d) Market Risk (continued)

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

Assets and liabilities repricing profile

	Effective interest rate %	Less than 3 months AED'000	3 months to 1 year AED'000	more than 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and deposits with central banks	0.79	**330,107**	**-**	**-**	**188,786**	**518,893**
Due from banks	0.66	**70,000**	**-**	**-**	**95,187**	**165,187**
Investment securities	3.35	**-**	**-**	**109,897**	**12,618**	**122,515**
Loans and advances to customers	5.21	**6,185,022**	**1,028,063**	**30,552**	**-**	**7,243,637**
Customers' indebtedness for acceptances		**-**	**-**	**-**	**112,002**	**112,002**
Other assets		**-**	**-**	**-**	**571,583**	**571,583**
Total assets		**6,585,129**	**1,028,063**	**140,449**	**980,176**	**8,733,817**
Liabilities						
Due to banks		**115,386**	**-**	**-**	**273,099**	**388,485**
Deposits from customers	2.59	**1,821,791**	**3,499,175**	**54,649**	**1,771,845**	**7,147,460**
Liabilities under acceptances		**-**	**-**	**-**	**112,002**	**112,002**
Other liabilities		**-**	**-**	**-**	**176,053**	**176,053**
Total liabilities		**1,937,177**	**3,499,175**	**54,649**	**2,332,999**	**7,824,000**
As of 31 December 2020						
Interest rate sensitivity gap		**4,647,952**	**(2,471,112)**	**85,800**	**(1,352,823)**	**909,817**
Cumulative interest rate sensitivity gap:		**4,647,952**	**2,176,840**	**2,262,640**		
As of 31 December 2019						
Total assets		6,233,798	3,203,645	182,722	2,084,352	11,704,517
Total liabilities		2,709,367	4,872,418	247,885	2,588,860	10,418,530
Interest rate sensitivity gap		3,524,431	(1,668,773)	(65,163)	(504,508)	1,285,987
Cumulative interest rate sensitivity gap:		3,524,431	1,855,658	1,790,495		

27 Risk management (continued)

(d) Market Risk (continued)

The assets and liabilities re-pricing profile has been determined on the basis of the final maturity period or interest re-pricing periods at the reporting date, whichever is earlier. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Sensitivity analysis - Interest rate risk

Interest rate risk is the sensitivity of asset and liability values to changes in the term structure of interest rates or interest rate volatility. Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and related income. The Group manages the risk principally through monitoring interest rate gaps and matching the re-pricing profile of assets and liabilities. The Group also assesses the impact of defined movement in interest yield curves on its net interest income. The following is the impact of interest rate movement on net interest income and regulatory capital.

Shift in yield curve	**2020 AED'000**	2019 AED'000
+200 b.p.	**52,755**	42,053

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

Equity price risk

The primary goal of the Group's investment strategy is to maximise investment returns. Bank has very limited investments in equities and as such not exposed to Equity price risk.

27 Risk management (continued)

(d) Market Risk (continued)

Foreign currency risk

The Group engages in limited trading in foreign exchange on its own account. Its treasury activities are mainly directed to assisting its customers in managing their foreign exchange exposures. A system of exposure limits is in place to control price risk on foreign exchange exposures and a system of individual credit limits is in place to control counter-party risk. The amounts mentioned in the table below reflect the equal but opposite potential effect on profit and equity based on a 1% negative or positive currency fluctuation, with all other variables held constant. At the reporting date, the Group has the following net open currency exposures in respect of:

	2020			**2019**		
	Total	**Impact on profit**	**Impact on equity**	**Total**	**Impact on profit**	**Impact on equity**
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
United States Dollar	**219,842**	**2,198**	**2,198**	525,156	5,252	5,252
British Pound	**(824)**	**(8)**	**(8)**	(479)	(5)	(5)
Euro	**(769)**	**(8)**	**(8)**	(1,482)	(15)	(15)

The UAE Dirham is pegged to the United States Dollar.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.
The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Group has taken measures to put requisite tools in place including Risk and Control Self Assessment (RCSA), Key Risk Indicators (KRI's) and Loss Data Collection (LDC), to identify and address such operational risks. The Group has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Group's reputation.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are shared with Board Audit & Compliance Committee and senior management of the Group. The compliance with policies and procedures is strengthened by Internal Audit reviews, while Compliance of regulatory requirements is strengthened by Compliance department.

27 Risk management (continued)

(f) Capital risk management and Basel II requirements

Capital allocation

The Group's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguarding the Group's ability to continue as a going concern and increase return for the shareholders; and
- Comply with regulatory capital requirement set by Central Bank of the UAE.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group also assesses its capital requirements internally taking into consideration growth requirements and business plans along with an assessment of all material risks faced by the Bank. Risks such as interest rate risk in the banking book, concentration risk, strategic risk, legal and compliance risk, stress risk, insurance risk and reputational risk form part of the ICAAP computations.

As per the Central bank regulation for Basel III, the capital requirement as at 31 December 2020 is 11.5% (as per interim relief provided under TESS) inclusive of capital conservation buffer of 1%. However, as per the standards issued by CBUAE for TESS program due to the COVID-19 crisis, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective from 15 March 2020.

The bank must comply with the following minimum requirements:

i. CET1 must be at least 7% of risk weighted assets (RWA);
ii. Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
iii. Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).

The capital adequacy ratio is computed based on circulars issued by the CBUAE as per Basel III.

27 Risk management (continued)

(f) Capital risk management and Basel II requirements (continued)

The Group's regulatory capital position at 31 December was as follows:

TIER 1 CAPITAL	**2020 AED'000**	2019 AED'000
Share capital	**3,180,982**	3,180,982
Share discount	**(477,857)**	(477,857)
Legal reserve	**-**	450,688
Special reserve	**-**	450,688
Fair value reserve	**(41,169)**	(103,730)
Retained earnings	**(1,805,577)**	(2,214,784)
Total tier 1 capital	**856,379**	1,285,987
TIER 2 CAPITAL		
General provisions	**104,361**	129,978
Total tier 2 capital	**104,361**	129,978
Total regulatory capital	**960,740**	1,415,965
RISK WEIGHTED ASSETS		
Credit risk	**8,348,882**	10,398,254
Market risk	**32,390**	59,822
Operational risk	**1,005,239**	1,040,501
Total risk weighted assets (RWA)	**9,386,511**	11,498,577
Total regulatory capital expressed as % of RWA	**10.24%**	12.31%
Total tier 1 capital expressed as % of RWA	**9.12%**	11.18%

Total capital requirement for market risk under standardized approach as per BASEL II Pillar 3 is as follows**:**

	2020 AED'000		**2019 AED'000**	
	Capital required	**Risk weighted assets**	**Capital required**	**Risk weighted assets**
Interest rate risk	**-**	**-**	-	-
Equity position risk	**199**	**2,482**	2,042	25,530
Foreign exchange risk	**2,244**	**29,908**	2,743	34,292
Total capital requirement	**2,443**	**32,390**	4,785	59,822

28 Subsequent events

No other subsequent events other than those in Note 2.