



# Annual Report

# 2019



His Highness Sheikh  
**SAUD BIN RASHID AL-MUALLA**  
Member of the Supreme Council of the United Arab Emirates  
&  
Ruler of Umm Al Qaiwain



His Highness Sheikh  
**RASHID BIN SAUD BIN RASHID AL-MUALLA**  
Crown Prince of Umm Al Qaiwain



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### **Umm Al Qaiwain Branches**

NBQ Building (Head Office)  
King Faisal Street  
P.O. Box 800 Umm Al Qaiwain

Falaj Al Mualla Branch  
NBQ Building  
Shaikh Zayed Street  
P.O. Box 11074 Falaj Al Mualla

Al Salama Branch  
Al Itihad Road  
P.O. Box 800 Umm Al Qaiwain

### **Dubai Branches**

Dubai Main Branch  
NBQ Building  
Khalid Bin Al Waleed Street  
P.O. Box 9175 Dubai

Deira Branch  
Opposite Dubai Police Head Quarters  
Al Ittihad Street  
P.O. Box 9175 Dubai

Sheikh Zayed Branch  
Sheikh Zayed Road,  
Gold & Diamond Park, Building 4,  
Al Quoz Industrial Area Number 3  
P.O. Box 9175 Dubai

### **Abu Dhabi Branches**

Abu Dhabi Branch  
Al Hashimi Tower,  
Shk. Rashid Bin Saeed Street,  
P.O. Box 3915 Abu Dhabi

Al Ain Branch  
Ali Bin Talib Street  
P.O. Box 17888 Al Ain

### **Sharjah Branches**

Sharjah Branch  
King Faisal Street  
P.O. Box 23000 Sharjah

### **Ajman Branches**

Ajman Branch  
Al Shurafa Building  
Shk. Khalifa Bin Zayed St.  
Front of Grand Mall  
P.O. Box 4133, Ajman

Masfout Branch  
NBQ Building  
Main Street  
P.O. Box 12550 Masfout, Ajman

### **Fujairah Branch**

Fujairah Branch  
Awtad Tower, Shop 1,  
Hamad Bin Abdulla Road  
P.O. Box 1444, Fujairah

### **Ras Al Khaimah Branch**

Ras Al Khaimah Branch  
Corniche Al Qawasim Road  
P.O. Box 32253 Ras Al Khaimah



## **Board of Directors**

H.H. Sheikh Rashid Bin Saud Bin Rashid Al-Mualla  
Chairman

Sheikh Nasser Bin Rashid Al-Moalla  
Vice Chairman of the Board

Mr. Abduljaleel Yousuf Darwish  
Director

Mr. Issa Abdulrahman Ateeq  
Director

Mr. Salem Abdulla Salem Al Housani  
Director

Mr. Marwan Abdulla Al Rostamani  
Director

Mr. Abdulla Mohammed Al Zarouni  
Director

## **Management**

Mr. Ramachandra Iyer  
General Manager

# Chairman's Report



On behalf of the Board, I am pleased to welcome you all to the 37th Annual General Meeting of the bank and present the annual report of the Board of Directors for the year ended 31 December 2019.

Despite global economic challenges and severe competition in the UAE Banking Sector, it is my pleasure to inform that the Bank has achieved net profit of AED 424.39 million which is 3.8% more than last year. Our total revenue reached AED 750.92 million and operating income stood at AED 501.74 million for the year ended 31 December 2019.

Total assets reached AED 14.30 billion. Loans and advances were at AED 8.26 billion, while customer deposits stood at AED 9.04 billion. The Bank holds collateral and specific provision to the tune of 186% of the non-performing loans, which reflects prudent management and effective monitoring of our loans and advances portfolio. The Bank has consistently maintained high level of liquidity as in the past and liquidity ratio as of 31 December 2019 stands at 37.6%. Cost to income ratio is 22.1%.

Shareholders' equity amounted to AED 4.77 billion as at 31 December 2019 (2018: AED 4.46 billion). We continue to maintain one of the highest capital adequacy ratios in the banking industry which stands at 38.23% and is far higher than the minimum prescribed levels stipulated by the UAE Central Bank. This demonstrates the financial strength of the Bank and its capacity to expand its lending and investment capability, when needed. Tier 1 ratio is recorded at 37.10%, which is also substantially higher than the prescribed limits stipulated by the regulatory authorities.

Payment of cash dividend of 11% of the share capital for the year ending 31st December 2019 has been approved by the UAE Central Bank.

The outlook for the global economy is looking grim for 2020 with the outbreak of coronavirus in China spreading rapidly and affecting business activity in and around the world's second largest economy. Further, geopolitical tensions in the region, continuing trade war between US & China as well as cut in oil production coupled with reduction in oil prices may further slowdown the global economy, which may impact UAE economy also. However, positive spinoffs are anticipated from the continuous reforms undertaken by the UAE Govt and benefits of EXPO 2020 at Dubai. GCC economies are estimated to have experienced slowdown in 2019 in tandem with slower growth forecasts for most global economies according to the latest World Economic Outlook (WEO) report.

During 2019, UAE's economic growth was estimated at around 2.2% with 1.5% growth in non-oil GDP, which currently accounts for 77% of the economy. UAE's economic growth is set for a moderate recovery of 2.8 % through 2020 as non-oil revenue expands on the back of government measures introduced earlier and higher spending.

US Federal Reserve cut interest rates 3 times during the year and UAE Central Bank has accordingly reduced interest rates mirroring the US Fed rates which impacted margins in the UAE banking system as well.

Going forward, the Bank has framed a clear strategy to further enhance shareholder returns and take advantage of the expected growth opportunities in selected sectors.

On behalf of the Board of Directors, we would like to express our gratitude to His Highness Sheikh Saud Bin Rashid Al Mualla – Ruler of Umm Al-Qaiwain and Member of the Supreme Council of the United Arab Emirates – for the continued support for the development of the Bank.

We would also like to state our sincere appreciation for the on-going initiatives and support provided by UAE Central Bank to regulate the country's financial sector and for their helpful guidance to the Bank during this year.

We would like to express our sincere appreciation and gratitude to our shareholders, customers and correspondent banks for achieving our objectives and maintaining continued success in our operations.

We have a good team of talented management officials and staff members who are committed and loyal to the Bank and we value their contribution. On behalf of the Board of Directors, we would like to express our sincere thanks to all our employees for their contribution to the success of the Bank and in providing us strength to meet future challenges.

**Rashid Bin Saud Al Mualla**  
Chairman

# Management Review



## ECONOMIC OVERVIEW

According to IMF during 2019, the UAE's economic growth is expected at around 1.6% while the non-oil GDP growth is also estimated at 1.6% for the current year. UAE economy is expected to rebound to 2.50% in 2020 while the non-oil growth is projected to nearly double to 3.00%. Higher growth expectations are driven by stimulus measures announced by the UAE government to boost business, implementation of ongoing infrastructure projects, improved credit conditions and expectations of increased business volumes from EXPO 2020. However, compliance with OPEC and production cuts will cap the performance of oil sector, while volatile oil prices geo political tensions, impact on business due to corona virus pose downward risks going forward.

The ongoing trade disputes between China and US and challenges thrown by corona virus does not gave any hope in surge of US business growth prospects. As a result interest rates will not change in 2020 and so UAE interest rates are also expected to be same due to co relation with US interest rates. Due to these lower interest rates scenarios, UAE banks are expected to face margin pressures.

Global growth in 2019 has continued to weaken and momentum remains fragile. It is expected to slow to 2.6% reflecting weaker than expected trade and investment at the start of the year as per World Bank's latest report. Subdued investment in emerging market and developing economies is dampening potential growth prospects. The outlook for the global economy is looking grim for 2020 with the outbreak of coronavirus in China spreading rapidly and affecting business activity in and around the world's second largest economy. Further, geopolitical tensions in the region, continuing trade war between US & China as well as cut in oil production coupled with reduction in oil prices may further slowdown the global economy, which may impact UAE economy also. However, positive spinoffs are anticipated from the continuous reforms undertaken by the UAE Govt and benefits of EXPO 2020 at Dubai.

Real GDP growth in GCC is forecasted to decelerate to 0.7% this year from 2.0% in 2018 which mainly comes from oil production cuts in line with OPEC agreements as well as against the backdrop of slowing global growth, trade tensions and geopolitical risks an impact of outbreak of coronavirus on the business activities Rising oil and gas production along with infrastructure spending as well as introduction of reforms to enhance ease of doing business will help lift GCC growth to 2.5% in 2020.

GCC equity markets remained mostly quiet in 2019 apart from the world's biggest IPO announced by Saudi Aramco during the fag end of the year. However it is expected to move up in 2020 as multiple companies have announced their interest to go public and have initiated the groundwork for their IPOs.

## FINANCIAL OVERVIEW

Despite challenging economic scenario and the competition in the banking industry, NBQ has achieved net profit of AED 424.39 million which is 3.8% more than last year. NBQ's total revenue reached AED 752.26 million and operating income stood at AED 463.70 million for the year ended 31 December 2019.

Total assets reached AED 14.31 billion. Loans and advances were at AED 8.28 billion, while customer deposits stood at AED 9.04 billion. NBQ holds collateral and specific provision to the tune of 184% of the non-performing loans, which reflects prudent management and effective monitoring of our loans and advances portfolio. NBQ has consistently maintained high level of liquidity as in the past and liquidity ratio as of 31 December 2019 stands at 37.6%. Cost to income ratio is 22.3%.

Shareholders' equity amounted to AED 4.78 billion as at 31 December 2019 (2018: AED 4.46 billion). NBQ continues to maintain one of the highest capital adequacy ratios in the banking industry which stands at 38.33% and is higher than the minimum prescribed levels stipulated by the UAE Central Bank. This demonstrates the financial strength of the Bank and its capacity to expand its lending and investment capability, when needed. Tier 1 ratio is recorded at 37.20%, which is also substantially higher than the prescribed limits stipulated by the regulatory authorities.

## OPERATIONAL PERFORMANCE

### Treasury, Investments and Institutional Banking

NBQ's strategy for investments provided sustained yields during the year although market yields were on a downward trajectory during the year. NBQ's approach of safety along with good returns has earned good income during the year by way of dividends from equity portfolio, capital gains and interest income from bonds and syndicated loans. NBQ was able to maintain sound and stable income from investment portfolios by adopting prudent investment policies and exit strategies while internal reporting mechanisms were practiced to mitigate risks on the exposures.



# Management Review (continued)



## Wholesale Banking

2019 was a challenging year for UAE economy in general. NBQ continued to maintain its conservative lending approach which has proven to be rewarding especially during these challenging times. In spite of tough economic conditions, NBQ could post a satisfactory net profit, which is a commendable achievement.

Year 2020 will be a year of hope for UAE, being the host country of EXPO 2020. The event is expected to attract a substantial amount of investors to the country, resulting a remarkable boost in the local economy.

## Retail Banking

Retail Banking Division offers its wide range of products and services to individuals, Small and Medium Scale Enterprises for their business needs. Services to customers were provided through Branch banking, network of ATMs & CCDMs across UAE and Online banking facility.

In 2019 NBQ continued its focus to provide financial and other banking solutions to Small and Medium Enterprises businesses in order to expand in this segment and to be one of the leading Banks to promote and support them. NBQ also continued its focus on the UAE National individuals segment of customers. In light of prevailing market conditions, NBQ continued to be prudent in assessment of customer requests for loans and exercise caution and care across all segment of customers. Profitability of Retail Asset products was a focus area while considering lending proposals for long term sustainability. Furthermore, NBQ continued to be compliant with Central Bank norms.

## Information Technology and Operations

NBQ continued the technology transformation journey with specific focus on enabling better information flow between disparate systems securely to deliver optimal products and services. The enterprise service bus project helped the bank to transform its point to point custom built interface model to agile, secure and modern integration bus. The Middleware solution was successfully moved to production and immediate benefits were visible across the channels and other operational systems. NBQ continued with the ambitious project to unify its payment solutions to a single umbrella product called Payment Hub. First module went live during this year successfully. Other Central Bank modules are being ported to this solution and are expected to go live by next year. We have successfully concluded the card management application upgrade along with improved functionalities and better monitoring and control options. NBQ initiated a project to improve the compliance level with National Electronic Security Authority and other security requirements. Various system, security and policy upgrades were implemented to ensure optimal security and availability. The Disaster Recovery / Business Continuity Planning exercises were conducted and critical applications made available from Disaster Recovery site for regular business operations successfully.

## HUMAN RESOURCES

NBQ undertakes strategic initiatives to manage and mitigate the risks and industry challenges with a focus to improve the profitability. Evaluation of staff requirements are undertaken to optimally utilize the human resources and reward and retain capable and talented resources to improve operational efficiency and performance. NBQ maintains high ratio of UAE National work force and utilize them in leadership roles and contemplate to utilize them for decision making positions in future as well. Constant reviews of our internal policies, strategic vision to upgrade and empowerment policies are being carried out to maintain and promote a motivated UAE National Workforce.

Human Resources and Emiratization Department values training, talent identification, career planning and succession planning as key objectives to motivate the workforce and as a retention strategy. Upgrade of the existing Human Resources System is completed to meet the above requirements with an interactive approach in maintaining up to date data with less manual involvement. Retention of staff members in key positions is being handled with Emiratization as a focus to maintain the regulatory thresholds.

## CORPORATE GOVERNANCE REPORT

NBQ believes in maintaining good corporate governance, risk management principles, internal control systems and ethical standards that commensurate with the size and core values derived from good governance industry practices, vision and mission of the Bank.

### Corporate Governance structure and frame work

In line with regulations and standards on corporate governance published in 2019 by UAE Central Bank and Abu Dhabi Securities (ADX), NBQ's Board of Directors (BOD) has revised Board Charter and approved three year implementation plan to enhance its current corporate governance framework. Bank has taken all measures to enhance the concepts of internal controls, transparency, disclosures, insider trading, conflict of interest management, monitoring related party transactions, Sharia governance framework and charter by revising all related policies and procedures on corporate governance framework, which would be completed by end of 2020.

## Management Review (continued)



Transparency and disclosure requirements are key factors considered by the Board in its actions, which are fundamental to the compliance of the governance practices and communicate with the senior management through appropriate communication forums. Board has delegated relevant powers to the Vice Chairman and a Nominated Director for decision making at Executive Committee level.

### **Board Committees**

Board Meetings are conducted as per the Board Charters, Memorandum and Articles of Association and as per the Federal and Company Law provisions. Minimum of six board meetings are held in a year.

Board of Directors decides the risk profile appropriate to the Bank's growth strategy. Board approves the different risk management strategies, policies, standards, key operational limits and delegates risk and governance related responsibilities to its Board Level committees, viz, Executive Committee, Executive Credit Committee, Audit and Risk Committee and Nominations and Remunerations Committee. These committees discharge their duties based on the relevant charters approved by the Board.

### **Audit and Risk Committee**

Audit and Risk committee handles issues related to internal control, internal audit and enterprise wide risk related matters. This committee meets periodically. Three Independent Non-Executive Directors, General Manager, Acting Chief Risk Officer and Head of Internal Audit Department attend the committee meetings.

### **Executive Committee**

Executive Committee handles all the strategic and operational matters on a regular basis. This committee meets regularly and decisions are taken, which are beyond the powers of the Senior Management. Vice Chairman, Nominated Director, General Manager, Chief Financial Officer and Acting Chief Risk Officer attend the committee meetings.

### **Nominations and Remunerations Committee**

Bank has executed Nominations and Remunerations Committee to handle all the functions related to Board Nominations, their remuneration and fixing remunerations of Senior Management staff and other HR related strategic decisions. This committee constitutes Vice Chairman and two Directors.

### **Senior Management**

The Bank has an efficient team of Senior Management officials who are experienced and qualified in discharging key management functions. They are delegated with the responsibility of managing the affairs of the bank in a professional manner while managing the internal control, compliance, governance with risk management focus. Board of Directors directs the Senior Management Team to apply due diligence and caution to protect the interests of the bank and its shareholders.

### **Management Committees**

The Bank's management committees consist of Vice Chairman and Management officials. Charters are prepared for the committees, which clearly define the duties and responsibilities of the committees. Committees include functional heads and invitees based on need and scope of discussion.

### **Asset and Liability Committee (ALCO)**

ALCO is responsible for ascertaining the liquidity position, monitoring and managing assets and liabilities and regulatory compliance. This committee meets every month and is chaired by the Vice Chairman/Nominated Director. There are participants from the Senior Management, Acting Chief Risk Officer, Treasury and Market risk representatives.

### **Executive Credit Committee (ECC) and Management Credit Committee (MCC)**

Credit related committees are framed to approve credit facilities on wholesale and retail based on the approval limits set against each committee. ECC constitutes Directors of the bank, General Manager, Acting Chief Risk Officer, Senior Manager, Credit Approvals. MCC constitutes Vice Chairman, General Manager, Acting Chief Risk Officer and Senior Manager, Credit Approvals. These committees meet regularly based on the business needs of the bank.

### **Directors Remuneration**

Remuneration of the Directors is approved at the Annual General Meeting every year and is paid after the close of the year and it is disclosed in the financial statements.

# Management Review (continued)



## INFORMATION SECURITY FRAMEWORK

Bank gives paramount importance to its information security by adhering to various compliance standards mandated by regulatory authorities. We ensure the information assurance by being fully compliant to SWIFT Customer Security Program (CSP) and implementing controls based on National Electronic Security Authority/ Information Assurance (NESA IA), PCI DSS and other industry best practices. High priority is given to implement security advisories / recommendations provided by UAE central bank to ensure organizations data is safe. Also, Bank is using sophisticated tools, updated policies and processes to prevent, detect and mitigate threats to information assets.

## INTERNAL CONTROL FRAMEWORK

Internal Audit Department (IAD) is the third line of defense after Operational Management and Risk Management and compliance functions. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve the bank's operations. It helps bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and corporate governance.

IAD assesses and makes appropriate recommendations to improve bank's governing process for making strategic and operational decisions, overseeing risk management and control, promoting appropriate ethics and values within the bank, ensuring effective organizational performance management and accountability, communicating risk and control information to appropriate areas of the bank and coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers and management.

In addition to above, IAD assess the design, implementation, and effectiveness of the bank's ethics related objectives and if there is proper documentation.

IAD adopted all types of audits /checks, Risk identification, risk assessment, risk prioritization, response planning and risk monitoring as part of audit steps.

### External Auditors

Ernst and Young, Middle East were appointed as External Auditors of the NBQ group for the year 2019 at the Annual General Meeting. Appointment of external auditor is done in accordance with the Article of Association.

## RISK MANAGEMENT

In line with best practices, the Bank follows a well-defined organizational structure with Relationship Business Units as the front office, Centralized Approval and Credit Risk Units as the Mid-office and Credit Administration & Operations unit as the back-office, all properly segregated. The segregated functions and clear reporting lines provide maximum level of risk assurance and management oversight to Bank's credit functions. The Bank has well laid out credit risk policies which are scrupulously followed at all levels. Risk policy manuals are updated on an ongoing basis as per regulatory and emerging business requirements. Credit Processing, Assessment and Risk Rating system for wholesale banking is in place to ensure standardization and proper risk assessment in the credit appraisal process. The Bank is undertaking steps to upgrade Loan Origination and Rating solutions for both wholesale and retail.

As part of pro-active credit monitoring, tracking of Early Warning Signals and independent physical inspection of projects are undertaken through Risk Containment Unit. Management of stressed accounts and non-performing loans is centralized. Exposure monitoring including concentration levels at single obligor and sectoral levels are monitored by Portfolio Management Unit.

### Market Risk

NBQ has well defined policies approved by the Board, setting out the risk appetite for management of market risks. The position is reviewed monthly by the Bank's Asset and Liability Management Committee (ALCO) to achieve optimum returns while maintaining market risk exposures within prudential limits. The position is also reviewed periodically by the Audit & Risk Committee of the Board and Board of Directors.

Liquidity stress tests are conducted to monitor the Bank's vulnerability towards extreme, but plausible unfavorable shocks at periodical intervals to assess the impact on liquidity to withstand stressed conditions. Stress tests are also carried out to assess interest rate risk in the banking book and price risk in the entire equity portfolio. The results show that the Bank is comfortably placed and are in line with the risk profile of the Bank. The Bank has also set out a Contingency Funding Plan (CFP) in line with norms of CBUAE which includes contingency trigger levels and processes/steps to be followed if these are breached. Reports are reviewed and approved by the Board.

# Management Review (continued)



## Basel Implementation

The Bank adheres to the UAE Central Bank guidelines required for Basel compliance Implementation including submission of ICAAP report annually to Central Bank of the UAE. The Bank is also in compliance with Central Bank of UAE norms for standardised approach for computation of capital adequacy ratios. During the year CBUAE has adopted Basel III and published enhanced regulatory capital requirements rules vide notification 52 and 60/2017. CBUAE issued Basel III capital regulations, which came into effect from 1st February 2017 introducing minimum capital requirements at three levels, namely common equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital.

Additional capital buffers Capital Conservation Buffer (CCB) and Counter cyclical Capital Buffer (CCyB) maximum up to 2.5% for each introduced over and above the minimum CET1 requirement of 7%. These additional buffers will be applicable to banks in transitional arrangements i.e. 1.875% applicable in year 2018 and fully 2.5% will be applicable in year 2019. Over and above additional capital buffers, Domestic Systemically Important Bank buffer (D-SIB) will also be applicable for D-SIB bank.

Stress tests are regularly carried to assess credit risk, liquidity risk and interest rate risk in the banking book and equity price risk. Results reveal that the Bank is comfortably placed in line with the risk profile of the Bank and there is substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks as well.

## Operations Risk

The Basel Committee for Banking Supervision has defined Operational Risk as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. This definition includes legal risk but excludes Strategic or Reputation Risk. Operational Risk is inherent in all business activities and management of this risk is vital to the strategic objectives of the Bank.

The Bank has implemented the under noted processes aimed at monitoring and mitigating Operational risks:

- Identification of risk through Risk and Control Assessment and incident/loss event reporting to Centralized Operational Risk Function.
- Management and control of risk to prevent their recurrence or minimize the potential impact.
- Monitoring and reporting of Risk.
- Establish a Centralized Repository for capturing Operational Risk Losses.

The Bank has in place, a Policy and Comprehensive framework for Operational risk in monitoring, assessing, evaluating, controlling and mitigating risks arising out of regular banking operations. The framework is enhanced by strong compliance, monitoring and governance, which includes active participation of Board of Directors, Executive Management and Business Line Management in the risk management process.

With proliferation of the advanced technologies, the use of internet and telecommunications technologies to conduct financial transactions has increased the sophistication and information security risk for financial institutions. To combat security breaches, Bank has set up a dedicated Information and security Compliance Department to ensure long term viability of the Bank and its data.

The Bank has also set up a Disaster Recovery (DR) site to ensure that the Bank’s regular functioning is not disrupted. DR site is located away from the main processing center. Well documented Business Continuity plan is in place with clearly defined recovery procedures as well as preventive measures. Periodic testing of the DR functioning is undertaken for critical applications to test recovery efficacy. Further, emergency evacuation at Head Office Building has been tested and certified by concerned Civil Defence Authority.

## COMMUNITY RELATIONS

The Bank has been consistently participating in social welfare measures in the emirate and taking valuable initiatives from Corporate Social Responsibility perspectives. The Bank also provide valuable support to charitable, educational, social, Sport and other recreational initiatives undertaken in the country by government and socio-cultural organizations from time to time.

## CONCLUSION

Board of Directors and Senior Management appreciate and thank our shareholders for their continuous support being provided to the bank, our customers for the continued support, trust and loyalty demonstrated by them through their business relationships and finally to the management Team and all the staff members for their continued contribution, dedication, loyalty and commitment.

# Independent Auditor's Report



The Shareholders of  
National Bank of Umm Al-Qaiwain (PSC)  
Umm Al-Qaiwain  
United Arab Emirates

## Report on the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for opinion

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

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Expected credit losses ("ECL") for loans and advances and Islamic financing receivables</b> <i>Refer to note 6 of the consolidated financial statements.</i></p> <p>The balance of loss allowances on loans and advances and Islamic financing receivables represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9").</p> <p>Management first assesses whether the credit risk of loans and advances and Islamic financing receivables to customers has</p>	<p>We have obtained an understanding of management's assessment of impairment of loans and advances and Islamic financing receivables, the Group's internal rating model, the Group's credit impairment provision policy and the ECL modelling methodology.</p> <p>We have performed process walkthroughs to identify the controls over ECL process. We have tested design and operational effectiveness of the following internal controls relating to the measurement of ECL:</p> <ul style="list-style-type: none"> <li>Review and approval of classification of loans and advances and Islamic financing receivables facilities.</li> </ul>

# Independent Auditor's Report (continued)



## Key audit matters (continued)

### Impairment of loans and advances as per IFRS 9 (continued)

increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL.

For loans and advances and Islamic financing receivables classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates.

For loans and advances and Islamic financing receivables in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the loans.

We considered ECL for loans and advances and Islamic financing receivables as a key audit matter as the determination of ECL involves significant management judgement such as categorisation of loans and advances and Islamic financing receivables into stages 1,2 or 3, assumptions used in the ECL model such as expected future cash flows, macro-economic factors etc., and additional overlays to reflect current or future external factors. These judgments have a material impact on the consolidated financial statements of the Group.

- The management is regular monitoring of:
  - i) staging and ECL for loans and advances and Islamic financing receivables.
  - ii) identification of loans displaying indicators of impairment (including more than 90 days past due) under stage 3.
  - iii) Macroeconomic variables and forecast
  - iv) performance of ECL models
- The review and approval of management overlays and the governance process around such overlays.
- The independent model validation function.

We have performed the following substantive audit procedures:

- Reviewed the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This typically included challenging key assumptions/judgements relating to significant increase in credit risk, definition of default, probability of default, loss given default, recovery rates and discount rate.
- For selected samples, we performed procedures to determine whether significant increase in credit risk have been correctly identified.
- For forward-looking measurements, reviewed management's selection of economic indicators, scenarios and application of weightings; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis.
- For selected samples, we examined key data inputs into the ECL models.
- We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy.
- We assessed adequacy of disclosure in the consolidated financial statements.

### Other information

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

Our opinion on the 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 when it becomes available and, 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.

## Independent Auditor's Report (continued)



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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

# Independent Auditor's Report (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**

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

- the Group has maintained proper books of account;
- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;
- the financial information included in the Directors' report is consistent with the books of account and records of the Group;
- investments in shares and stocks during the year ended 31 December 2019 are disclosed in note 7 to the consolidated financial statements;
- note 27 reflects the disclosures relating to related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2019, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2019; and
- note 37 reflects the social contributions made during the year.

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

## *Other matter*

The financial statements of the Bank for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those financial statements on 27 January 2019.

## **For Ernst & Young**

**Signed by:**

**Anthony O'Sullivan**

**Partner**

**Registration No. 687**

**13 February 2020**

**Sharjah, United Arab Emirates**



# Consolidated statement of financial position

## At 31 December 2019

	Notes	2019 AED'000	2018 AED'000
<b>Assets</b>			
Cash and balances with the U.A.E. Central Bank	4	1,729,448	1,521,021
Due from other banks	5	2,790,762	2,642,820
Loans and advances and Islamic financing receivables	6	8,263,269	8,924,912
Investment securities	7	1,101,017	1,134,222
Customers' acceptances		217,382	234,106
Investment in an associate	8	1,500	1,625
Property and equipment	9	62,916	67,675
Other assets	10	130,888	138,467
<b>Total assets</b>		<b>14,297,182</b>	<b>14,664,848</b>
<b>Liabilities</b>			
Due to other banks	11	423	20
Customers' deposits and Islamic customer deposits	12	9,035,108	9,757,942
Customers' acceptances		217,772	235,027
Other liabilities	13	273,883	208,506
<b>Total liabilities</b>		<b>9,527,186</b>	<b>10,201,495</b>
<b>Shareholders' equity</b>			
Share capital	14	1,848,000	1,848,000
Statutory reserve	15	1,019,266	1,019,266
General reserve	16	6,440	6,440
Impairment reserve -general	16	16,385	-
Cumulative change in fair values		211,976	126,447
Retained earnings		1,667,929	1,463,200
<b>Total shareholders' equity</b>		<b>4,769,996</b>	<b>4,463,353</b>
<b>Total liabilities and shareholders' equity</b>		<b>14,297,182</b>	<b>14,664,848</b>
<b>Commitments and contingent liabilities</b>	17	<b>5,091,994</b>	<b>6,724,082</b>

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

**Rashid Bin Saud Al Mualla**  
Chairman

**Nasser Bin Rashid Al Moalla**  
Vice Chairman and  
Chairman of Executive Committee

**R Ramchandra Iyer**  
General Manager

The attached notes 1 to 39 form an integral part of these consolidated financial statements.  
The independent auditor's report on consolidated financial statements is set out on pages 03 – 09.

## Consolidated statement of income for the year ended 31 December 2019

	Notes	2019 AED'000	2018 AED'000
Interest income	18	575,956	559,727
Income from Islamic financing products		32,600	40,300
<b>Total interest income and income from Islamic financing products</b>		<b>608,556</b>	<b>600,027</b>
Interest expense	18	(104,687)	(83,075)
Distribution to depositors – Islamic products		(2,268)	(1,097)
<b>Net interest income and income from Islamic products net of distribution to depositors</b>		<b>501,601</b>	<b>515,855</b>
Net fees and commission income	19	78,261	48,493
Other operating income	20	26,061	34,242
<b>Gross income</b>		<b>605,923</b>	<b>598,590</b>
Operating expenses	21	(142,223)	(149,667)
Investment gains	22	38,039	62,360
<b>Operating income</b>		<b>501,739</b>	<b>511,283</b>
Share of profits from an associate	8	147	668
<b>Profit for the year before impairment</b>		<b>501,886</b>	<b>511,951</b>
Net impairment losses	24	(77,494)	(102,931)
<b>Profit for the year</b>		<b>424,392</b>	<b>409,020</b>
<b>Basic and diluted earnings per share (AED)</b>	<b>25</b>	<b>0.23</b>	<b>0.22</b>

The attached notes 1 to 39 form an integral part of these consolidated financial statements.  
The independent auditor's report on consolidated financial statements is set out on pages 03 – 09.

## Consolidated statement of comprehensive income for the year ended 31 December 2019

	Note	2019 AED'000	2018 AED'000
<b>Profit for the year</b>		<b>424,392</b>	409,020
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Net fair value gain on investment securities carried at FVTOCI - equity	7	85,529	96,651
<b>Other comprehensive income for the year</b>		<b>85,529</b>	96,651
<b>Total comprehensive income for the year</b>		<b>509,921</b>	505,671

The attached notes 1 to 39 form an integral part of these consolidated financial statements.  
The independent auditor's report on consolidated financial statements is set out on pages 03 – 09.



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

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Impairment reserve AED'000	Investments Cumulative change in fair values AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2017	1,848,000	1,019,266	6,440	-	36,868	1,263,040	4,173,614
Impact on adoption of IFRS 9	-	-	-	-	-	(27,829)	(27,829)
Transfer within equity on adoption of IFRS 9	-	-	-	-	(5,000)	5,000	-
As at 1 January 2018 (restated)	1,848,000	1,019,266	6,440	-	31,868	1,240,211	4,145,785
Profit for the year	-	-	-	-	-	409,020	409,020
Other comprehensive income for the year	-	-	-	-	96,651	-	96,651
Total comprehensive income for the year	-	-	-	-	96,651	409,020	505,671
Loss on disposal of investment securities carried at FVTOCI	-	-	-	-	(2,072)	(1,231)	(3,303)
Dividends paid (Note 26)	-	-	-	-	-	(184,800)	(184,800)
Balance at 31 December 2018	1,848,000	1,019,266	6,440	-	126,447	1,463,200	4,463,353
Profit for the year	-	-	-	-	-	424,392	424,392
Other comprehensive income for the year	-	-	-	-	85,529	-	85,529
Total comprehensive income for the year	-	-	-	-	85,529	424,392	509,921
Excess provision under CBUAE requirement over IFRS 9 requirement	-	-	-	16,385	-	(16,385)	-
Dividends paid (Note 26)	-	-	-	-	-	(203,278)	(203,278)
<b>Balance at 31 December 2019</b>	<b>1,848,000</b>	<b>1,019,266</b>	<b>6,440</b>	<b>16,385</b>	<b>211,976</b>	<b>1,667,929</b>	<b>4,769,996</b>

The attached notes 1 to 39 form an integral part of these consolidated financial statements.  
The independent auditor's report on consolidated financial statements is set out on pages 03 – 09.

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

	2019 AED'000	2018 AED'000
<b>Cash flows from operating activities</b>		
<b>Profit for the year</b>	<b>424,392</b>	<b>409,020</b>
Adjustments for:		
Provision for impairment	77,494	102,931
Depreciation of property and equipment	7,478	9,428
Impairment of inventory	3,494	9,385
Decrease/ (increase) in fair value of investment in securities	3,438	(4,014)
Discount amortised on investment securities	(38)	(97)
Gain on disposal of investment securities	-	(14,842)
Dividend income	(41,439)	(43,407)
Loss on disposal of property and equipment	75	24
Share of profits from an associate	(147)	(668)
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>474,747</b>	<b>467,760</b>
Decrease in certificate of deposits with original maturity greater than 3 months	220,000	540,000
Increase in statutory deposit with U.A.E. Central Bank	(65,405)	(11,301)
Decrease in loans and advances	578,383	423,659
Decrease (increase) in other assets	4,085	(1,405)
(Decrease) / increase in customers' deposits	(722,834)	247,391
Increase / (decrease) in other liabilities	65,377	(17,260)
<b>Net cash generated from operating activities</b>	<b>554,353</b>	<b>1,648,844</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(3,551)	(8,632)
Proceeds from disposal of property and equipment	757	55
Purchase of investment securities	-	(52,557)
Proceeds from maturity and disposal of investment securities	117,537	129,454
Dividend received from investment securities	41,439	43,407
Dividend received from investment in an associate	272	693
<b>Net cash generated from investing activity</b>	<b>156,454</b>	<b>112,420</b>
<b>Cash flows from financing activity</b>		
Dividend paid	(203,278)	(184,800)
<b>Net cash used in financing activities</b>	<b>(203,278)</b>	<b>(184,800)</b>
<b>Net increase in cash and cash equivalents</b>	<b>507,529</b>	<b>1,576,464</b>
Cash and cash equivalents at the beginning of the year	3,125,530	1,549,066
<b>Cash and cash equivalents at the end of the year (Note 28)</b>	<b>3,633,059</b>	<b>3,125,530</b>

The attached notes 1 to 39 form an integral part of these consolidated financial statements.  
The independent auditor's report on consolidated financial statements is set out on pages 03 – 09.

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

## 1. General information

National Bank of Umm Al-Qaiwain (PSC) (the “Bank”) is a Public Shareholding Company incorporated in the Emirate of Umm Al-Qaiwain (“UAQ”) in the United Arab Emirates (“U.A.E.”) by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982. The “Group” comprises National Bank of Umm Al-Qaiwain (PSC), Umm Al-Qaiwain, and Twin Towns Marketing Management (L.L.C.), Dubai (see Note 3.3). The address of the Bank’s registered Head Office is P.O. Box 800, Umm Al-Qaiwain, United Arab Emirates.

The Group is engaged in providing retail and corporate banking services through a network of 14 branches in U.A.E.

The Group carries out Islamic banking operations through Islamic banking window established in 2005 across all its branch network.

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

### 2.1 Standards, amendments and interpretations that are effective for the Group’s accounting period beginning on 01 January 2019

- i. IFRS 16 ‘Leases’ (effective date: 01 January 2019) - The Group adopted IFRS 16 from 01 January 2019 and has not restated the comparative for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

#### Nature of the effect of adoption of IFRS 16

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

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

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

#### Right-of-use assets

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

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

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

#### 2.1 Standards, amendments and interpretations that are effective for the Group’s accounting period beginning on 01 January 2019 (continued)

##### IFRS 16 ‘Leases’ (continued)

###### Lease liabilities

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

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

###### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

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

The impact of adoption of IFRS 16 is insignificant at the overall Group level.

#### ii. IFRS 9, ‘Financial Instruments’ (effective date: 01 January 2019) - ‘Financial Amendment to IFRS 9, Financial instruments’, on prepayment features with negative compensation

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

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

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

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

#### 2.1 Standards, amendments and interpretations that are effective for the Group’s accounting period beginning on 01 January 2019 (continued)

##### IFRS 9, ‘Financial Instruments’ (continued)

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may therefore differ resulting in future changes in these estimates.

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognised in the consolidated financial statements of the year ended 31 December 2019 pertain to the changes introduced because of adoption of IFRS 16: Leases, which are covered in the above section.

#### 2.2 New and revised standards issued but not yet effective

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

##### Amendments to IAS 1 and IAS 8: Definition of Material (effective date: 01 January 2020)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.’

The amendments to the definition of material is not expected to have a significant impact on the Group’s consolidated financial statements.

There are no other applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group’s financial year beginning on 01 January 2019 that would be expected to have a material impact on the Group’s consolidated financial statements.

##### Interest Rate Benchmark Reform

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





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

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

#### 2.2 New and revised standards issued but not yet effective (continued)

##### Interest Rate Benchmark Reform (continued)

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate (an “RFR”). The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight.

With phase one completed, the IASB is now shifting its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB’s project.

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

### 3. Significant accounting policies

#### 3.1 Statement of compliance

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

Along with these consolidated financial statements, the Group has presented Basel III disclosures in accordance with the guidelines issued by the UAE Central Bank. The adoption of Basel III guidelines has impacted the type and amount of disclosures made in these consolidated financial statements but has no impact on the reported profits or financial position of the Group. In accordance with the requirements of Basel III, the Group has provided full comparative information.

#### 3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Arab Emirates Dirhams (AED) (in thousands, except where noted), which is the functional currency of the Group, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

The Group presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) presented in the notes.

#### 3.3 Basis of consolidation

The consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) and Subsidiary (the “Group”) incorporate the financial statements of the Bank and entity controlled by the Bank (its Subsidiary).

Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

### 3. Significant accounting policies (continued)

#### 3.3 Basis of consolidation (continued)

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

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### Subsidiary:

Details of the Bank's subsidiary as at 31 December 2019 is as follows:

<b>Name of subsidiary</b>	<b>Proportion of ownership interest</b>	<b>Country of Incorporation</b>	<b>Principal activity</b>
Twin Towns Marketing Management (L.L.C.)	99.33%	U.A.E.	Marketing management

The remaining equity in the above subsidiary is held by the Group beneficially through nominee arrangements.

The remaining equity in the above subsidiary is held by the Group beneficially through nominee arrangement

#### 3.4 Investment in an associate

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

## 3. Significant accounting policies (continued)

### 3.4 Investment in an associate (continued)

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

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

The requirements of IFRS are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

### 3.5 Financial Instruments

#### Classification of financial assets and financial liabilities

##### *Financial assets*

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value Through Other Comprehensive Income (FVTOCI) or Fair Value Through Profit and Loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

3. Significant accounting policies (continued)

3.5 Financial Instruments (continued)

Classification of financial assets and financial liabilities (continued)

Financial assets (continued)

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**Financial liabilities**

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

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

**Derecognition of financial liabilities**

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



## 3. Significant accounting policies (continued)

### 3.5 Financial Instruments (continued)

#### Business model assessment

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

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rate.



**3. Significant accounting policies (continued)**

**3.5 Financial Instruments (continued)**

**Classification of financial assets and financial liabilities (continued)**

**Reclassifications**

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current period and previous accounting period, there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

**Derecognition**

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss account on derecognition of such securities.

**Measurement of financial assets and financial liabilities**

***Investment securities***

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

- Quoted debt instruments measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss; and
- Equity securities designated as at FVTOCI.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

**Financial liabilities**

All financial liabilities are measured at amortised cost unless designated at FVTPL.



3. Significant accounting policies (continued)

3.5 Financial Instruments (continued)

Impairment

*Measurement of ECL*

The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

- Deposits and balances and due from banks;
- Debt investment securities carried at amortised cost;
- Loans and advances to customers;
- Customer acceptances and other financial assets;
- Loan commitments; and
- Financial guarantees and contracts

No impairment loss is recognised on equity investments.

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

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

- for undrawn loan commitments, the ECL is the difference between the present value of the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.



## 3. Significant accounting policies (continued)

### 3.5 Financial Instruments (continued)

#### Impairment (continued)

The Group measures ECL on an individual basis (for Wholesale portfolio), or on a collective basis for portfolios of loans that share similar economic risk characteristics (for Retail portfolio). The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

#### *Expected life*

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component;(b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

#### *Credit-impaired financial assets*

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as timing of coupon payments, credit ratings and the ability of the borrower to raise funding.

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



## 3. Significant accounting policies (continued)

### 3.5 Financial Instruments (continued)

#### Impairment (continued)

##### *Significant increase in credit risk*

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

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

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

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

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

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

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

### 3. Significant accounting policies (continued)

#### 3.5 Financial Instruments (continued)

##### Impairment (continued)

##### Significant increase in credit risk (continued)

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

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

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

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

Stage	Corporate and Institutional Banking portfolio	Retail portfolio	Due from banks and Investments portfolio
1 » 2	<ul style="list-style-type: none"> <li>Rating downgrade as per internally defined criteria from the rating assigned at the initial recognition</li> <li>Restructured /Rescheduled</li> <li>DPD 31-90 days</li> </ul>	<ul style="list-style-type: none"> <li>Restructured /Rescheduled portfolio</li> <li>DPD 30-89 days (inclusive)</li> </ul>	<ul style="list-style-type: none"> <li>Rating downgrade as per internally defined criteria from the rating assigned at the initial recognition</li> <li>Credit rating of Caa1 to Caa3 to be classified as Stage 2</li> </ul>
1 » 3 2 » 3	<ul style="list-style-type: none"> <li>Credit impaired portfolio</li> <li>DPD greater than 90 days</li> </ul>	<ul style="list-style-type: none"> <li>Credit impaired portfolio</li> <li>DPD ≥ 90 days</li> </ul>	<ul style="list-style-type: none"> <li>Credit rating of C and below to be classified as Stage 3</li> </ul>

The Stage assessment indicators, as prescribed by the IFRS 9 standards are detailed below. These are indicative and may be considered by the Bank based on maturity of data availability and assessment process.

1. Change in internal credit spread (or risk premium)
2. Actual or expected change in Internal Credit Rating
3. Actual or expected significant change in operating results of borrower
4. Regulatory, economic, or technological environment of the borrower
5. Quality of guarantee
6. Expected change in loan documentation (covenant waiver, collateral top-up, payment holiday etc.)
7. Changes in bank's credit management approach (or appetite) in relation to the financial instrument
8. Significant difference in rates or terms of newly issued similar contracts
9. Actual or expected change in External Credit Rating
10. Existing or forecast adverse changes in business, financial or economic conditions
11. Significant increase in credit risk on other financial instruments of the same borrower
12. Reductions in financial support from parent entity or credit enhancement quality
13. Significant changes in the expected performance and behaviour of borrower or group

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

### 3. Significant accounting policies (continued)

#### 3.5 Financial Instruments (continued)

##### Impairment (continued)

##### Significant increase in credit risk (continued)

The Stage assessment indicators, as prescribed by the IFRS 9 standards are detailed below. These are indicative and may be considered by the Bank based on maturity of data availability and assessment process.

1. Change in internal credit spread (or risk premium)
2. Actual or expected change in Internal Credit Rating
3. Actual or expected significant change in operating results of borrower
4. Regulatory, economic, or technological environment of the borrower
5. Quality of guarantee
6. Expected change in loan documentation (covenant waiver, collateral top-up, payment holiday etc.)
7. Changes in bank's credit management approach (or appetite) in relation to the financial instrument
8. Significant difference in rates or terms of newly issued similar contracts
9. Actual or expected change in External Credit Rating
10. Existing or forecast adverse changes in business, financial or economic conditions
11. Significant increase in credit risk on other financial instruments of the same borrower
12. Reductions in financial support from parent entity or credit enhancement quality
13. Significant changes in the expected performance and behaviour of borrower or group

##### ***Curing Criteria - upward ECL stage movement***

The curing criteria is in line with UAE Central Bank IFRS 9 guidelines and is considered based on the combination of the following qualitative factors:

- DPD movement
- Probationary period
- Notches of ratings upward movement

##### **From stage 2 (Lifetime ECL) to stage 1 (12-month ECL)**

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for a probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 2 to stage 1.
- DPD shall be  $\leq$  30 days over the last 12 month period; and / or
- Upward movement of risk ratings is reflected as per internally defined criteria.

##### **From stage 3 (Lifetime ECL – credit impaired) to stage 2 (Lifetime ECL – not credit impaired)**

- An exposure cannot be upgraded from Stage 3 to 1 directly and should be upgraded to Stage 2 after observing a cooling period of 12 months under Stage 3 and thereafter follow the probation period of 12 months in stage 2 before upgrading to Stage 1. So, an account will have 24 months of cooling period from stage 3 to 1.
- Movement from Stage 3 to Stage 2 or Stage 1 is assessed based on reversal of the original conditions that had led to migration to Stage 3, and such improved performance conditions sustaining for the 'Cure Period' of 12 months.

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

### 3. Significant accounting policies (continued)

#### 3.5 Financial Instruments (continued)

##### Impairment (continued)

##### ***Purchased or originated credit-impaired (POCI) financial assets***

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

##### ***Restructured or Modified financial assets***

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

##### ***Write-offs***

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

##### ***Financial guarantee contracts***

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

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

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

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

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

## 3. Significant accounting policies (continued)

### 3.6 Due from other banks

Amounts due from other banks are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amounts due from other banks is assessed as outlined in the accounting policy on financial instruments in note 3.5 above.

### 3.7 Property and equipment

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	20
Computer and equipment	1 - 5
Furniture and fixtures	5
Leasehold improvements	3 – 5
Motor vehicles	5

Land is not depreciated, as it is deemed to have an infinite life.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, being the higher of the fair value less costs to sell and value in use.

### 3.8 Inventory

Inventory represents property acquired in settlement of debt, stated at lower of cost or net realisable value. Directly attributable cost incurred in the acquisition of inventory is included as part of the cost of the asset. Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date.

### 3.9 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

### 3. Significant accounting policies (continued)

#### 3.9 Impairment of tangible assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### 3.10 Due to other banks and customer deposits

Due to banks and customer deposits are initially measured at fair value plus directly attributable transaction costs. Subsequently, these are measured at amortised cost using the effective interest method except where the Group chooses to carry the liabilities at fair value through the consolidated statement of income. Amortised cost is calculated by taking into account any discount or premium on settlement.

#### 3.11 Employees' end of service benefits

Pension contributions are made in respect of U.A.E. nationals to the U.A.E. General Pension and Social Security Authority in accordance with the U.A.E. Federal Law No (7), 1999 for Pension and Social Security. A provision is made for the full amount of end of service benefits due to the non-U.A.E. nationals in accordance with the U.A.E. Labour Law, for their periods of service up to the reporting date. This provision is included in other liabilities.

Management measures the employees' end of service benefits payable under the U.A.E. Labour law. Under this method an assessment is made of employee's expected service life with the Group and the expected basic salary at the date of leaving the service.

#### 3.12 Provisions

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

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

### 3. Significant accounting policies (continued)

#### 3.12 Provisions (continued)

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

#### 3.13 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

#### 3.14 Foreign currencies

Items included in the consolidated financial statements of the Group are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the Group operates. Foreign currency transactions are translated into U.A.E. Dirhams at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into U.A.E. Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the consolidated statement of income.

#### 3.15 Derivative instruments

Derivative instruments, comprising forward foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered. All forward foreign exchange contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of the forward foreign exchange contracts are included in foreign exchange trading income in the consolidated statement of income.



**3. Significant accounting policies (continued)**

**3.16 Interest income and expense**

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently unless re-priced.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Income from Islamic financing products

The Group's policy for recognition of income from Islamic financing products is described in Note 3.23.

**3.17 Fees and commission income**

Commission income earned from the issue of documentary credits and letters of guarantee is recognised on a straight line basis over the period for which the documentary credits and guarantees are issued. Fee income on issue of letters of credit and guarantees is recognised when the underlying transaction is affected.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed.

**3.18 Rental and dividend income**

Rental income is recognised on a straight-line basis over the term of the relevant lease. Dividend income is recognised when the Group's right to receive the payment is established.

**3.19 Operating leases – policy applicable prior to 01 January 2019**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the shorter of the lease term or the estimated useful life of the asset.

For policy applicable from 01 January 2019, please refer note 2.1 (i) of these consolidated financial statements.



**3. Significant accounting policies (continued)**

**3.20 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**3.21 Acceptances**

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

**3.22 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the U.A.E. Central Bank.

**3.23 Islamic financing products**

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

All Islamic banking products are accounted for in conformity with the accounting policies described below:

***Definitions***

The following terms are used in Islamic financing:

***Murabaha***

A sales agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired and the customer will pay the commodity price on an instalment basis over a specific period. The selling price comprises the cost of the commodity and an agreed profit margin.

***Mudaraba***

A profit sharing agreement between the Group and the customer whereby the customer provides the funds and the Group invests the funds in a specific enterprises or activity and any profits generated are distributed accordingly to the terms and conditions of the profit sharing agreement. The customer bears the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

**3. Significant accounting policies (continued)**

**3.23 Islamic financing products (continued)**

*Wakala (Investment agency)*

An agreement whereby the customer appoints the Group to invest a certain sum of money according to the terms and conditions of the Wakala in return for a certain fee and any profit exceeding the expected profit. The Group will bear any loss as a result of the misconduct, negligence or violation of the terms and conditions of the Wakala.

*Accounting policy*

Islamic financing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income, if any.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investing products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.5). Islamic financing and investing products are written off only when all possible course of action to achieve recovery have proven unsuccessful.

***Revenue recognition policy***

Income from Islamic financing and investing assets are recognised in the consolidated statement of income using the effective profit method.

*Murabaha*

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

**Islamic customers' deposits and distributions to depositors**

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) represents the share of income allocated to depositors of the Group. The distributions are calculated, allocated and distributed according to the Islamic Banking unit's standard procedures and are approved by the Islamic Banking unit's Sharia'a Supervisory Board.



## 3. Significant accounting policies (continued)

### 3.24 Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### ***Business model assessment***

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

#### ***Significant increase of credit risk***

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. A significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

#### ***Establishing groups of assets with similar credit risk characteristics***

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. product type). The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

#### ***Models and assumptions used***

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

3. Significant accounting policies (continued)

3.24 Critical accounting estimates and judgements (continued)

***Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario.***

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

***Probability of default***

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

***Loss Given Default***

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

**3.25 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, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of each operating segment are reviewed regularly by the Executive Committee of the Bank (referred to as the "ExCo") to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.



#### 4. Cash and balances with the U.A.E. Central Bank

	2019 AED'000	2018 AED'000
Balances with the U.A.E. Central Bank:		
Current account	487,016	321,153
Certificates of deposits*	600,000	620,000
Statutory deposits	537,173	471,768
	<b>1,624,189</b>	<b>1,412,921</b>
Cash in hand	105,259	108,100
	<b>1,729,448</b>	<b>1,521,021</b>

The statutory deposit with the U.A.E. Central Bank is not available to finance the day to day operations of the Group.

\*Certificates of deposit with original maturity over three months amounted to AED 350 million (31 December 2018: AED 570 million).

#### 5. Due from other banks

	2019 AED'000	2018 AED'000
Term deposits	2,766,439	1,062,844
Demand deposits	24,768	17,402
<b>Total due from other banks</b>	<b>2,791,207</b>	<b>1,080,246</b>
Provision for expected credit loss	(445)	-
<b>Net due from other banks</b>	<b>2,790,762</b>	<b>1,080,246</b>



## 5. Due from other banks (continued)

	2019 AED'000	2018 AED'000
<b>Gross amounts due from other banks by geographical area</b>		
Within U.A.E.	2,766,439	2,452,458
Within GCC	577	50,714
Other countries	24,191	143,125
	<b>2,791,207</b>	<b>2,646,297</b>

	2019 AED'000	2018 AED'000
<b>Gross amounts due from other banks by currency</b>		
AED	2,725,000	2,410,000
USD	45,637	215,245
SAR	175	218
Others	20,395	20,834
	<b>2,791,207</b>	<b>2,646,297</b>

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

	2019 AED'000	2018 AED'000
AA-	10,263	165,877
A+	902,655	1,402,767
A	199,000	199,120
A-	200,404	150,630
BBB+	1,475,000	470,000
BBB	3,555	2,329
BBB- and below	330	255,574
	<b>2,791,207</b>	<b>2,646,297</b>



## 5. Due from other banks (continued)

### Due from banks stage-wise analysis

The following table contains an analysis of the credit risk exposure of due from other banks. The gross carrying amount of due from other banks, including accrued interest / profit, represents the Group's maximum exposure to credit risk on these assets:

	2019			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	2,791,207	-	-	2,791,207
Provision for expected credit loss	(445)	-	-	(445)
<b>Carrying amount</b>	<b>2,790,762</b>	<b>-</b>	<b>-</b>	<b>2,790,762</b>
	2018			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	2,646,297	-	-	2,646,297
Provision for expected credit loss	(3,477)	-	-	(3,477)
<b>Carrying amount</b>	<b>2,642,820</b>	<b>-</b>	<b>-</b>	<b>2,642,820</b>

All the due from other banks are in stage 1 throughout the year and therefore have insignificant ECL. Accordingly, there have been no movements between stages in respect of these financial assets.



## 6. Loans and advances and Islamic financing receivables

	2019 AED'000	2018 AED'000
Loans	6,946,683	7,386,097
Overdrafts	1,259,522	1,386,530
Islamic financing products	278,897	332,547
Loans against trust receipts	111,111	166,253
Other	44,619	71,624
<b>Total loans and advances and Islamic financing receivables</b>	<b>8,640,832</b>	<b>9,343,051</b>
Provision for expected credit loss	(377,563)	(418,139)
<b>Net loans and advances and Islamic financing receivables</b>	<b>8,263,269</b>	<b>8,924,912</b>

### By economic sector

Wholesale and retail trade	1,136,287	1,285,512
Real estate and construction	2,716,780	3,344,685
Personal loans and other	578,575	706,542
Manufacturing	423,305	459,068
Agriculture and allied activities	1,250	1,370
Transport and communication	256,892	273,096
Financial institutions	598,428	645,836
Services and other	2,929,315	2,626,942
	<b>8,640,832</b>	<b>9,343,051</b>





## 6. Loans and advances and Islamic financing receivables (continued)

All loans and advances and Islamic financing receivables are from customers within U.A.E.

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

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
<b>Gross carrying amount as at 31 December 2018</b>	<b>7,640,858</b>	<b>1,015,533</b>	<b>686,660</b>	<b>9,343,051</b>
<b>New assets originated or purchased</b>	<b>232,403</b>	<b>18,176</b>	<b>-</b>	<b>250,579</b>
<b>Assets derecognised or repaid</b>	<b>(736,751)</b>	<b>(63,387)</b>	<b>(152,660)</b>	<b>(952,798)</b>
<b>Transfer to Stage 1</b>	<b>459,685</b>	<b>(459,685)</b>	<b>-</b>	<b>-</b>
<b>Transfer to Stage 2</b>	<b>(465,661)</b>	<b>465,661</b>	<b>-</b>	<b>-</b>
<b>Transfer to Stage 3</b>	<b>(16,210)</b>	<b>(202,468)</b>	<b>218,678</b>	<b>-</b>
<b>As at 31 December 2019</b>	<b>7,114,324</b>	<b>773,830</b>	<b>752,678</b>	<b>8,640,832</b>

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying amount as at 31 December 2017	8,204,688	906,986	657,571	9,769,245
New assets originated or purchased	1,854,242	308,829	32,171	2,195,242
Assets derecognised or repaid (excluding write offs)	(2,187,524)	(368,489)	(65,423)	(2,621,436)
Transfer to Stage 1	4,360	(4,360)	-	-
Transfer to Stage 2	(233,237)	248,660	(15,423)	-
Transfer to Stage 3	(1,671)	(76,093)	77,764	-
<b>As at 31 December 2018</b>	<b>7,640,858</b>	<b>1,015,533</b>	<b>686,660</b>	<b>9,343,051</b>



## 6. Loans and advances and Islamic financing receivables (continued)

Movement in the provision for expected credit loss of loans and advances and Islamic financing receivables:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
<b>ECL allowances as at 31 December 2018</b>	<b>112,860</b>	<b>69,716</b>	<b>235,563</b>	<b>418,139</b>
<b>Net impairment charged during the year</b>	<b>(20,259)</b>	<b>2,797</b>	<b>192,739</b>	<b>175,277</b>
<b>Recoveries</b>	-	-	<b>(84,392)</b>	<b>(84,392)</b>
<b>Transfer to Stage 1</b>	<b>12,426</b>	<b>(12,426)</b>	-	-
<b>Transfer to Stage 2</b>	<b>(7,059)</b>	<b>7,059</b>	-	-
<b>Transfer to Stage 3</b>	<b>(822)</b>	<b>(18,237)</b>	<b>19,059</b>	-
<b>Written off</b>	-	-	<b>(131,461)</b>	<b>(131,461)</b>
<b>Closing Balance as at 31 December 2019</b>	<b>97,146</b>	<b>48,909</b>	<b>231,508</b>	<b>377,563</b>

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowances as at 31 December 2017	121,529	60,478	135,735	317,742
Net impairment charged during the year	(8,669)	9,238	124,162	124,731
Recoveries	-	-	(21,800)	(21,800)
Written off	-	-	(2,534)	(2,534)
<b>Closing Balance as at 31 December 2018</b>	<b>112,860</b>	<b>69,716</b>	<b>235,563</b>	<b>418,139</b>



## 6. Loans and advances and Islamic financing receivables (continued)

Grading of loans and advances and Islamic financing receivables along with stages:

31 December 2019				
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing (Grades 1-12)	7,114,324	773,830	-	7,888,154
Sub Standard (Grade 13)	-	-	213,210	213,210
Doubtful (Grade 14)	-	-	454,162	454,162
Loss (Grades 15)	-	-	85,306	85,306
<b>Total gross carrying amount</b>	<b>7,114,324</b>	<b>773,830</b>	<b>752,678</b>	<b>8,640,832</b>
<b>Expected credit loss</b>	<b>(97,146)</b>	<b>(48,909)</b>	<b>(231,508)</b>	<b>(377,563)</b>
<b>Carrying amount</b>	<b>7,017,178</b>	<b>724,921</b>	<b>521,170</b>	<b>8,263,269</b>

  

31 December 2018				
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing (Grades 1-12)	7,640,858	1,015,533	-	8,656,391
Sub Standard (Grade 13)	-	-	92,787	92,787
Doubtful (Grade 14)	-	-	478,818	478,818
Loss (Grades 15)	-	-	115,055	115,055
<b>Total gross carrying amount</b>	<b>7,640,858</b>	<b>1,015,533</b>	<b>686,660</b>	<b>9,343,051</b>
<b>Expected credit loss</b>	<b>(112,860)</b>	<b>(69,716)</b>	<b>(235,563)</b>	<b>(418,139)</b>
<b>Carrying amount</b>	<b>7,527,998</b>	<b>945,817</b>	<b>451,097</b>	<b>8,924,912</b>

The non-performing loans as at 31 December 2019 amounted to AED 752.68 million (2018: AED 686.66 million). Provisions for impairment in relation to such loans amounted to AED 231.51 million as at 31 December 2019 (2018: AED 235.56 million) (see Note 31).



## 7. Investment securities

Investment securities comprise the following:

	2019 AED'000	2018 AED'000
<b>Securities at FVTPL</b>		
Quoted equity securities	20,801	24,255
Discretionary funds managed by third parties– quoted equity securities	247	231
	<b>21,048</b>	<b>24,486</b>
<b>Securities at FVTOCI</b>		
Quoted equity securities	840,661	755,132
Unquoted equity securities	747	747
	<b>841,408</b>	<b>755,879</b>
<b>Securities at amortised cost</b>		
Quoted debt instruments	238,716	356,215
<b>Total investment securities</b>	<b>1,101,172</b>	<b>1,136,580</b>
Provision for expected credit loss	(155)	(2,358)
<b>Net investment securities</b>	<b>1,101,017</b>	<b>1,134,222</b>
<b>Gross investment securities by geographical area</b>		
Within U.A.E.	1,030,618	1,080,242
Within GCC	40,952	35,701
Other countries	29,602	20,637
	<b>1,101,172</b>	<b>1,136,580</b>

The Group has no exposures with Abraaj Capital.

All debt investment are classified as Stage 1 (31 December 2018: Stage 1) with corresponding ECL of AED 155 thousand (31 December 2018: AED 2,358 thousand).

Debt securities aggregating AED 238.72 million (2018: AED 356.22 million) represent the Group's investments in bonds and notes which are quoted on recognized exchanges and prices of which are available on internationally recognized platforms of Reuters and Bloomberg and are liquid in normal market conditions.



## 7. Investment securities (continued)

### Movement in investment securities:

	2019 AED'000	2018 AED'000
<b>Balance at 1 January</b>	<b>1,136,580</b>	1,101,176
Purchase of investment securities	-	52,557
Disposal and maturity of investment securities	<b>(117,537)</b>	(114,612)
Net fair value gain on investment securities at FVTPL	<b>(3,439)</b>	4,014
Net discount amortised on investment securities at amortised cost	<b>38</b>	97
Foreign exchange revaluation	<b>1</b>	-
Net fair value gain on investment securities at FVTOCI	<b>85,529</b>	96,651
Loss on disposal of investment securities carried at FVTOCI	-	(3,303)
<b>Balance At 31 December</b>	<b>1,101,172</b>	1,136,580

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

	Debt securities AED'000	Other investments AED'000	Total AED'000
<b>2019</b>	<b>36,701</b>	-	<b>36,701</b>
<b>AA</b>	-	<b>340,359</b>	<b>340,359</b>
<b>AA-</b>	-	<b>153,739</b>	<b>153,739</b>
<b>A+</b>	-	<b>106,895</b>	<b>106,895</b>
<b>A</b>	<b>202,015</b>	<b>79,806</b>	<b>281,821</b>
<b>A-</b>	-	<b>77,243</b>	<b>77,243</b>
<b>BBB+</b>	-	<b>104,414</b>	<b>104,414</b>
<b>BBB- and below</b>			
<b>Less: Provision for expected credit loss</b>	<b>(155)</b>	-	<b>(155)</b>
	<b>238,561</b>	<b>862,456</b>	<b>1,101,017</b>

	Debt securities AED'000	Other investments AED'000	Total AED'000
2018	36,669	-	36,669
AA	73,458	316,561	390,019
AA-	44,073	110,457	154,530
A+	-	97,253	97,253
A	202,015	74,782	276,797
A-	-	44,125	44,125
BBB+	-	137,187	137,187
BBB- and below			
Less: Provision for expected credit loss	(2,358)	-	(2,358)
	353,857	780,365	1,134,222

## 7. Investment securities (continued)

### Debt investments and Islamic instruments stage-wise analysis

The following table contains an analysis of the credit risk exposure of debt investments and Islamic instruments. The gross carrying amount of debt investments, including accrued interest / profit, represents the Group's maximum exposure to credit risk on these assets:

31 December 2019				
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
<b>Outstanding balance</b>	<b>238,716</b>	-	-	<b>238,716</b>
<b>Provision for expected credit loss</b>	<b>(155)</b>	-	-	<b>(155)</b>
<b>Carrying amount</b>	<b>238,561</b>	-	-	<b>238,561</b>

  

31 December 2018				
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	356,215	-	-	356,215
Provision for expected credit loss	(2,358)	-	-	(2,358)
Carrying amount	353,857	-	-	353,857

Debt investments are in stage 1 throughout the year and therefore have insignificant ECL. Accordingly, there have been no significant movements between stages in respect of these financial assets.

## 8. Investment in an associate

The detail of associate is as follows:

Name of the associate	Principal activity	Place of incorporation	Ownership (%)	2019 Total AED'000	2018 Total AED'000
Tasareeh Business Men Center LLC	Providing visa application and renewal services, other business men services.	Dubai, UAE	30%	1,500	1,650



## 8. Investment in an associate (continued)

Movement in the investment in an associate for the year:

	2019 AED'000	2018 AED'000
Balance at 1 January	1,625	1,650
Share of profits from an associate	147	668
Dividend received from an associate	(272)	(693)
<b>At 31 December</b>	<b>1,500</b>	<b>1,625</b>

Summarised financial information in respect of the Group's associate which is accounted by equity method is set out below:

	2019 AED'000	2018 AED'000
Total assets	7,882	8,081
Total liabilities	2,882	(2,664)
Net assets	5,000	5,417
<b>Group's share of associate's net assets</b>	<b>1,500</b>	<b>1,625</b>
Total revenue	16,283	19,921
Net profit for the year	490	2,227
<b>Share of associate's net profit for the year</b>	<b>147</b>	<b>668</b>



## 9. Property and equipment

	Land and buildings AED'000	Computers and equipment AED'000	Furniture and fixtures AED'000	Leasehold improvements AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
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### Cost

31 December 2017	108,291	104,527	5,927	7,445	1,392	17,571	245,153
Additions	317	2,251	62	196	-	5,806	8,632
Disposals	-	(1,072)	(106)	(497)	(259)	(76)	(2010)
Transfers	214	5,317	91	963	-	(6,585)	-

31 December 2018	<b>108,822</b>	<b>111,023</b>	<b>5,974</b>	<b>8,107</b>	<b>1,133</b>	<b>16,716</b>	<b>251,775</b>
Additions	53	670	49	90	304	2,385	3,551
Disposals	-	(2,622)	(92)	-	(463)	(833)	(4,010)
Transfers	1,055	108	16	773	-	(1,952)	-
<b>31 December 2019</b>	<b>109,930</b>	<b>109,179</b>	<b>5,947</b>	<b>8,970</b>	<b>974</b>	<b>16,316</b>	<b>251,316</b>

### Accumulated depreciation

31 December 2017	69,949	93,789	5,248	6,633	984	-	176,603
Charge for the year	2,686	5,845	251	512	134	-	9,428
Eliminated on disposals	-	(1,071)	(106)	(495)	(259)	-	(1,931)
31 December 2018	<b>72,635</b>	<b>98,563</b>	<b>5,393</b>	<b>6,650</b>	<b>859</b>	<b>-</b>	<b>184,100</b>
Charge for the year	2,161	4,442	254	478	143	-	7,478
Eliminated on disposals	-	(2,622)	(92)	-	(464)	-	(3,178)
<b>31 December 2019</b>	<b>74,796</b>	<b>100,383</b>	<b>5,555</b>	<b>7,128</b>	<b>538</b>	<b>-</b>	<b>188,400</b>

### Net carrying amount

<b>31 December 2019</b>	<b>35,134</b>	<b>8,796</b>	<b>392</b>	<b>1,842</b>	<b>436</b>	<b>16,316</b>	<b>62,916</b>
31 December 2018	<b>36,187</b>	<b>12,460</b>	<b>581</b>	<b>1,457</b>	<b>274</b>	<b>16,716</b>	<b>67,675</b>

Land and buildings include land costing AED 22.9 million (2018: AED 22.9 million) which is not depreciated. Capital work in progress represents expenditure incurred on land and buildings, computer and equipment, furniture and fixtures and leasehold improvements.





## 10. Other assets

	2019 AED'000	2018 AED'000
Inventory*	58,602	62,092
Interest receivable	33,673	37,120
Prepayments and deposits	33,964	33,746
Other	4,649	5,509
	<b>130,888</b>	<b>138,467</b>

\*Inventory represents properties acquired in settlement of debt. During 2019, the Group has recorded an impairment on its inventory amounting to AED 3.49 million (2018: AED 9.39 million) (Note 20)

## 11. Due to other banks

	2019 AED'000	2018 AED'000
Demand deposits	423	20

### By geographical area

	2019 AED'000	2018 AED'000
Outside U.A.E	423	20

## 12. Customers' deposits

	2019 AED'000	2018 AED'000
Time deposits	6,444,064	7,383,978
Current accounts	2,256,152	1,980,842
Savings deposits	170,300	180,122
Margin deposits	42,760	61,403
Islamic customers' deposits	121,832	151,597
	<b>9,035,108</b>	<b>9,757,942</b>

All customers' deposits are from customers within U.A.E.

Islamic customer' deposits include Wakala and Mudaraba deposits amounting to AED 121.83 million (2018: AED 151.60 million) undertaken through a Shari'a - compliant Islamic window.



### 13. Other liabilities

	2019 AED'000	2018 AED'000
Accounts payable	32,016	26,431
Interest payable	54,925	42,237
Provision for employees' end of service benefits	20,494	21,001
Other staff benefits	316	637
Dividend payable	11,596	11,596
Provision for expected credit loss on commitments and contingencies (Note 17)	3,513	11,138
Cheques on Selves	127,245	70,786
Other	23,778	24,680
	<b>273,883</b>	<b>208,506</b>

#### Movement in provision for employees' end of service benefits:

	2019 AED'000	2018 AED'000
At 1 January	21,001	30,268
Provision made during the year (Note 23)	1,609	1,656
Payments made during the year	(2,116)	(10,923)
<b>Balance at 31 December</b>	<b>20,494</b>	<b>21,001</b>

### 14. Share capital

	2019 AED'000	2018 AED'000
Issued and fully paid: 1,848 million ordinary shares of AED 1 each	1,848,000	1,848,000

### 15. Statutory reserve

In accordance with the UAE Federal Law No (2) of 2015, as amended, and the U.A.E. Union Law No. 10 of 1980, as amended, 10% of the profit for the year is transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the paid up share capital. No profit was transferred in the current year to the statutory reserve, as it exceeds 50% of the issued share capital of the Group. This reserve is not available for distribution.



## 16. General reserve

The Group maintains a general reserve and the contributions to this reserve are made at the discretion of the Directors. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Group at an Ordinary General Meeting.

### Impairment Reserve under the Central Bank of UAE (“CBUAE”)

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

	2019 AED'000	2018 AED'000
<b>Impairment Reserve: General</b>		
General Provisions under Circular 28/2010 of CBUAE	162,440	168,864
Less: Stage 1 & Stage 2 provisions under IFRS 9*	146,055	182,576
<b>General Provision transferred to impairment reserve</b>	<b>16,385</b>	<b>-</b>
<b>Impairment Reserve: Specific</b>		
Specific Provisions under Circular 28/2010 of CBUAE	231,508	235,563
Less: Stage 3 provisions under IFRS 9	(231,508)	(235,563)
<b>Specific Provision transferred to impairment reserve</b>	<b>-</b>	<b>-</b>

\* contains Stage 1 and Stage 2 provision for loans and advances and Islamic financing receivables only.

## 17. Commitments and contingent liabilities

a) The contractual amounts of the Group’s commitments and contingencies are as follows:

	2019 AED'000	2018 AED'000
Guarantees	3,779,813	5,294,248
Letters of credit	80,132	101,287
Commitments to extend credit	1,211,646	1,296,726
Other	20,403	31,821
<b>At 31 December</b>	<b>5,091,994</b>	<b>6,724,082</b>
<b>By geographical area</b>		
Within U.A.E.	5,036,772	6,668,834
Outside the U.A.E.	55,222	55,248
	<b>5,091,994</b>	<b>6,724,082</b>

## 17. Commitments and contingent liabilities (continued)

Guarantees, which represent irrevocable assurances that the Group will make payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not quantifiable, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

While there is some risk associated with the remainder of commitments, the risk is viewed as low-modest, since it results firstly from the possibility of the unused portion of loan authorizations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

The provision for expected credit loss against the off-balance sheet items disclosed above amounting to AED 3.51 million (2018: 11.14million) is classified under other liabilities (Note 13).

### b) Capital commitments

At 31 December 2019, the Group has capital commitments of AED 3.34 million (2018: AED 4.05 million).

### Off balance sheet exposures stage-wise analysis

The following table contains an analysis of the credit risk of relevant off balance sheet exposures and the related ECL. The gross carrying amount of off balance sheet exposures below represents the Group's maximum exposure to credit risk on these assets:



## 17. Commitments and contingent liabilities (continued)

### b) Capital commitments (continued)

	31 December 2019			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	3,787,709	22,259	49,977	3,859,945
Allowances for impairment (ECL)	(3,324)	(189)	-	(3,513)
<b>Carrying amount</b>	<b>3,784,385</b>	<b>22,070</b>	<b>49,977</b>	<b>3,856,432</b>

  

	31 December 2018			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	5,258,559	136,976	-	5,395,535
Allowances for impairment (ECL)	(11,137)	(1)	-	(11,138)
<b>Carrying amount</b>	<b>5,247,422</b>	<b>136,975</b>	<b>-</b>	<b>5,384,397</b>

### Movement in the gross balance of commitment and contingencies

Outstanding balance	Stage			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying amount - 31 December 2018	5,258,559	136,976	-	5,395,535
Transferred from Stage 1	39,360	(39,360)	-	-
Transferred from Stage 2	(16,094)	16,094	-	-
Transferred from Stage 3	(908)	(57,569)	58,477	-
Originated / expired during the year	(1,493,208)	(33,882)	(8,500)	(1,535,590)
<b>Gross carrying amount – 31 December 2019</b>	<b>3,787,709</b>	<b>22,259</b>	<b>49,977</b>	<b>3,859,945</b>

Outstanding balance	Stage			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying amount - 01 January 2018	5,944,271	79,091	-	6,023,362
Transferred from Stage 2	(59,954)	59,954	-	-
Originated / expired during the year	(625,758)	(2,069)	-	(627,827)
<b>Gross carrying amount - 31 December 2018</b>	<b>5,258,559</b>	<b>136,976</b>	<b>-</b>	<b>5,395,535</b>



## 17. Commitments and contingent liabilities (continued)

### Movement in the provision for impairment of commitment and contingencies:

ECL – AED' 000	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
<b>ECL allowances - 31 December 2018</b>	<b>11,137</b>	<b>1</b>	<b>-</b>	<b>11,138</b>
Transferred from Stage 1	(67)	67	-	-
Originated / expired during the period including changes in PDs / LGDs / EADs	(7,746)	121	-	(7,625)
<b>ECL allowances – 31 December 2019</b>	<b>3,324</b>	<b>189</b>	<b>-</b>	<b>3,513</b>

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to AED 3.51 million, (2018: AED 11.14 million) is classified under other liabilities.

### Grading of commitment and contingencies along with stages:

	31 December 2019			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
<b>Performing (Grades 1-12)</b>	<b>3,787,709</b>	<b>22,259</b>	<b>-</b>	<b>3,809,968</b>
<b>Sub Standard (Grade 13)</b>	<b>-</b>	<b>-</b>	<b>346</b>	<b>346</b>
<b>Doubtful (Grade 14)</b>	<b>-</b>	<b>-</b>	<b>10,765</b>	<b>10,765</b>
<b>Loss (Grades 15)</b>	<b>-</b>	<b>-</b>	<b>38,866</b>	<b>38,866</b>
<b>Total gross carrying amount</b>	<b>3,787,709</b>	<b>22,259</b>	<b>49,977</b>	<b>3,859,945</b>
<b>Expected credit loss</b>	<b>(3,324)</b>	<b>(189)</b>	<b>-</b>	<b>(3,513)</b>
<b>Carrying amount</b>	<b>3,784,385</b>	<b>22,070</b>	<b>49,977</b>	<b>3,856,432</b>

	31 December 2018			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing (Grades 1-12)	5,258,559	136,976	-	5,395,535
Total gross carrying amount	5,258,559	136,976	-	5,395,535
Expected credit loss	(11,137)	(1)	-	(11,138)
<b>Carrying amount</b>	<b>5,247,422</b>	<b>136,975</b>	<b>-</b>	<b>5,384,397</b>

## 18. Interest income and expense

	2019 AED'000	2018 AED'000
<b>Interest income</b>		
Loans and receivables		
Loans and advances	489,099	490,608
Deposits with the U.A.E. Central Bank	14,702	14,923
Other banks	60,886	39,594
Investment in debt securities	11,269	14,602
	<b>575,956</b>	<b>559,727</b>

### Interest expense

Financial liabilities at amortised cost		
Customers' deposits	104,415	82,162
Borrowings from other banks	272	913
	<b>104,687</b>	<b>83,075</b>

## 19. Net fees and commission income

	2019 AED'000	2018 AED'000
Fees and commission income	79,605	50,340
Fees and commission expenses	(1,344)	(1,847)
<b>Net fees and commission income</b>	<b>78,261</b>	<b>48,493</b>

## 20. Other operating income

	2019 AED'000	2018 AED'000
Rental income	6,182	8,108
Foreign exchange income, net	2,941	2,834
Impairment of inventory (Note 10)	(3,494)	(9,385)
Other	20,432	32,685
	<b>26,061</b>	<b>34,242</b>



## 21. Operating expenses

	2019 AED'000	2018 AED'000
Staff costs (Note 23)	83,211	80,120
Occupancy costs	22,316	23,106
Depreciation (Note 9)	7,478	9,428
Staff benefits (Note 23)	6,976	6,854
Other	22,242	30,159
	<b>142,223</b>	<b>149,667</b>

\* Includes an amount of AED 0.25 million (2017: AED 0.24 million) paid towards social contribution (including donation and charity) during the year.

## 22. Investment gains

	2019 AED'000	2018 AED'000
Dividend income:		
Investment securities at FVTOCI	41,244	43,212
Investment securities at FVTPL	195	195
Fair value gain on investment securities at FVTPL	(3,439)	4,014
Foreign exchange revaluation	1	-
Net discount amortised on debt securities	38	97
Profit on disposal of Investment securities at FVTPL	-	14,842
	<b>38,039</b>	<b>62,360</b>





## 23. Staff costs

	2019 AED'000	2018 AED'000
<b>Staff costs</b>		
Salaries and allowances	80,755	77,245
Staff training	525	1,107
Housing and medical	1,931	1,768
	<b>83,211</b>	<b>80,120</b>
<b>Staff benefits</b>		
Pension	3,439	3,436
End of service benefits	1,609	1,656
Other	1,928	1,762
	<b>6,976</b>	<b>6,854</b>

## 24. Net impairment losses

	2019 AED'000	2018 AED'000
Loans and advances and Islamic financing receivables	90,886	102,931
Due from other banks	(3,033)	-
Investment securities	(2,203)	-
Acceptances and off-balance sheet items	(8,156)	-
	<b>77,494</b>	<b>102,931</b>

## 25. Basic and diluted earnings per share

The basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of ordinary shares in issue during the year.

	2019	2018
<b>Profit for the year in AED</b>	<b>424,392,000</b>	<b>409,020,000</b>
<b>Average number of shares in issue</b>	<b>1,848,000,000</b>	<b>1,848,000,000</b>
<b>Basic earnings per share in AED</b>	<b>0.23</b>	<b>0.22</b>

There were no potentially dilutive shares as at 31 December 2019 and 2018.

## 26. Dividend per share

Payment of cash dividend of 11% of the share capital amounting to AED 203.28 million for year ending 31 December 2019 has been approved by the UAE Central Bank. (2018: AED 203.28 million).

## 27. Related party transactions

The Group carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Group, and all Directors of the Group and companies in which such shareholders and Directors have a significant interest and key management personnel of the Group.

During the year, the Group entered into the following significant transactions with related parties in the ordinary course of business.

	2019 AED'000	2017 AED'000
Interest income	16,593	16,099
Interest expense	53,613	40,194
Other income	332	621
Directors' fees	3,000	3,000
Salaries and other short-term benefits	4,473	4,740
Employee end of service benefits	132	206

The Group has entered into transactions with related parties which were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties.

Outstanding balances at the end of reporting date from transactions with related parties are as follows:

	2019 AED'000	2018 AED'000
Loans and advances and Islamic financing receivables	316,776	391,508
Customer deposits and Islamic customer deposits	2,379,375	1,873,234
Irrevocable commitments and contingent liabilities	496,595	540,919

The loans and advances and Islamic financing receivables given to related parties amounting to AED 316.78 million (2018: AED 391.51 million) have been secured against collateral amounting to AED 449.16 million (2018: AED 470.71 million). All loans and advances to related parties are classified as Stage 1 (31 December 2018: Stage 1) with corresponding ECL of AED 4.55 million (31 December 2018: AED 4.37 million).



## 28. Cash and cash equivalents

	2019 AED'000	2018 AED'000
Cash and balances with the U.A.E. Central bank (Note 4)	1,729,448	1,521,021
Due from other banks (Note 5)	2,791,207	2,646,297
Statutory deposits (Note 4)	(537,173)	(471,768)
Certificates of deposits with original maturity over 3 months	(350,000)	(570,000)
Due to other banks (Note 11)	(423)	(20)
	<b>3,633,059</b>	<b>3,125,530</b>

## 29. Business segments

The Group is organised into two main business segments:

Retail and corporate banking - wherein retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages. Corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Treasury and investments - incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the U.A.E. Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income and expense arising between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position items.



## 29. Business segments (continued)

### Primary segment information

#### 31 December 2019

	Retail and corporate banking AED'000	Treasury and investments AED'000	Unallocated AED'000	Total AED'000
Net interest income and income from Islamic products net of distribution to depositors	419,311	82,290	-	501,601
Net fees and commission income	74,126	2,433	1,702	78,261
Other operating income	629	447	24,985	26,061
<b>Gross income</b>	<b>494,066</b>	<b>85,170</b>	<b>26,687</b>	<b>605,923</b>
Operating expenses	(46,193)	(2,305)	(93,725)	(142,223)
Investment gains	-	38,039	-	38,039
Share of profits from an associate	-	-	147	147
Provision for impairment on financial assets	(75,019)	(10,631)	8,156	(77,494)
<b>Segment result</b>	<b>372,854</b>	<b>110,273</b>	<b>(58,735)</b>	<b>424,392</b>
<b>Segment assets</b>	<b>8,425,936</b>	<b>5,068,864</b>	<b>802,382</b>	<b>14,297,182</b>
<b>Segment liabilities and equity</b>	<b>8,742,448</b>	<b>511,016</b>	<b>5,043,718</b>	<b>14,297,182</b>

#### 31 December 2018

	Retail and corporate banking AED'000	Treasury and investments AED'000	Unallocated AED'000	Total AED'000
Segment income	481,922	149,897	29,799	661,618
Segment operating cost	(53,926)	(2,447)	(93,294)	(149,667)
Segment operating profit	427,996	147,450	(63,495)	511,951
Net impairment losses	(102,931)	-	-	(102,931)
<b>Segment result</b>	<b>325,065</b>	<b>147,450</b>	<b>(63,495)</b>	<b>409,020</b>
<b>Segment assets</b>	<b>9,060,629</b>	<b>5,536,028</b>	<b>68,191</b>	<b>14,664,848</b>
<b>Segment liabilities and equity</b>	<b>9,943,027</b>	<b>246,872</b>	<b>4,474,949</b>	<b>14,664,848</b>



### 30. Classification and fair value of financial and non-financial instruments

<b>Assets</b>	At amortised cost AED'000	At FVTPL AED'000	At FVTOCI AED'000	Non-financial instruments AED'000	Total AED'000
<b>31 December 2019</b>					
Cash and balances with the U.A.E. Central Bank	1,729,448	-	-	-	1,729,448
Due from other banks	2,790,762	-	-	-	2,790,762
Loans and advances and Islamic financing receivables	8,263,269	-	-	-	8,263,269
Investment securities	238,561	21,048	841,408	-	1,101,017
Customers' acceptances	217,382	-	-	-	217,382
Investment in an associate	-	-	-	1,500	1,500
Property and equipment	-	-	-	62,916	62,916
Other assets	33,673	-	-	97,215	130,888
<b>Total assets</b>	<b>13,273,095</b>	<b>21,048</b>	<b>841,408</b>	<b>161,631</b>	<b>14,297,182</b>

<b>Assets</b>	At amortised cost AED'000	At FVTPL AED'000	At FVTOCI AED'000	Non-financial instruments AED'000	Total AED'000
<b>31 December 2018</b>					
Cash and balances with the U.A.E. Central Bank	1,521,021	-	-	-	1,521,021
Due from other banks	2,642,820	-	-	-	2,642,820
Loans and advances and Islamic financing receivables	8,924,912	-	-	-	8,924,912
Investment securities	353,857	24,486	755,879	-	1,134,222
Customers' acceptances	234,106	-	-	-	234,106
Investment in an associate	-	-	-	1,625	1,625
Property and equipment	-	-	-	67,675	67,675
Other assets	37,120	-	-	101,347	138,467
<b>Total assets</b>	<b>13,713,836</b>	<b>24,486</b>	<b>755,879</b>	<b>170,647</b>	<b>14,664,848</b>

<b>Liabilities</b>	At amortised cost AED'000	Non-financial Instruments AED'000	Total AED'000
<b>31 December 2019</b>			
Due to other banks	423	-	423
Customers' deposits and Islamic customer deposits	9,035,108	-	9,035,108
Customers' acceptances	217,772	-	217,772
Other liabilities	253,073	20,810	273,883
<b>Total liabilities</b>	<b>9,506,376</b>	<b>20,810</b>	<b>9,527,186</b>

31 December 2018	20	-	20
Customers' deposits and Islamic customer deposits	9,757,942	-	9,757,942
Customers' acceptances	235,027	-	235,027
Other liabilities	186,868	21,638	208,506
<b>Total liabilities</b>	<b>10,179,857</b>	<b>21,638</b>	<b>10,201,495</b>

## 30. Classification and fair value of financial and non-financial instruments (continued)

### Fair value measurements

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

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

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

#### *Fair value of financial instruments measured at amortised cost*

The fair value of the quoted debt instruments at amortised cost at 31 December 2019 amounted to AED 245.15 million (31 December 2018: AED 361.73 million). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Except as detailed above, the management considers that the carrying amounts of financial assets and liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2018.

#### *Fair value of the Group's financial assets that are measured at fair value on recurring basis*

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determine



	Fair value as at		
	31 December 2018 AED'000	31 December 2017 AED'000	Fair value hierarchy
<b>Financial assets</b>			
<b>Financial assets at FVTPL</b>			
Quoted equity securities	20,801	24,255	Level 1
Discretionary funds managed by third parties – quoted equity securities	247	231	Level 1
<b>Financial assets at FVTOCI</b>			
Quoted equity securities	840,661	755,132	Level 1
Unquoted equity securities	747	747	Level 3
Positive fair value of Derivative	-	17	Level 2
Negative fair value of Derivative	4	18	Level 2

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

### 31. Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance. The Group's exposure can be broadly categorized into the following defined Material Risks:

- Credit risk
- Liquidity risk
- Market risk (includes currency risk and interest rate risk)
- Operational risk (includes risks arising from Group's processes, personnel, technology, legal, regulatory requirements and information security risks)

Reputational and strategic business risks are interrelated to the above defined Material Risks. These risks are considered through the Bank's strategic planning and general risk management activities. NBQ risk management strategy is focused on ensuring awareness, measurement and appropriate oversight to these defined material risks.

The Group remains focused to further develop its enterprise risk management culture, practices and processes proactively on an ongoing basis.

The Group has complied with the new 'Capital Adequacy Regulations' issued by the UAE Central Bank during 2017, which is in accordance with the revised rules outlined by the Basel Committee on Banking Supervision in 'Basel III: A global regulatory framework for more resilient banks and banking systems.' Relevant information / details have been disclosed in note 35.

#### Credit risk

The Group assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances, due from banks and investment securities measured at amortized cost. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees and undrawn loan commitments. The credit risk management and control are centralized in the Credit Risk Department with the following objectives:

## 31. Financial risk management (continued)

- To measure, monitor and mitigate risks both at micro as well as macro level.
- To facilitate building and sustaining a high quality credit portfolio and minimise losses.
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has various units viz., Portfolio & Rating unit, Remedial Unit and Risk Containment Unit. Internal risk rating systems are implemented to comply with IRB Foundation norms of Basel II. Remedial Unit and Risk containment units are functioning to prevent accretion of non-performing assets through timely action and maximize recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 31 summarize the Group's exposure to credit risk.

### *Credit Risk Mitigation*

Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Group in case of default. Such mitigant are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Group are land and building, listed equity shares, fixed deposits under lien, vehicles etc.

Other comforts - personal guarantees and corporate guarantees are also taken as comfort, wherever deemed essential.

### **Market risk**

Market risk for the Group refers to the risk because of which the value of its on or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and investment prices. Thus, the volatility in market level of interest rates, foreign exchange rates and investment prices expose the Group's earnings and capital to risk.

The market risk department of the Group addresses these risks to the Assets and Liability Committee (ALCO) on a regular basis based on stipulated norms for Asset Liability Management and Investments. The ALCO takes corrective measures as per the Group's internal market risk policies and strategic business directions.

### **Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury so as to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management on a daily basis. The Group's ALCO has put in place the policies to manage the liquidity risk and monitor the position regularly.

As part of the ICAAP, the Bank assesses the impact on capital adequacy of liquidity risk including concentrations by carrying out stress tests. In preparation for compliance with Basel III requirements, the Group has implemented a system for calculating Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in line with the UAE Central Bank's regulations and is working on strengthening processes and qualitative requirements proactively.





## 31. Financial risk management (continued)

### Interest rate risk

Interest rate risk is the potential that changes in interest rates may adversely affect the value of a financial instrument or portfolio, or the condition of the Group as a whole. Although interest-rate risk arises in all types of financial instruments, it is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset, and other derivatives whose values are linked to market interest rates. In general, the values of longer-term instruments are often more sensitive to interest-rate changes than the values of shorter-term instruments. A part of interest rate risk can be labelled as yield curve risk, which refers to the imperfect correlation of interest rates of different maturities.

The Group manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income (“NII”). The Group analyses its interest rate sensitivity position based on the contractual repricing or maturity dates, whichever is earlier, regularly. The impact on the sensitivity position is calculated by way of 200 basis points (“bps”) change in interest rates and resultant effect in the net interest income of the Group. It is controlled through the limit prescribed for the same. Note 33 summarizes the Group’s exposure to interest rate risk.

During the year ended 31 December 2019, the effective interest rate on due from other banks was 2.51% (2018: 2.45%), certificate of deposits with Central Bank was 2.23% (2018: 1.54%), loans and advances was 5.69% (2018: 5.56%), investment securities at amortised cost was 1.01% (2018: investment securities at held-to-maturity was 1.25%), customers’ deposits was 1.16% (2018: 0.86%) and due to other banks was 1.81% (2018: 1.63%).

### Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as ‘IBOR reform’). The Group has “limited” exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is an uncertainty over the timing and the methods of transition. The Group anticipates that IBOR reform will have “limited” operational, risk management and accounting impacts across all of its business lines. The Group plans to do a detailed assessment during 2020.

### Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored by the Treasury Department. Note 34 summarizes the Group’s exposure to foreign currency exchange risk.

### Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objective of the Group. While operational risk cannot be fully eliminated, management endeavor to minimize the losses by ensuring effective infrastructure, controls, systems and individuals are in place throughout the organization.

To accomplish the above objective, the Group has dedicated operational risk management function, which is proactive in developing and implementing new methodologies for the identification, assessment, monitoring, and control of operational risk. Systems and procedures are in place with clear segregation of duties and reporting line to reduce operational risk. Compliance with the guidelines is monitored through robust internal control and comprehensive internal audit system.

## 31. Financial risk management (continued)

### Operational risk (continued)

The role of the Internal Audit Function within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature and are generally performed at the specific request of the Senior Management. It is led by the Head of Internal Audit who reports to the Audit Committee of the Board, with administrative reporting line to the GM. To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

UAE Central Bank during the year has issued a number of standards and regulations on the various elements of overall Risk Management and Capital Management Framework. The standards and regulations includes but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk which were effected in 2019. The Group had taken measures to adhere to the aforementioned new standards and regulations to ensure compliance from the effective implementation date.

The Group has implemented under noted processes aimed at monitoring and mitigating operational risks.

- Bottom up approach (Risk and Control Assessment) for identification and assessment of operational risks at all business units.
- Establishing a centralised database for capturing operational risk losses.

A comprehensive Business Contingency and Continuity Plan to anticipate stress situations and mitigate the risk associated with them is under implementation.

### Significant increase in credit risk

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

#### *Internal credit risk ratings*

To assess the creditworthiness of the borrowers, the Group has in place an internal credit risk rating system. The Group's credit risk grading framework comprises 15 categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

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

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Changes in business, financial and economic conditions;
- Information obtained by periodic review of customer files including audited financial statements review

## 31. Financial risk management (continued)

### Significant increase in credit risk (continued)

#### Internal credit risk ratings (continued)

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

Group's credit risk grades	Grade	Description
1	AAA	Substantially Risk Free
2	AA+	Low Risk
3	AA	Minimal Risk
4	AA-	Modest Risk
5	A+	Average Risk
6	A	Above Average Risk
7	A-	Medium Risk
8	BBB	Medium to High Risk
9	BB+	Moderately High Risk
10	BB	Significant Risk
11	B+	Significantly High Risk
12	B	Watchlist
13	C	Substandard
14	D	Doubtful
15	E	Loss

The Group analyses all data collected using statistical models and estimates the lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, Real Estate prices, oil prices, occupancy rates etc. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

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

#### Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group engage experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 7 years except for credit cards where 5 years of historical data was used.

## 31. Financial risk management (continued)

### Significant increase in credit risk (continued)

#### Measurement of ECL

The key inputs used for measuring ECL are:

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

These elements are derived from internally developed statistical models based on historical data and data available from reliable sources. They are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors.

LGD is an estimate of the magnitude of loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral. LGD models for unsecured assets consider time of recovery & recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD represents the expected exposure at a future default date. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation and payment of principal and interest. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on credit conversion factors.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis where the financial instruments are grouped based on product type risk characteristics.

Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts.

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



## 31. Financial risk management (continued)

### Significant increase in credit risk (continued)

#### Measurement of ECL (continued)

Scenario	Assigned probabilities	2019	2020	2021	2022	2023
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#### Macroeconomic variables

Economic Composite Index ("ECI") (% Quarterly YoY change)	<b>Base case</b>	<b>40%</b>	<b>2.20%</b>	<b>2.60%</b>	<b>3.00%</b>	<b>2.99%</b>	<b>2.96%</b>
	<b>Upside</b>	<b>30%</b>	<b>4.65%</b>	<b>5.05%</b>	<b>5.45%</b>	<b>5.44%</b>	<b>5.41%</b>
	<b>Downside</b>	<b>30%</b>	<b>(0.25)%</b>	<b>0.15%</b>	<b>0.55%</b>	<b>0.54%</b>	<b>0.51%</b>
Real estate Dubai (average residential price) AED/m2	<b>Base case</b>	<b>40%</b>	<b>12,385</b>	<b>11,891</b>	<b>11,951</b>	<b>12,131</b>	<b>12,327</b>
	<b>Upside</b>	<b>30%</b>	<b>13,995</b>	<b>13,502</b>	<b>13,562</b>	<b>13,742</b>	<b>13,938</b>
	<b>Downside</b>	<b>30%</b>	<b>10,774</b>	<b>10,281</b>	<b>10,340</b>	<b>10,521</b>	<b>10,716</b>
Real estate AD (average residential price) AED/m2	<b>Base case</b>	<b>40%</b>	<b>109,48</b>	<b>10,703</b>	<b>10,784</b>	<b>10,948</b>	<b>11,129</b>
	<b>Upside</b>	<b>30%</b>	<b>12,238</b>	<b>11,993</b>	<b>12,073</b>	<b>12,237</b>	<b>12,418</b>
	<b>Downside</b>	<b>30%</b>	<b>9,658</b>	<b>9,414</b>	<b>9,494</b>	<b>9,658</b>	<b>9,839</b>

#### Sensitivity analysis

If the macroeconomic variables (defined above) were to change by the base case, upside and downside scenarios, the ECL under stages 1 and 2 will change as follows:

#### Change in ECL due to change in macroeconomic variables

	Base case	Upside	Downside
Stage 1	1.46%	0.72%	2.09%
Stage 2	6.37%	4.56%	8.09%

#### Credit quality

The credit quality of the loans and advances and Islamic financing receivables is managed by the Group using internal credit ratings comprising 12 grades. The risk rating system is used as a credit risk management tool whereby any risks taken on the Group's books are rated against a set of predetermined standards which are in line with the UAE Central Bank guidelines.

An analysis of the Group's credit risk exposure per class of financial asset and "stage" without taking into account the effects of any collateral or other credit enhancements along with a summary of the movement in provision for expected credit loss on financial instruments by category is provided note 6 for loans and advances and Islamic financing, note 5 for due from other banks, note 7 for investment securities and note 17 for commitments and contingencies.



## 31. Financial risk management (continued)

### Significant increase in credit risk (continued)

#### Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of the counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are monitored and quantified as part of the Group's Credit Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals in accordance with the approved credit framework.

#### Risk mitigation, collateral and credit enhancements

In line with Basel and IFRS 9 standards, the Credit Risk Management Framework (CRMF) outlines the basis pertaining to the eligibility, valuation, roles & responsibilities of various departments and overall management of collateral in order to adopt effective credit risk mitigation mechanism and maximize the use of eligible collateral.

The eligible collateral under IFRS 9 helps in arriving at EAD and LGD for Expected Credit Loss (ECL) calculations. As for measuring ECL, the expected cash shortfalls will reflect via LGD the cash flows expected from collateral realization provided the same are as per contractual terms.

The Group manages credit exposure by obtaining security where appropriate, and in certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The amount and type of collateral depends on assessments of the credit risk of the counterparty. The types of collateral mainly include cash, guarantees, pledge over listed shares and mortgage and liens over properties or other securities over assets. Pledged interests over vehicles, ships and equipment are also obtained. Collateral generally is not held against non-trading investments and due from banks and financial institutions.

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

Estimates of fair value are generally assessed on a periodic basis in accordance with the respective credit policies and an estimate of fair value of collateral and other security enhancements held against the loan and Islamic financing portfolio is shown on below:

	Funded balance AED'000	Non-funded balance AED'000	Immovable collateral AED'000	Other collateral AED'000	Total collateral AED'000
<b>2019</b>					
<b>Stage3</b>	752,678	49,977	1,057,357	108,674	1,166,031
<b>Stage2</b>	773,830	22,259	1,385,686	6,684	1,392,370
<b>Stage1</b>	7,114,324	3,787,709	12,113,838	3,499,426	15,613,264
<b>Total</b>	<b>8,640,832</b>	<b>3,859,945</b>	<b>14,556,881</b>	<b>3,614,784</b>	<b>18,171,665</b>

## 31. Financial risk management (continued)

### Significant increase in credit risk (continued)

#### Risk mitigation, collateral and credit enhancements (continued)

2018	Funded balance AED'000	Non-funded balance AED'000	Immovable collateral AED'000	Other collateral AED'000	Total collateral AED'000
Stage3	686,660	-	710,242	124,084	834,326
Stage2	1,015,533	136,976	1,692,487	10,986	1,703,473
Stage1	7,640,858	5,258,559	12,722,724	708,515	13,431,239
<b>Total</b>	<b>9,343,051</b>	<b>5,395,535</b>	<b>15,125,453</b>	<b>843,585</b>	<b>15,969,038</b>

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

Credit risk exposures relating to on-balance sheet assets are as follows:

	Maximum exposure	
	2019 AED'000	2018 AED'000
Due from other banks	2,791,207	2,646,297
Loans and advances and Islamic financing receivables	8,640,832	9,343,051
Customer acceptances	217,772	235,027
Investment securities	238,716	356,215
Other assets	33,673	37,120
<b>Total</b>	<b>11,922,200</b>	<b>12,617,710</b>

Credit risk exposures relating to off-balance sheet items are as follows:

Loan commitments and other off balance sheet items	3,859,945	5,395,534
<b>Total</b>	<b>15,782,145</b>	<b>18,013,244</b>

#### Concentration risk

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

Credit exposures to individual customers or customer groups are controlled through a tiered hierarchy of delegated approval authorities. Approval is required from the UAE Central Bank for exposures which are likely to exceed single counterparty / group limit(s), keeping in view the regulatory capital base, in accordance with the regulations of monitoring of large exposure limits issued by the UAE Central Bank. The Group monitors concentrations of credit risk by industry, sector and geographic location. The Group has further defined portfolio caps for its specialized businesses like Marine and Energy and Precious metals segments.



## 31. Financial risk management (continued)

### Credit risk and risk weights

31 December 2019

Asset classes	On Balance Sheet	Off Balance Sheet	Credit Risk Mitigation (CRM)			
	Gross Outstanding	Exposure after CCF	Exposure before CRM	CRM	Exposure after CRM	Risk Weighted Assets
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	1,625,179	25	1,625,204	-	1,625,204	-
Claims on non-central Government public sector entities (PSEs)	52,240	-	52,240	-	52,240	22,691
Claims on banks	3,065,142	11	3,065,153	-	3,065,153	759,508
Claims on corporates	4,470,146	866,737	5,331,196	343,825	4,987,371	4,987,371
Claims included in the regulatory retail portfolio	632,281	1,381,144	2,012,444	1,361,245	651,199	552,137
Claims secured by commercial real estate	2,491,092	3,556	2,494,148	11,650	2,482,498	2,482,498
Past due loans	1,204,661	24,253	786,324	60,936	725,388	1,011,571
Other assets	1,135,618	-	1,131,629	-	1,131,629	1,005,325
Claims secured by Residential property	8,789	-	8,789	-	8,789	8,246
<b>Total claims</b>	<b>14,685,148</b>	<b>2,275,726</b>	<b>16,507,127</b>	<b>1,777,656</b>	<b>14,729,471</b>	<b>10,829,347</b>
<b>Total credit risk weighted assets</b>						<b>10,829,347</b>





## 31. Financial risk management (continued)

### Credit risk and risk weights (continued)

31 December 2018

Asset classes	On Balance Sheet	Off Balance Sheet	Exposure before CRM	Credit Risk Mitigation (CRM)		Risk Weighted Assets
	Gross Outstanding	Exposure after CCF		CRM	Exposure after CRM	
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	1,416,289	-	1,416,289	-	1,416,289	-
Claims on non-central Government public sector entities (PSEs)	83,152	25	83,177	-	83,177	53,655
Claims on banks	3,055,594	49	3,055,643	-	3,055,643	716,525
Claims on corporates	4,356,665	933,718	5,288,208	397,214	4,890,994	4,890,994
Claims included in the regulatory retail portfolio	1,170,414	2,093,211	3,263,978	2,035,107	1,228,871	1,113,394
Claims secured by commercial real estate	3,008,128	3,556	3,011,184	15,666	2,995,518	2,995,518
Past due loans	972,485	41,496	515,217	62,910	452,307	559,727
Other assets	1,064,336	-	1,060,348	-	1,060,348	927,762
Credit derivatives	-	6	6	-	6	3
<b>Total claims</b>	<b>15,127,063</b>	<b>3,072,061</b>	<b>17,694,050</b>	<b>2,510,897</b>	<b>15,183,153</b>	<b>11,257,578</b>
<b>Total credit risk weighted assets</b>						<b>11,257,578</b>



## 31. Financial risk management (continued)

### ***Loans and advances and Islamic financing receivables with renegotiated terms***

Loans and advances and Islamic financing receivables with renegotiated terms are loans and advances and Islamic financing receivables that have been rescheduled or restructured and where the Group has made concessions that it would not otherwise consider. Rescheduled loans are classified under stage 1 attracting 12-month ECL, whereas restructured loans are classified under Stage 2 attracting lifetime ECL – not credit impaired impact.

When renegotiation 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 are introduced, such as 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.
- Discounted cash flows (DCF) after renegotiation are equal to or greater than the DCF at the time the facility was granted.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether SICR 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 obligor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset.

As a guideline, the criteria to differentiate between Restructured and Rescheduled accounts are defined in the Group respective risk policy.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 (Lifetime ECL – credit impaired) to Stage 2 (Lifetime ECL – not credit impaired) to Stage 1 (12 month ECL). This is only applicable for assets which have performed as per the new terms in accordance with the curing criteria as adopted by the Group.

### ***Write-off policy***

The Group writes off loans and advances and Islamic financing receivables balances (and any related allowances for impairment losses) when it has generally exhausted all possible efforts for collection and determines that the loans and advances and Islamic financing receivables are no longer collectible.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been partially or fully written off due to no reasonable expectation of recovery.

## 32. Liquidity risk

The maturities of assets and liabilities have been determined on the basis of contractual maturity. The table below sets out the Group's assets, liabilities, equity at carrying amounts and off balance sheet items, categorised by the earlier of contractual repricing or maturity dates.

### Maturity profile

#### Assets

##### 31 December 2019

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	942,274	150,000	100,000	537,174	-	-	1,729,448
Due from other banks	2,390,762	200,000	200,000	-	-	-	2,790,762
Loans and advances and Islamic financing receivables	238,186	349,333	852,777	4,582,145	2,240,828	-	8,263,269
Investment securities	258,737	-	603,719	238,561	-	-	1,101,017
Customers' acceptances	35,048	77,016	105,318	-	-	-	217,382
Other financial assets	33,673	-	-	-	-	-	33,673
Non-financial assets	-	-	-	-	-	161,631	161,631
<b>Total</b>	<b>3,898,680</b>	<b>776,349</b>	<b>1,861,814</b>	<b>5,357,880</b>	<b>2,240,828</b>	<b>161,631</b>	<b>14,297,182</b>

##### 31 December 2018

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	689,253	360,000	-	471,768	-	-	1,521,021
Due from other banks	2,642,820	-	-	-	-	-	2,642,820
Loans and advances and Islamic financing receivables	290,880	346,643	956,220	4,858,064	2,473,105	-	8,924,912
Investment securities	307,081	-	590,037	237,104	-	-	1,134,222
Customers' acceptances	61,095	78,639	86,634	7,738	-	-	234,106
Other financial assets	37,120	-	-	-	-	-	37,120
Non-financial assets	-	-	-	-	-	170,647	170,647
<b>Total</b>	<b>4,028,249</b>	<b>785,282</b>	<b>1,632,891</b>	<b>5,574,674</b>	<b>2,473,105</b>	<b>170,647</b>	<b>14,664,848</b>



## 32. Liquidity risk (continued)

### Maturity profile (continued)

#### Liabilities, equity and off-balance sheet items

31 December 2019

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Due to other banks	423	-	-	-	-	-	423
Customers' deposits and Islamic customer deposits	2,010,503	1,132,663	1,746,374	4,145,543	25	-	9,035,108
Customers' acceptances	35,048	77,016	105,708	-	-	-	217,772
Other financial liabilities	85,085	64,761	63,449	24,663	15,115	-	253,073
Non-financial liabilities	-	-	-	-	-	20,810	20,810
Shareholders' equity	-	-	-	-	-	4,769,996	4,769,996
<b>A. Total on-balance sheet items</b>	<b>2,131,059</b>	<b>1,274,440</b>	<b>1,915,531</b>	<b>4,170,206</b>	<b>15,140</b>	<b>4,790,806</b>	<b>14,297,182</b>
Forward rate contracts	19,335	-	-	-	-	-	19,335
Spot / Split Sale	103	-	-	-	-	-	103
Guarantees	198	-	594	-	-	-	792
Unavailed limits	630,140	76,916	471,371	-	-	-	1,178,427
<b>B. Total off-balance sheet items</b>	<b>649,776</b>	<b>76,916</b>	<b>471,965</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,198,657</b>
<b>Grand total [A+B]</b>	<b>2,780,835</b>	<b>1,351,356</b>	<b>2,387,496</b>	<b>4,170,206</b>	<b>15,139</b>	<b>4,790,807</b>	<b>15,495,839</b>

31 December 2018

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Due to other banks	20	-	-	-	-	-	20
Customers' deposits and Islamic customer deposits	1,736,798	868,878	1,925,032	5,227,058	176	-	9,757,942
Customers' acceptances	61,094	78,639	86,634	8,660	-	-	235,027
Other financial liabilities	49,839	56,621	46,163	22,740	11,505	-	186,868
Non-financial liabilities	-	-	-	-	-	21,638	21,638
Shareholders' equity	-	-	-	-	-	4,463,353	4,463,353
<b>A. Total on-balance sheet items</b>	<b>1,847,751</b>	<b>1,004,138</b>	<b>2,057,829</b>	<b>5,258,458</b>	<b>11,681</b>	<b>4,484,991</b>	<b>14,664,848</b>
Forward rate contracts	639	4,237	-	-	-	-	4,876
Spot / Split Sale	4,026	-	-	-	-	-	4,026
Guarantees	285	-	856	-	-	-	1,141
Unavailed limits	607,872	140,643	499,010	-	-	-	1,247,525
<b>B. Total off-balance sheet items</b>	<b>612,822</b>	<b>144,880</b>	<b>499,866</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,257,568</b>
<b>Grand total [A+B]</b>	<b>2,460,573</b>	<b>1,149,018</b>	<b>2,557,695</b>	<b>5,258,458</b>	<b>11,681</b>	<b>4,484,991</b>	<b>15,922,416</b>



## 32. Liquidity risk (continued)

### Analysis of financial liabilities by remaining contractual maturities

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

#### 31 December 2019

	Carrying amount AED'000	Gross nominal outflows AED'000	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000
<b>Financial liabilities</b>							
Due to other banks	423	(423)	(423)	-	-	-	-
Customers' deposits and Islamic customer deposits	9,035,108	(9,061,945)	(3,150,240)	(1,765,319)	(4,145,721)	(638)	(27)
	<b>9,035,531</b>	<b>(9,062,368)</b>	<b>(3,150,663)</b>	<b>(1,765,319)</b>	<b>(4,145,721)</b>	<b>(638)</b>	<b>(27)</b>
<b>Letters of credit and guarantees</b>	<b>3,859,945</b>	<b>(3,859,945)</b>	<b>(765,453)</b>	<b>(375,438)</b>	<b>(36,164)</b>	<b>(4,578)</b>	<b>(2,678,312)</b>

#### 31 December 2018

	Carrying amount AED'000	Gross nominal outflows AED'000	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000
<b>Financial liabilities</b>							
Due to other banks	20	(20)	(20)	-	-	-	-
Customers' deposits	9,757,942	(9,786,442)	(2,610,262)	(1,940,487)	(5,233,414)	(2,091)	(188)
	<b>9,757,962</b>	<b>(9,786,462)</b>	<b>(2,610,282)</b>	<b>(1,940,487)</b>	<b>(5,233,414)</b>	<b>(2,091)</b>	<b>(188)</b>
<b>Letters of credit and guarantees</b>	<b>5,395,535</b>	<b>(5,395,535)</b>	<b>(832,426)</b>	<b>(451,136)</b>	<b>(23,742)</b>	<b>(103)</b>	<b>(4,088,126)</b>

The positive / negative fair values of derivative financial instruments entered into by the Group, at the reporting date are as below:

	2019			2018		
	Positive fair value AED'000	Negative fair value AED'000	Net AED'000	Positive fair value AED'000	Negative fair value AED'000	Net AED'000
<b>Derivatives</b>						
Foreign currency forward contracts	-	4	524	17	18	5,097
	<b>-</b>	<b>4</b>	<b>524</b>	<b>17</b>	<b>18</b>	<b>5,097</b>



### 33. Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

#### At 31 December 2019

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
<b>Financial assets</b>					
Cash and balances with the U.A.E. Central bank	500,000	100,000	-	1,129,448	1,729,448
Due from other banks	2,566,439	200,000	-	24,323	2,790,762
Loans and advances and Islamic receivables	6,571,137	122,919	1,558,104	11,109	8,263,269
Investment securities	-	-	238,562	862,455	1,101,017
Customers' acceptances	-	-	-	217,382	217,382
Other financial assets	-	-	-	33,673	33,673
<b>Total</b>	<b>9,637,576</b>	<b>422,919</b>	<b>1,796,666</b>	<b>2,278,390</b>	<b>14,135,551</b>
<b>Financial liabilities</b>					
Due to other banks	-	-	-	423	423
Customers' deposits and Islamic customer deposits	4,001,499	1,716,442	2,053,940	1,263,227	9,035,108
Customers' acceptances	-	-	-	217,772	217,772
Other financial liabilities	-	-	-	253,073	253,073
<b>Total</b>	<b>4,001,499</b>	<b>1,716,442</b>	<b>2,053,940</b>	<b>1,734,495</b>	<b>9,506,376</b>
<b>On balance sheet interest rate sensitivity gap</b>	<b>5,636,077</b>	<b>(1,293,523)</b>	<b>(257,274)</b>	<b>543,895</b>	<b>4,629,175</b>
<b>Off balance sheet interest rate sensitivity gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,179,219)</b>	<b>(1,179,219)</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>5,636,077</b>	<b>(1,293,523)</b>	<b>(257,274)</b>	<b>(635,324)</b>	<b>3,449,956</b>

#### At 31 December 2018

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
<b>Financial assets</b>					
Cash and balances with the U.A.E. Central bank	620,000	-	-	901,021	1,521,021
Due from other banks	2,612,648	-	-	30,172	2,642,820
Loans and advances and Islamic receivables	7,254,592	195,053	1,465,120	10,147	8,924,912
Investment securities	72,972	43,781	237,104	780,365	1,134,222
Customers' acceptances	-	-	-	234,106	234,106
Other financial assets	-	-	-	37,120	37,120
<b>Total</b>	<b>10,560,212</b>	<b>238,834</b>	<b>1,702,224</b>	<b>1,992,931</b>	<b>14,494,201</b>

### 33. Interest rate risk (continued)

Financial liabilities					
Due to other banks	-	-	-	20	
Customers' deposits and Islamic customer deposits	3,143,219	1,882,051	3,495,544	1,237,128	20
Customers' acceptances	-	-	-	235,027	9,757,942
Other financial liabilities	-	-	-	186,868	235,027
					186,868
<b>Total</b>	<b>3,143,219</b>	<b>1,882,051</b>	<b>3,495,544</b>	<b>1,659,043</b>	<b>10,179,857</b>
On balance sheet interest rate sensitivity gap	7,416,993	(1,643,217)	(1,793,320)	333,888	4,314,344
Off balance sheet interest rate sensitivity gap	-	-	-	(1,668,154)	(1,668,154)
Cumulative interest rate sensitivity gap	7,416,993	(1,643,217)	(1,793,320)	(1,334,266)	2,646,190

#### Rate sensitivity analysis

Impact on net interest income and net income from Islamic financing and investment activities

	2019		2018	
	Upward shift	Downward shift	Upward shift	Downward shift
Bps				
200	<b>+88,619</b>	<b>-88,619</b>	+115,188	-115,188

#### Method and assumptions for sensitivity analysis

- Since interest rates are almost at the lower end of the interest rate cycles, hence rate sensitive analysis is undertaken
- If interest rates may go up or down by 200 bps. 200 bps is taken as per Basel guidelines.
- Interest rate change takes place uniformly across all time buckets upto 1 year for net interest income impact.
- Interest rate change takes place at the midpoint of each time bucket.
- Other parameters remain unchanged.
- Impact on net interest income upto next 1 year is worked out.
- For impact on equity, (EVE analysis), weighted modified duration of Rate Sensitive Assets ("RSA") and Rate Sensitive Liabilities ("RSL") for all buckets has been worked out and its net impact calculated.
- RSA and RSL have been captured based on earlier of the re-pricing or maturity date.



## 34. Currency risk

### Concentration of financial assets and liabilities by currency:

At 31 December 2019	AED	USD	Other	Total
	AED'000	AED'000	AED'000	AED'000
<b>Financial assets</b>				
<b>Cash and balances with the</b>				
U.A.E. Central Bank	1,722,000	7,448	-	1,729,448
Due from other banks	2,724,555	45,637	20,570	2,790,762
Loans and advances and Islamic receivables	8,176,090	87,179	-	8,263,269
Investment securities	791,745	268,319	40,953	1,101,017
Customers' acceptances	217,382	-	-	217,382
Other financial assets	31,953	1,720	-	33,673
<b>Total financial assets</b>	<b>13,663,725</b>	<b>410,303</b>	<b>61,523</b>	<b>14,135,551</b>
<b>Financial liabilities</b>				
Due to other banks	-	-	423	423
Customers' deposits and Islamic customer deposits	8,854,328	161,453	19,327	9,035,108
Customers' acceptances	217,772	-	-	217,772
Other financial liabilities	250,845	2,210	18	253,073
<b>Total financial liabilities</b>	<b>9,322,945</b>	<b>163,663</b>	<b>19,768</b>	<b>9,506,376</b>
<b>Net balance sheet position</b>	<b>4,340,780</b>	<b>246,640</b>	<b>41,755</b>	<b>4,629,175</b>
<b>Off balance sheet position</b>	<b>5,063,821</b>	<b>23,530</b>	<b>4,643</b>	<b>5,091,994</b>





## 34. Currency risk (continued)

### Concentration of financial assets and liabilities by currency: (continued)

At 31 December 2018

	AED AED'000	USD AED'000	Other AED'000	Total AED'000
<b>Financial assets</b>				
Cash and balances with the				
U.A.E. Central Bank	1,517,178	3,843	-	1,521,021
Due from other banks	2,406,523	215,245	21,052	2,642,820
Loans and advances and Islamic receivables	8,800,523	124,389		8,924,912
Investment securities	721,670	376,850	35,702	1,134,222
Customers' acceptances	234,106	-	-	234,106
Other financial assets	33,859	3,261	-	37,120
<b>Total financial assets</b>	<b>13,713,859</b>	<b>723,588</b>	<b>56,754</b>	<b>14,494,201</b>
<b>Financial liabilities</b>				
Due to other banks	-		20	20
Customers' deposits and Islamic customer deposits	9,730,877	7,925	19,140	9,757,942
Customers' acceptances	235,027	-	-	235,027
Other financial liabilities	186,859	9	-	186,868
<b>Total financial liabilities</b>	<b>10,152,763</b>	<b>7,934</b>	<b>19,160</b>	<b>10,179,857</b>
<b>Net balance sheet position</b>	<b>3,561,096</b>	<b>715,654</b>	<b>37,594</b>	<b>4,314,344</b>
<b>Off balance sheet position</b>	<b>6,671,884</b>	<b>40,902</b>	<b>11,296</b>	<b>6,724,082</b>

### Rate sensitivity analysis

- Currencies are divided into two categories i) those pegged with USD and ii) all other currencies as on the Balance Sheet date.
- Exchange rate change of 2% in AED against the respective pegged foreign currencies and exchange rate change of 10% in AED against the respective other foreign currencies have been used to give a realistic assessment as a plausible event.
- Based on these changes the impact on profit or loss and equity has been worked out.



## 34. Currency risk (continued)

### Rate sensitivity analysis (continued)

Year 2019	Foreign currency assets	Foreign currency liabilities	Net forward purchase/ (sale)	Net long/ (short) position	Impact on statement of income and equity
	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Pegged Currencies</b>					
US Dollar	410,305	191,457	18,447	237,295	(4,746)
Saudi Riyal	40,601	-	-	40,601	(812)
Bahrain Dinar	93	-	-	93	(2)
Omani Riyal	200	-	-	200	(4)
Qatar Riyal	61	8	-	53	(1)
<b>Other Currencies</b>					
Kuwait Dinar	575	-	-	575	(58)
Great British Pound	15,384	15,424	-	(40)	4
Euro	3,958	3,833	(103)	22	(2)
Swiss Frank	229	8	(190)	31	(3)
Japanese Yen	385	72	(338)	(25)	3
Indian Rupee	-	86	99	13	(1)
Lankan Rupee	-	338	344	6	(1)
Jordanian Dinar	36	-	-	36	(4)
Canadian Dollar	-	-	-	-	-
	<b>471,827</b>	<b>211,226</b>	<b>18,259</b>	<b>278,860</b>	
<b>Total impact if foreign currency fluctuates against AED</b>					<b>+/-14,618</b>

Year 2018	Foreign currency assets	Foreign currency liabilities	Net forward purchase/ (sale)	Net long/ (short) position	Impact on statement of income and equity
	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Pegged Currencies</b>					
US Dollar	723,588	28,925	(3,280)	691,393	(13,828)
Saudi Riyal	35,408	-	-	35,408	(708)
Bahrain Dinar	60	-	-	60	(1)
Omani Riyal	249	-	-	249	(5)
Qatar Riyal	51	8	-	43	(1)
<b>Other Currencies</b>					
Kuwait Dinar	648	-	-	648	(65)
Great British Pound	15,452	15,065	(466)	(79)	8
Euro	3,962	3,843		119	(12)
Swiss Frank	412	10	(373)	29	(3)
Japanese Yen	337	71	(266)		
Indian Rupee	2	20	32	12	(1)
Lankan Rupee	73	-	5	7	(1)
Jordanian Dinar	102	-	-	73	(7)
Canadian Dollar		162	-	(60)	6
	<b>780,354</b>	<b>48,104</b>	<b>(4,348)</b>	<b>727,902</b>	
<b>Total impact if foreign currency fluctuates against AED</b>					<b>+/-14,618</b>

## 35. Equity price risk

### Sensitivity analysis

At the reporting date if the equity prices are 20% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Group's:

- Consolidated statement of comprehensive income would have increased/decreased by AED 168.3 million (2018: AED 151.17 million) and consolidated statement of income would have increased/decreased by AED 4.7 million (2018: 4.90 million).

### Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the reporting date.
- As at the reporting date if equity prices are 20% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.
- A 20% change in equity prices has been used to give a realistic assessment as a plausible event.

## 36. Capital management

Group's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Group's future dividend policy. The Group also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. During the year the Group had complied in full with all external imposed capital requirements. The U.A.E. Central Bank requires the banks in U.A.E. to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 13%.



## 36. Capital management (continued)

### Capital structure

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

	2019 AED'000	2018 AED'000
<b>Tier 1 Capital</b>		
Share capital	1,848,000	1,848,000
Statutory reserve	1,019,266	1,019,266
General reserve	6,440	6,440
Fair value reserves on investment securities at FVTOCI	95,389	56,901
Retained earnings	1,469,153	1,463,200
<b>Total Tier 1</b>	<b>4,438,248</b>	<b>4,393,807</b>
<b>Tier 2 Capital</b>		
<b>General reserves on unclassified loans and advances</b>	<b>135,367</b>	<b>140,719</b>
<b>Total Tier 2</b>	<b>135,367</b>	<b>140,719</b>
<b>Total Regulatory Capital</b>	<b>4,573,614</b>	<b>4,534,526</b>
<b>Risk weighted assets:</b>		
Credit risk-weighted assets	10,829,347	11,257,578
Market risk-weighted assets	42,778	49,982
Operations risk-weighted assets	1,090,821	1,038,761
<b>Total risk-weighted assets</b>	<b>11,962,946</b>	<b>12,346,321</b>

### BASEL III Capital Ratio

As per UAE Central Bank Regulation for Basel III, Minimum Capital Requirement including Capital Conservation Buffer is 13% for the year 2019.

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from 1 February 2018 (Primary reporting from Q4'2018 onwards) introducing minimum capital requirements at the three levels, namely Common Equity Tier 1 ('CET 1'), Tier 1 ('T1') and Total Capital.

The additional capital buffers Capital Conservation Buffer (CCB) maximum up to 2.5% and Countercyclical Capital Buffer (CCyB) maximum up to 2.5% introduced over and above the minimum CET1 requirements of 7%.

For year 2019, CCB will be required at 2.5% of the capital base. Countercyclical Capital Buffer (CCyB) is not yet in the effect and is not required to be maintained for year 2019.



## 35. Capital management (continued)

The Capital Adequacy Ratio as per Basel III capital regulation is given below:

Capital ratio	2019 %	2018 %
Total capital adequacy ratio	38.23	36.73
Common equity Tier 1 capital ratio	37.10	35.59
Tier 1 capital ratio	37.10	35.59

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

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

## 37. Legal proceedings

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



## 38. Social contributions

The social contributions (including donations and charity) made during the year to various beneficiaries amount to AED 0.42 million (2018: AED 0.25 million).

## 39. Comparative figures

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

## 40. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 13 February 2020.

