REPORTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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Commercial Bank International P.S.C.
Board of Directors' Report

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The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2019.

Incorporation and registered offices

Commercial Bank International P.S.C. (the "Bank") was incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The address of the registered office is P.O. Box 793, Ras Al-Khaimah, United Arab Emirates.

Principal activities

The principal activities of the Bank are retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management and these activities are carried out through its branches in the United Arab Emirates.

Financial position and results

The financial position and results of the Group for the year ended 31 December 2019 are set out in the accompanying consolidated financial statements.

The Group has earned net interest income and income from Islamic financing and investing activities amounting AED 473,379 thousands during the year ended 31 December 2019 (2018 (restated): AED 535,169 thousands) and had recorded a net profit of AED 111,037 thousands for the year ended 31 December 2019 (2018 (restated): AED 223,116 thousands).

Directors

The following were the Directors of the Bank during the year ended 31 December 2019:

Mr. Mohammad Sultan Al Qadi	Chairman
Mr. Ali Rashid Al-Mohannadi	Vice Chairman
Mrs. Fareeda Ali Abu Al Fath	
Mr. Ahmad Majid Lootah	
Mr. Mohammad Ali Musabeh Al Nuaimi	
Mr. Mubarak Bin Fahed	
Mr. Abdulla Gaith Al Suwaidi	
Mr. Faisal Ali Al Tamimi	
Mr. Hamad Salah Turkait	

Auditors

The consolidated financial statements for the year ended 31 December 2019 have been audited by PricewaterhouseCoopers and, being eligible, offer themselves for reappointment.

By order of the Board of Directors

Mohammad Sultan Al Qadi
Chairman

9 February 2020

Independent auditor's report to the shareholders of Commercial Bank International P.S.C.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Commercial Bank International P.S.C. (the "Bank") and its subsidiaries (together 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 (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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

Independent auditor's report to the shareholders of Commercial Bank International P.S.C (continued)

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

The areas, in our professional judgement, that are of most significance to the audit (Key audit matters) and where we focused most effort were:

- Measurement of Expected Credit Losses of loans and advances to customers, Islamic financing and investing assets;
- Valuation and impairment of properties;
- Valuation of unquoted equity investments and non-current assets held for sale.

An explanation of each of these key audit matters and a summary of our audit approach are set out below.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

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

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter

Measurement of Expected Credit Losses
The Group applies Expected Credit Losses ("ECL") model on its financial instruments measured at amortised cost, financial guarantee contracts, loan commitments and letters of credit.
 	
The Group exercises significant judgements and makes a number of assumptions when measuring ECL under IFRS 9. These include techniques used to determine the Probability of Default ('PD') and Loss Given Default ('LGD'), forward economic adjustments and staging criteria.
 	
For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral.
 	
The Group's accounting policy for impairment under IFRS 9 is presented in Note 3.28.5.
 	
Measurement of ECL is considered a Key Audit Matter as the Group applies significant judgements and makes a number of assumptions in developing ECL models and applying staging criteria and forward economic adjustments for calculating impairment provisions.
	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2019:
	
	• We tested the completeness and accuracy of the data used in the calculation of ECL.
	
	• For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria.
	
	• We involved our internal experts to assess the following areas:
	  o Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9.
	  o ECL modelling methodology and calculations used to compute the probability of default (PD) and loss given default (LGD) including reasonableness of the assumptions.
	
	• For the Stage 3 portfolio we also assessed the appropriateness of the provisioning assumptions for a sample of wholesale exposures selected on the basis of risk and the significance of individual exposures.
	
	• We examined the consolidated financial statements disclosures to assess compliance with IFRS 7 and IFRS 9.

Independent auditor's report to the shareholders of Commercial Bank International P.S.C. (continued)

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation and impairment of properties The Group holds several types of properties which are included in the consolidated statement of financial position. These are included within property inventory, investment properties and property and equipment. Properties classified as property inventory are carried at the lower of cost and net realisable value. The Group's accounting policy for property inventory is disclosed in Note 3.8. Investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses. The Group's accounting policy for investment properties is disclosed in Note 3.5. Land and freehold buildings are included in property and equipment and are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group's accounting policy for land and freehold buildings is disclosed in Note 3.4. Management involve external experts ("management's experts") to perform independent valuations of properties which are used to assess whether the carrying value of the property needs to be adjusted or impaired. The valuations are performed using a range of valuation methodologies such as the comparable method, residual land method or by estimating the net present value by expected capital (sales) incomes deferred over estimated sales periods.	We tested the design and operating effectiveness of the Group's controls over the valuation and impairment of properties. These controls included the review of the independent valuation reports by management. We assessed the competency, objectivity and capabilities of management's experts and for a sample of valuations, we evaluated the adequacy and appropriateness of their work with the assistance of our valuation experts. The evaluation involved considering the methodology and assumptions used by management's experts to perform the valuations, holding discussions with management's experts and assessing whether the models used and the methodologies employed by management's experts complied with the requirements of IFRS. We also carried out procedures on a sample basis, to satisfy ourselves over the accuracy of the property information supplied to the valuers by management. We compared the carrying values of the properties to management's valuations to identify whether any adjustments to carrying values were required. If adjustments were required, we calculated the adjustments and agreed them to the adjustments recognised by management in the general ledger.

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation and impairment of properties *(continued)* We focused on this area because the Group makes significant judgements over the extent of any impairment, net realisable value adjustment or revaluation required, based on the estimated fair value or net realisable value of the properties. Details of property inventory, investment properties and freehold land and buildings included in property and equipment are provided in notes 11, 15 and 17 respectively, to the consolidated financial statements.	
Valuation of unquoted equity investments and assets held for sale The Group has investments in unquoted equities and funds which are classified as financial assets measured at fair value through other comprehensive income. These level 3 investments are disclosed in note 12 to the financial statements. The Group also has a controlling interest in an unquoted entity which is classified as a non-current asset held for sale and carried at the lower of carrying value and fair value less costs to sell. This non-current asset held for sale is disclosed in note 18.2. Management determine the fair value of these investments by obtaining valuation reports from external fund managers or by involving external experts ("management experts") to provide independent valuations of the investments based on valuation techniques as defined by IFRS13.	We assessed the competency, objectivity and capabilities of management's experts and for a sample of valuations, evaluated the adequacy and appropriateness of their work with the assistance of our valuation experts. The evaluation involved considering the methodology and assumptions used by management's experts to perform the valuations and comparing them to external evidence (where available), and holding discussions with management's experts. Further, we assessed whether the methodologies employed by management's experts complied with the requirements of IFRS.

Independent auditor's report to the shareholders of Commercial Bank International P.S.C. (continued)

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of unquoted equity investments and assets held for sale *(continued)* We focused on this area because the Group makes significant judgements over the estimated fair value of unquoted investments and assets held for sale.	We also carried out procedures on a sample basis, to satisfy ourselves of the accuracy of the information supplied to the experts by management. We compared the carrying values of the investments to management's valuations and agreed these to the general ledger.

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon).

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

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

If, based on the work we have performed on the other information 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 to the shareholders of Commercial Bank International P.S.C. (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 International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as the board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board 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 the board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- 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.

Independent auditor's report to the shareholders of Commercial Bank International P.S.C. (continued)

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

- Conclude on the appropriateness of the board'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.

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

Report on other legal and regulatory requirements

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

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

(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

(iii) the Group has maintained proper books of account;

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

(v) the investments held by the Group as at 31 December 2019 are as disclosed in note 12 and note 13, to the consolidated financial statements.

(vi) note 45 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

(vii) note 34 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2019; and

(viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019.

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

PricewaterhouseCoopers
9 February 2020

Mohammed ElBorno
Registered Auditor Number 946
Dubai, United Arab Emirates

Commercial Bank International P.S.C.
Consolidated statement of financial position

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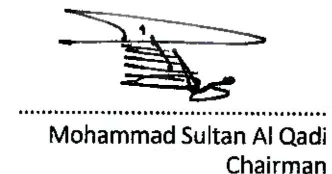
as at 31 December

	Note	31 Dec 2019 AED '000	31 Dec 2018 AED '000 (restated)	1 Jan 2018 AED '000 (restated)
Assets				
Cash and balances with the Central Bank of the UAE	6	**2,410,568**	3,740,658	2,088,872
Derivative financial instruments	43	**26,792**	29,659	20,761
Deposits and balances due from banks	7	**190,313**	1,262,855	815,899
Loans and advances to customers	8	**11,524,325**	12,655,799	12,405,773
Islamic financing and investing assets	9	**241,095**	205,736	263,999
Receivables and other assets	10	**2,215,502**	2,887,122	2,995,787
Property inventory	11	**406,572**	447,544	561,594
Investment securities measured at fair value	12	**50,286**	61,527	72,169
Investment securities measured at amortised cost	13	**1,237,414**	1,009,297	852,471
Investment in associates	14	**5,324**	9,534	53,477
Investment properties	15	**56,127**	69,988	182,630
Intangible assets	16	**61,468**	71,769	78,565
Property and equipment	17	**113,210**	217,811	168,418
Non-current asset held for sale	18	**93,782**	69,403	-
Total assets		**18,632,778**	22,738,702	20,560,415
Liabilities and equity				
Liabilities				
Balance due to the Central Bank of the UAE	6	**-**	60,874	-
Derivative financial instruments	43	**27,409**	30,107	20,619
Deposits and balances due to banks	19	**1,692,742**	1,820,598	1,079,712
Customers' deposits	20	**11,254,271**	14,617,625	13,160,647
Islamic customers' deposits	21	**813,250**	637,132	893,092
Payables and other liabilities	22	**2,334,523**	3,157,415	3,155,006
Liabilities associated with non-current asset held for sale	18	**13,323**	13,323	-
Total liabilities		**16,135,518**	20,337,074	18,309,076
Equity				
Share capital	23	**1,737,383**	1,737,383	1,737,383
Tier 1 Capital Securities	24	**459,125**	459,125	459,125
Reserves	25	**507,354**	397,366	285,826
Accumulated losses		**(206,914)**	(192,552)	(231,304)
Equity attributable to owners of the Bank		**2,496,948**	2,401,322	2,251,030
Non-controlling interests	26	**312**	306	309
Total equity		**2,497,260**	2,401,628	2,251,339
Total liabilities and equity		**18,632,778**	22,738,702	20,560,415

Ali Sultan Rakkad Al Amri
Acting Chief Executive Officer



Mohammad Sultan Al Qadi
Chairman

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

CBI

for the year ended 31 December

	Note	2019 AED '000	2018 AED '000 (restated)
Interest income	27	**902,119**	861,444
Income from Islamic financing and investing assets	28	**18,975**	37,970
Total interest income and income from Islamic financing and investing assets		**921,094**	899,414
Interest expense	29	**(425,184)**	(348,199)
Distribution to Islamic depositors	30	**(22,531)**	(16,046)
Net interest income and income from Islamic financing and investing assets		**473,379**	535,169
Fee and commission income	31	**259,172**	341,521
Fee and commission expense	31	**(24,596)**	(26,363)
Net fee and commission income		**234,576**	315,158
Net gain from derecognition of financial asset measured at amortised cost	32	**2,111**	1,185
Other operating income, net	33	**68,969**	74,367
Net operating income		**779,035**	925,879
General and administrative expenses	34	**(375,630)**	(409,229)
Net impairment loss on financial assets	35	**(285,214)**	(156,166)
Net impairment loss on non-financial assets	36	**(27,322)**	(103,770)
Share of results of associates	14	**(4,210)**	(5,852)
Profit for the year from continuing operations		**86,659**	250,862
Profit/(loss) from discontinued operations	18	**24,378**	(27,746)
Profit for the year		**111,037**	223,116
Profit for the year attributable to:			
Owners of the Bank		**111,031**	223,119
Non-controlling interests		**6**	(3)
		111,037	223,116
Earnings per share:			
Basic and diluted earnings per share - continuing operations (AED)	38	**0.050**	0.127
Basic and diluted earnings per share - continuing and discontinued operations (AED)	38	**0.064**	0.111

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

for the year ended 31 December

	2019 AED '000	2018 AED '000 (restated)
Profit for the year	**111,037**	223,116
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets measured at fair value through other comprehensive income	**(11,039)**	(4,164)
Revaluation of properties	**3,995**	(43,778)
Remeasurement of net defined benefit liability	**(8,361)**	4,958
Other comprehensive loss for the year	**(15,405)**	(42,984)
Total comprehensive income for the year	**95,632**	180,132
Total comprehensive income for the year attributable to:		
Owners of the Bank	**95,626**	180,135
Non-controlling interests	**6**	(3)
	95,632	180,132

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

Commercial Bank International P.S.C.
Consolidated statement of changes in equity

for the year ended 31 December

	Share capital AED '000	Tier 1 Capital Securities AED '000	Reserves AED '000	Accumulated losses AED '000	Equity attributable to owners of the Bank AED '000	Non-Controlling interests AED '000	Total AED '000
2019							
Balance as at 31 December 2018 - restated	1,737,383	459,125	397,366	(192,552)	2,401,322	306	2,401,628
Profit for the year	-	-	-	111,031	111,031	6	111,037
Other comprehensive income for the year	-	-	(7,044)	(8,361)	(15,405)	-	(15,405)
Total comprehensive income for the year	-	-	(7,044)	102,670	95,626	6	95,632
Transfer to statutory reserve	-	-	11,104	(11,104)	-	-	-
Transfer to general reserve	-	-	11,104	(11,104)	-	-	-
Transfer from general reserve to accumulated losses	-	-	(22,551)	22,551	-	-	-
Depreciation of properties revaluation reserve	-	-	(1,708)	1,708	-	-	-
Transfer on disposal of property and equipment	-	-	(3,995)	3,995	-	-	-
Transfer to CBUAE provision reserve	-	-	123,078	(123,078)	-	-	-
Balance as at 31 December 2019	**1,737,383**	**459,125**	**507,354**	**(206,914)**	**2,496,948**	**312**	**2,497,260**

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

Consolidated statement of changes in equity (continued)

CBI

for the year ended 31 December

	Share capital AED '000	Tier 1 Capital Securities AED '000	Reserves AED '000	Accumulated losses AED '000	Equity attributable to owners of the Bank AED '000	Non-Controlling interests AED '000	Total AED '000
2018							
Balance as at 31 December 2017	1,737,383	459,125	285,826	(14,984)	2,467,350	309	2,467,659
Adjustments due to change in accounting policies resulting from:							
- IFRS 9	-	-	-	(213,892)	(213,892)	-	(213,892)
- IFRS 16 (note 2.2)	-	-	-	(2,428)	(2,428)	-	(2,428)
Balance as at 1 January 2018 - restated	1,737,383	459,125	285,826	(231,304)	2,251,030	309	2,251,339
Profit for the year	-	-	-	223,119	223,119	(3)	223,116
Other comprehensive income for the year	-	-	(47,942)	4,958	(42,984)	-	(42,984)
Total comprehensive income for the year	-	-	(47,942)	228,077	180,135	(3)	180,132
Transfer to statutory reserve	-	-	22,551	(22,551)	-	-	-
Transfer to general reserve	-	-	22,551	(22,551)	-	-	-
Transfer from general reserve to accumulated losses	-	-	(17,459)	17,459	-	-	-
Depreciation of properties revaluation reserve	-	-	(1,994)	1,994	-	-	-
Transfer to specific provision reserve	-	-	133,833	(133,833)	-	-	-
Interest paid on Tier 1 Capital Securities	-	-	-	(29,843)	(29,843)	-	(29,843)
Balance as at 31 December 2018 - restated	1,737,383	459,125	397,336	(192,552)	2,401,322	306	2,401,628

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

CBI

for the year ended 31 December

	2019 AED '000	2018 AED '000 (restated)
Cash flows from operating activities		
Profit for the year	**111,037**	223,116
Adjustments for:		
Depreciation of property and equipment	**24,814**	29,098
Depreciation of investment property	**3,376**	5,415
Amortisation of intangible assets	**16,404**	16,078
Impairment of financial assets	**285,214**	156,166
Impairment of non-financial assets	**27,322**	103,770
Impairment of non-current asset held for sale	**(24,379)**	26,597
Gain on disposal of property and equipment	**(15)**	(109)
Gain on disposal of investment properties	**(438)**	-
Write-off of property and equipment	**-**	324
Amortisation of financial assets measured at amortised cost	**7,818**	5,812
Gain on disposal of financial assets measured at amortised cost	**(2,111)**	(1,185)
Loss on financial assets measured at FVTPL	**324**	498
Dividend income	**(264)**	(804)
Share of results of associates	**4,210**	5,852
Loss on acquisition of a subsidiary	**-**	243
Provision for end of service benefits	**5,151**	7,410
	458,463	578,281
Changes in operating assets and liabilities:		
Increase in balances with the Central Bank of the UAE	**(1,049,069)**	(250,916)
Decrease/(increase) in deposits and balances due from banks	**183,665**	(182,842)
Decrease/(increase) in loans and advances to customers	**749,854**	(441,195)
(Increase)/decrease in Islamic financing and investing assets	**(37,358)**	59,003
Decrease in property inventory	**103,765**	29,176
Decrease in receivables and other assets	**669,745**	77,941
(Decrease)/increase in due to the central bank of the UAE	**(60,874)**	60,874
(Decrease)/increase in deposits and balances due to banks	**(127,856)**	745,834
(Decrease)/increase in customers' deposits	**(3,363,354)**	1,456,978
Increase/(decrease) in Islamic customers' deposits	**176,118**	(255,960)
Decrease in payables and other liabilities	**(808,879)**	(5,961)
Cash used in operating activities	**(3,105,780)**	1,871,213
End of service benefits paid	**(15,746)**	(6,135)
Net cash used in operating activities	**(3,121,526)**	1,865,078
Cash flows from investing activities:		
Purchase of property and equipment	**(17,798)**	(15,410)
Purchase of intangible assets	**(673)**	(408)
Purchase of financial assets measured at amortised cost	**(442,850)**	(291,556)
Proceeds from sale of property and equipment	**95,104**	143
Proceeds from sale of investment properties	**10,463**	-
Proceeds from sale/redemption of financial assets measured at amortised cost	**206,529**	130,018
Proceeds from disposal of financial assets measured at FVTOCI	**202**	6,478
Investment in non-current asset held for sale	**-**	(18)
Dividend received	**264**	804
Net cash used in investing activities	**(148,759)**	(169,949)

CBI

for the year ended 31 December

	Note	2019 AED '000	2018 AED '000 (restated)
Cash flows from financing activities:			
Interest paid on Tier 1 Capital Securities		-	(29,843)
Net cash used in financing activities		**-**	(29,843)
Net decrease in cash and cash equivalents		**(3,270,285)**	1,665,286
Cash and cash equivalents at the beginning of the year		**3,652,875**	1,987,589
Cash and cash equivalents at the end of the year	39	**382,590**	3,652,875
Operational cash flows from:			
Interest received		**776,957**	757,392
Income from Islamic financing and investing assets received		**20,237**	29,002
Interest paid		**472,897**	303,940
Distribution to Islamic depositors paid		**21,647**	15,090
Non-cash transactions:			
Repossession of real estate assets from loan and advances to property inventory		**84,896**	-
Transfer from investment property to property and equipment		**-**	83,632
Repossession of equity investment from loan and advances to non-current assets held for sale		**-**	41,597
Repossession of equity investment from loan and advances to investments in associates			2,971

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

1. Status and activities

Commercial Bank International P.S.C. (the "Bank") is a public shareholding company with limited liability incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The registered office of the Bank is at P.O. Box 793, Ras Al-Khaimah. The Bank is listed on the Abu Dhabi Exchange (Ticker "CBI"). The Bank carries on commercial banking activities through its branches in the United Arab Emirates ("the UAE").

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as disclosed below (collectively referred to as the "Group").

Details of the Group's subsidiaries at the end of reporting period is as follows:

Name	Principal activity	Principal place of business	Place of incorporation	% of ownership 2019	2018
IFB *	Brokerage	Dubai - the UAE	Dubai - the UAE	99.4	99.4
TRE	Real estate	Dubai - the UAE	Dubai - the UAE	100.0	100.0
AKPI	Real estate	Sharjah - the UAE	Sharjah - the UAE	52.8	52.8
ACDL	Real estate	Antigua and Barbuda	British Virgin Islands	95.0	95.0
TCHA	Hotel	Dubai - the UAE	Dubai - the UAE	-	100.0
CBI Financial Services Limited	SPV	Dubai - the UAE	Cayman Islands	100.0	100.0
CBI Tier 1 Private Ltd	SPV	Dubai - the UAE	Cayman Islands	100.0	100.0

* *dormant entity*

2. Application of new and revised IFRSs

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these consolidated financial statements. The application of these revised IFRSs, except for IFRS 16, has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 9 *Financial Instruments* regarding prepayment features with negative compensation and modifications of financial liabilities.
- Amendments to IAS 19 *Employee Benefits* regarding plan amendments, curtailments or settlements.
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* regarding long-term interests in associates and joint ventures.
- Annual Improvements to IFRSs 2015 - 2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowings Costs*.
- IFRIC 23 *Uncertainty over Income Tax Treatments* clarifies the accounting for uncertainties in income taxes.

2.2 Impact of application of IFRS 16 Leases

In the current period, the Group has applied IFRS 16 Leases in these consolidated financial statements.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

2. Application of new and revised IFRSs (continued)

2.2 Impact of application of IFRS 16 Leases (continued)

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3.10. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2019. The Group has applied IFRS 16 using the full retrospective approach, with restatement of the comparative information.

2.2.1 Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2018.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2018 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

2.2.2 Impact on lease accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments; and
b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

2. Application of new and revised IFRSs (continued)

2.2 Impact of application of IFRS 16 Leases (continued)

2.2.2 Impact on lease accounting (continued)

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

Financial impact of initial application of IFRS 16 is described in note 48.

2.3 New and revised IFRSs in issue but not yet effective and not early adopted

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

New and revised IFRSs	Effective for annual periods beginning on or after
The IASB has published its revised 'Conceptual Framework for Financial Reporting'. Included are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure. Together with the revised Conceptual Framework, the IASB has also issued amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	1 January 2020
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely
Amendments to IFRS 3 Business Combinations to clarify the definition of a business.	1 January 2020
IFRS 17 Insurance Contracts requires insurance liabilities to be measured at current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principal based accounting for insurance contracts.	1 January 2021
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* regarding the definition of material.	1 January 2020
Amendments to IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments* regarding pre-replacement issues in the context of the IBOR reform.	1 January 2020

2. Application of new and revised IFRSs (continued)

2.3 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for items which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

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

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

The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has:

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

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

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Losses applicable to the non-controlling interests in excess of the non-controlling shareholders' interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

3.4 Property and equipment

Land and buildings held for use are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in consolidated income statement, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in the consolidated income statement to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to consolidated income statement. Revaluation surplus is transferred to retained earnings as the asset is used by the Group. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued property, related revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated. Buildings are depreciated over a period of 25 years.

Property and equipment, excluding land and buildings and capital work in progress, are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are charged to the consolidated income statement in the period in which they are incurred.

Capital work in progress is carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

3. Significant accounting policies (continued)

3.4 Property and equipment (continued)

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Property improvements	4 - 7 years
Furniture, fixtures, equipment and vehicles	4 years
Right of use assets	2 - 5 years

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

3.5 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated so as to write off the cost of investment properties using the straight line method over their estimated useful lives of 25 years.

Investment properties are accounted for as acquisitions on the date when ownership passes to the Group under the contract for the purchase of the relevant property, pending which event payments in respect of investment property acquisitions are included in 'receivable and other assets'.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of asset is recognised in the consolidated income statement in the period of derecognition.

3.6 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 assets 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.

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 in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3. Significant accounting policies (continued)

3.6 Impairment of tangible assets (continued)

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 in the consolidated income statement, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.7 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives for intangible assets ranges between 4 to 10 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.8 Property inventory

Properties acquired or constructed with the intention of sale are classified as property inventory. These are stated at the lower of cost and net realisable value. Cost includes transaction costs incurred in respect of the acquisition of those properties. Net realisable value represents the estimated selling price for property inventory less all estimated costs necessary to make the sale. Properties acquired through repossession in settlement of loans and advances are recorded at fair value at the date of repossession including transactions costs incurred in respect of such repossession.

3.9 Provisions

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

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

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

3.10 Leases

3.10.1 The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3. Significant accounting policies (continued)

3.10 Leases (continued)

3.10.1 The Group as lessee (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented in 'payables and other laibilities' in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

3. Significant accounting policies (continued)

3.10 Leases (continued)

3.10.1 The Group as lessee (continued)

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented in 'property and equipment' in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

3.10.2 The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

3.11 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 47 on business segment reporting.

3. Significant accounting policies (continued)

3.12 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.

3.13 Investment in associates

An associate is an entity over which the Group 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.

The results and assets and liabilities of associates are 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 Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The requirements of IFRS are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate.

In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

3. Significant accounting policies (continued)

3.13 Investment in associates (continued)

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3.14 Foreign currencies

The individual financial statements of each group entity are presented in AED, which is the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in AED, which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

Transaction in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in consolidated income in the period in which they arise.

3.15 Net interest income and income from Islamic products net of distribution to depositors

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income and income from Islamic products net of distribution to depositors' as 'Interest income', 'Income from Islamic financing and investing assets', 'Interest expense' and 'Distribution to depositors' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECL)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECL in determining the future cash flows expected to be received from the financial asset.

3. Significant accounting policies (continued)

3.16 Net fee and commission income

Fee and commission income and expense include fees other than those that are an integral part of EIR (see note 3.15).

The fees included in this part of the Group's consolidated income statement include among other things fees charged for servicing a loan, advisory fee (mainly consisting of advising to wholesale clients on loan structuring) and non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement. The Group recognises the fee based on five step model as defined in note 3.19.

3.17 Net income from financial instruments at FVTPL

Net income from other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL. The Group has elected to present the full fair value movement of assets and liabilities at FVTPL in this line, including the related interest income, expense and dividends (if any).

3.18 Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- for equity instruments designated at FVTOCI dividend income is presented in other operating income; and
- for equity instruments not designated at FVTOCI, dividend income is presented as net income from financial instruments at FVTPL.

3.19 Revenue from sale of property

The Group recognises revenue from sale of property based on a five step model:

- Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that create enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Identify the performance obligation in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring promised goods or services to a customer.
- Allocate the transaction price to the performance obligation in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation which is an amount that depicts the amount of consideration to which the Group expects to be entitled to in exchange for satisfying each performance obligation.
- Recognise revenue when (or as) the Group satisfies a performance obligation.

For the sale of property, the performance obligation is satisfied when the title of property is transferred to the customer.

3.20 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including interest rate swaps and foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 43.

3. Significant accounting policies (continued)

3.20 Derivative financial instruments (continued)

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability.

3.21 Embedded derivatives

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

3.22 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, the cumulative amount of income recognised in accordance with the Group’s revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as ‘ECL allowance’ in ‘payables and other liabilities’.

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

3.23 Commitments to provide a loan at a below-market interest rate

Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVTPL, 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.

Commitments to provide a loan below market rate not designated at FVTPL are presented as ‘ECL allowance’ in ‘payables and other liabilities’. The Group has not designated any commitments to provide a loan below market rated designated at FVTPL.

3. Significant accounting policies (continued)

3.24 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method.

The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

3.25 Discontinued operations

A discontinued operation is a component of the entity that has been disposed of, abandoned or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

3.26 Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to Government-managed retirement benefit plans are accounted for as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period.

3. Significant accounting policies (continued)

3.26 Retirement benefit costs (continued)

Remeasurements comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest, if any) are recognised immediately in the statement of financial position with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurements recognised in the statement of comprehensive income are not reclassified. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs.

Interest is calculated by applying a discount rate to the defined benefit liability. Defined benefit costs are split into three categories:

- service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- interest expense; and
- re-measurements.

The Group recognises service costs within profit or loss as general and administrative expenses (see note 34). Interest expense is recognised within interest expense (see note 29).

3.27 Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

3.28 Financial assets

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

3. Significant accounting policies (continued)

3.28 Financial assets (continued)

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

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

3.28.1 Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset. For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

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

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

3. Significant accounting policies (continued)

3.28 Financial assets (continued)

3.28.1 Debt instruments at amortised cost or at FVTOCI (continued)

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

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

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

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See note 41.1.

In the current and prior reporting period, the Group has not classified any debt instrument at FVTOCI. Further, in the current and prior reporting period the Group has not applied the fair value option and so has not designated debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

3.28.2 Financial assets at FVTPL

Financial assets at FVTPL are:

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

These assets are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 42.

3. Significant accounting policies (continued)

3.28 Financial assets (continued)

3.28.3 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 financial year 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. Changes in contractual cash flows are considered under the accounting policy on 'Modification and derecognition of financial assets' see note 3.28.10.

3.28.4 Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in OCI in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in OCI in the investments revaluation reserve.

3.28.5 Impairment

The Group recognises loss allowances for expected credit losses (ECL) on the financial instruments that are not measured at FVTPL (including loan commitments and financial guarantee contracts). No impairment loss is recognised on equity investments.

With the exception of 'Purchased or Originated Credit-Impaired' (POCI) financial assets (which are considered separately below), ECL 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, ECL are measured at an amount equal to the 12-month ECL.

ECL 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 EIR.

3. Significant accounting policies (continued)

3.28 Financial assets (continued)

3.28.5 Impairment (continued)

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between 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.

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

More information on measurement of ECL is provided in note 41.1, including details on how instruments are grouped when they are assessed on a collective basis.

3.28.6 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 lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- 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 bond yields, 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.

3.28.7 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.

3. Significant accounting policies (continued)

3.28 Financial assets (continued)

3.28.8 Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECL and the identification of a significant increase in credit risk (see note 41.1).

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

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

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in wholesale lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in note 41.1.

3.28.9 Significant increase in credit risk

The Group monitors all financial assets, issued loan 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 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 loan 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. See note 41.1 for more details about 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 the ECL.

3. Significant accounting policies (continued)

3.28 Financial assets (continued)

3.28.9 Significant increase in credit risk (continued)

For wholesale lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending, forward looking information includes the same economic forecasts as wholesale lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in credit worthiness of borrowers measured by rating downgrade which result in higher PD as per staging criteria.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL (please refer to note 41.1).

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For wholesale lending 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 lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

As a back-stop 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, unless the Group has reasonable and supportable information that demonstrates otherwise.

More information about significant increase in credit risk is provided in note 41.1.

3.28.10 Modification and derecognition of financial assets

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

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

3. Significant accounting policies (continued)

3.28 Financial assets (continued)

3.28.10 Modification and derecognition of financial assets (continued)

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity and covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, with both amounts discounted at the original effective interest. If the difference in present value is substantial the Group deems the arrangement is substantially different leading to derecognition.

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

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

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

3. Significant accounting policies (continued)

3.28 Financial assets (continued)

3.28.10 Modification and derecognition of financial assets (continued)

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

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

3.28.11 Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off, or in the case of retail loan, when the amounts are over 180 days past due, whichever occurs sooner. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

3.28.12 Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;

3. Significant accounting policies (continued)

3.28 Financial assets (continued)

3.28.12 Presentation of allowance for ECL in the statement of financial position (continued)

- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

3.29 Equity instruments and financial liabilities

Equity and debt instruments issued by a group entity are classified as either equity or as financial liabilities in accordance with the substance of the contractual arrangements and the definitions of an equity instrument and a financial liability.

3.29.1 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3.29.2 Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

3.29.2.1 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is 1) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

3. Significant accounting policies (continued)

3.29 Equity instruments and financial liabilities (continued)

3.29.2 Financial liabilities (continued)

3.29.2.1 Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities.

3.29.2.2 Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3.29.2.3 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

4. Islamic financing and investing products and Islamic customers’ deposits

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 and related transactions are accounted for in accordance with its accounting policies for financial instruments and revenue recognition (see note 3).

4. Islamic financing and investing products and Islamic customers' deposits (continued)

4.1 Definitions

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

4.1.1 Murabaha

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

4.1.2 Ijarah Munttahiya Bittamleek

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

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

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value or as a gift by a separate sale or gift contract at the end of the lease period.

4.1.3 Wakala

An agreement between two parties whereby one party is a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to an agent (the "Wakeel"), who invests the Wakala Capital in a Sharia'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration/distribution by the Wakeel.

The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

5.1 Critical judgments in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

5.1.1 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets accounting policy in note 3.28). 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 judgement reflecting all relevant evidence including how the performance of the assets is evaluated and 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.

5.1.2 Significant increase of credit risk

As explained in note 3.28.5, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL 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. Refer to note 3.28 and note 41.1 for more details.

5.1.3 Establishing groups of assets with similar credit risk characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 41.1 for details of the characteristics considered in this judgement. 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 ECL, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECL but the amount of ECL changes because the credit risk of the portfolios differ.

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

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

5.1.4 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. See note 3.28 and note 41.1 for more details on ECL and note 42 for more details on fair value measurement.

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

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

5.1.6 No reasonable expectation to recover financial asset

Management writes-off its financial assets when there is no reasonable expectation of recovering the financial asset (or a part thereof) including financial assets, which can still be subject to enforcement activity. In making this judgement of 'no reasonable expectation to recover', management considers, among others, factors like number of days past due, values of collaterals, financial position of the borrower and cost of recovery. The judgement is reassessed if management becomes aware of new and reliable information. If on the basis of new information management concludes that there are reasonable expectation to recover financial assets, management recognises recovery income and financial assets or any other non-financial asset received or to be received.

5.1.7 Significant influence over ARZAQ

Note 14 describes that ARZAQ is an associate of the Bank. The Bank owns 48 percent ownership interest in ARZAQ. The Bank has significant influence over ARZAQ by virtue of its right to cast 48 percent of the votes at shareholders' meeting of that company.

5.2 Key sources of estimation uncertainty

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

5.2.1 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. Refer to note 41.1 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

5.2.2 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. See note 41.1 for more details.

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

5.2 Key sources of estimation uncertainty (continued)

5.2.3 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. See note 41.1.

5.2.4 Fair value measurement and valuation process

Certain assets and liabilities are measured at fair value for financial reporting purposes. The management determines the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group uses valuation models or engages third party qualified independent valuers to perform the valuation. Management works closely with the qualified independent valuers to establish the appropriate valuation techniques and inputs to the model. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes 11, 15, 17 and 42.

5.2.5 Leasehold property improvements

Management determined the estimated useful life and related depreciation charges for its leasehold property improvements. This estimate is based on an assumption that the Group will renew its annual lease over the estimated useful life. It could change significantly should the annual lease not be renewed. Management will increase the depreciation charge where useful life is less than previously estimated life. If the estimated useful lives of the leasehold property improvement are reduced by one year, the depreciation expense would increase by AED 0.9 million (2018: AED 1.0 million).

5.2.6 Property and equipment, investment properties and intangible assets with finite useful lives

Property and equipment, investment properties and intangible assets with finite useful lives are depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial. If the estimated useful lives of the assets are increased by one year, the depreciation expense would reduce by AED 4.5 million (2018: AED 5.3 million)

5.2.7 Obligation for costs to restore the site of leased assets

Under the terms and conditions of number of tenancy lease agreements, the Group has an obligation for costs to restore the site of leased assets. Amount of provision to be recognised under IAS 37 is estimated and those costs are included in the related right-of-use asset. At the end of the reporting period, restoration cost provision included in the right of use assets amounted to AED 5.3 (2018: AED 1.9).

5.2.8 Impairment of property and equipment and investment properties

The Group determines at each reporting date whether there is any objective evidence that the property and equipment and investment properties are impaired. The management estimates the market value of properties based on the current market conditions and comparative transactions conducted by the Group. Whenever the carrying amount of any property exceeds its recoverable amount, an impairment loss is recognised in profit or loss.

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

5.2 Key sources of estimation uncertainty (continued)

5.2.9 Discount rate used to determine the carrying amount of the Group's defined benefit obligation

The determination of the Group's defined benefit obligation depends on certain assumptions, which include selection of the discount rate, expected rate of salary increase and turnover rate. These assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Group's financial statements within the next year. Further information on the carrying amounts of the Group's defined benefit obligation and the sensitivity of those amounts to changes in discount rate are provided in note 22.1.2.

5.2.10 Determination of appropriate rate to discount the lease payments

The determination of the Group's lease liability depends on certain assumptions, including selection of appropriate discount rate. The determination of discount rate is considered to be a key source of estimation uncertainty as relatively small changes in discount rate may have a significant effect on the carrying amounts of lease liabilities and right of use asset. Further information on the carrying amounts of the Group's lease liabilities and right of use asset and the sensitivity of interest expense and depreciation expense to changes in discount rate are provided in note 22.2.

6. Cash and balances with the Central Bank of the UAE

In the table below, statutory cash ratio requirements with the Central Bank of the UAE represent mandatory reserve deposits and are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest bearing. Certificates of deposit carry interest rates ranging between 2.05% and 2.52% per annum (2018: 1.68% and 2.60% per annum).

	2019 AED '000	2018 AED '000
Cash on hand	**82,586**	171,436
Balance due from the Central Bank of the UAE:		
Current account	**109,691**	-
Statutory cash ratio requirements	**668,291**	669,222
Certificates of deposit	**1,550,000**	2,900,000
	2,410,568	3,740,658
Balance due to the Central Bank of the UAE:		
Current account	**-**	60,874

7. Deposits and balances due from banks

	2019 AED '000	2018 AED '000
Demand and call deposits	**190,313**	105,302
Term deposits	**-**	1,159,802
	190,313	1,265,104
ECL allowance	**-**	(2,249)
	190,313	1,262,855

CBI

8. Loans and advances to customers

	2019 AED '000	2018 AED '000 (restated)
Retail lending:		
Mortgage loans	**1,087,663**	1,159,495
Credit cards	**116,906**	165,173
Other	**903,972**	1,767,266
	2,108,541	3,091,934
ECL allowance	**(66,644)**	(96,203)
	2,041,897	2,995,731
Wholesale lending:		
Loans	**8,234,783**	7,976,166
Overdrafts	**1,184,551**	1,183,066
Trust receipts	**378,067**	441,375
Bills discounted	**425,148**	476,375
	10,222,549	10,076,982
ECL allowance	**(740,121)**	(416,914)
	9,482,428	9,660,068
	11,524,325	12,655,799

9. Islamic financing and investing assets

	2019 AED '000	2018 AED '000
Wholesale lending:		
Murabaha	**91,526**	187,369
Ijarah Munttahiya Bittamleek	**155,350**	24,335
	246,876	211,704
Deferred income	**(3,055)**	(5,241)
	243,821	206,463
ECL allowance	**(2,726)**	(727)
	241,095	205,736

10. Receivables and other assets

	Current assets 2019 AED '000	Non-current assets 2019 AED '000	Total 2019 AED '000	Current assets 2018 AED '000 (restated)	Non-current assets 2018 AED '000 (restated)	Total 2018 AED '000 (restated)
Non-financial assets						
Prepayments	**8,117**	**-**	**8,117**	12,688	-	12,688
Advances to acquire properties (i)	**30,000**	**-**	**30,000**	34,817	-	34,817
	38,117	**-**	**38,117**	47,505	-	47,505
Financial assets						
Interest receivable	**30,776**	**-**	**30,776**	16,741	-	16,741
Profit receivable	**2,179**	**-**	**2,179**	2,179	-	2,179
Customer acceptances	**1,905,926**	**-**	**1,905,926**	2,582,835	-	2,582,835
Other	**241,484**	**-**	**241,484**	243,939	-	243,939
	2,180,365	**-**	**2,180,365**	2,845,694	-	2,845,694
ECL allowance			**(2,980)**			(6,077)
			2,177,385			2,839,617
			2,215,502			2,887,122

10. Receivables and other assets (continued)

(i) During the year, the Group has written-down advances to acquire properties by AED 4.8 million (2018: AED 3.9 million) and recognised in 'net impairment loss on non-financial assets'.

11. Property inventory

The property inventory comprises real estate properties held by the Group for the purpose of sale in the ordinary course of business and is carried at lower of cost or net realisable value. The movements in property inventory during the year were as follows:

	2019 AED '000	2018 AED '000
Balance at 1 January	**447,544**	561,594
Properties repossessed during the year	**84,896**	-
Net realisable value adjustment during the year	**(22,103)**	(84,874)
Disposals during the year	**(103,765)**	(29,176)
Balance at 31 December	**406,572**	447,544

The net realisable value of the Group's property inventory as at 31 December 2019 and 31 December 2018 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Group. Independent valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The net realisable value was determined based on either the market comparable approach that reflects recent transaction prices for similar properties or on a present value calculation of the estimated future cash flows supported by existing lease and current market rents for similar properties at the same location. The Net realisable value adjustments have been included in profit or loss in the 'Net impairment loss on non-financial assets' line item. All property inventories are within the UAE.

12. Investment securities measured at fair value

The Group has designated the following investments in equity instruments and investment fund at FVTOCI as these are investments that the Group plans to hold in the long term for strategic reasons. The table below shows these investments as well as the dividend income recognised from these investments.

	Fair value		Dividend income	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Investment in quoted shares	**14,475**	16,004	**-**	804
Investment in unquoted shares	**33,116**	42,828	**264**	-
Investment in unquoted investment fund	**2,695**	2,695	**-**	-
	50,286	61,527	**264**	804

An analysis of concentration of investment securities measured at fair value by sector and by region is as follows:

	Within the UAE		Outside the UAE	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Financial institutions	**41,991**	53,067	**5,600**	5,765
Real estate	**2,695**	2,695	**-**	-
	44,686	55,762	**5,600**	5,765

13. Investment securities measured at amortised cost

	2019 AED '000	2018 AED '000
Investment in debt instruments	**984,429**	753,521
Investment in Islamic Sukuk	**255,922**	256,216
	1,240,351	1,009,737
ECL allowance	**(2,937)**	(440)
	1,237,414	1,009,297

The Group holds these investment securities with an average yield of 2.1% to 7.4% per annum (2018: 2.4% to 7.4% per annum). The investment securities are redeemable at par on various maturity dates from 2020 to 2028 (2018: 2020 to 2027).

14. Investment in associate

Details of the Group's associate at the end of the reporting period are as follows:

Name	Principal activity	Principal place of business	Place of incorporation	% of ownership 2019	% of ownership 2018
ARZAQ	Real estate	Sharjah - the UAE	Sharjah - the UAE	48.0	48.0

This associate is accounted for using the equity method in these consolidated financial statements.

Pursuant to a shareholder agreement, the Bank has the right to cast 48% of the votes at shareholder meetings of ARZAQ.

Summarised financial information in respect of ARZAQ at the end of the reporting period is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRS adjusted by the Group for equity accounting purposes.

	Current assets AED '000	Non-current assets AED '000	Current liabilities AED '000	Non-current liabilities AED '000
31 December 2019	**694**	**137,450**	**85,758**	**41,294**
31 December 2018	881	141,100	27,629	95,608

	Revenue AED '000	Profit for the year AED '000	OCI AED '000	Dividend received AED '000
Year ended 31 December 2019	**10,050**	**(1,645)**	**-**	**-**
Year ended 31 December 2018	10,864	4,307	-	-

Reconciliation of the abovementioned summarised financial information to the carrying amount of the interest in ARZAQ recognised in the consolidated financial statements is as follows:

14. Investment in associate (continued)

	2019 AED '000	2018 AED '000
Net assets of associate	**11,092**	18,744
Adjustments	**-**	807
	11,092	19,551
Proportion of ownership	**48%**	48%
	5,324	9,384
Transfer fee capitalised	**-**	150
Carrying amount of investment in associates	**5,324**	9,534

15. Investment properties

	2019 AED '000	2018 AED '000
Cost:		
Balance at 1 January	**113,271**	209,128
Disposals during the year	**(17,281)**	-
Transfer to property and equipment	**-**	(95,857)
Balance at 31 December	**95,990**	113,271
Accumulated depreciation and accumulated impairment:		
Balance at 1 January	**43,283**	26,498
Depreciation charge for the year	**3,376**	5,415
Impairment during the year	**460**	23,595
Eliminated on disposals	**(7,256)**	-
Transfer to property and equipment	**-**	(12,225)
Balance at 31 December	**39,863**	43,283
Carrying value:		
Balance at 31 December	**56,127**	69,988

Fair value of investment properties

The fair value of the Group's investment property as at 31 December 2019 and 31 December 2018 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Group. Independent valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on a present value calculation of the estimated future cash flows supported by existing lease and current market rents for similar properties at the same locations. The interest rate, which is used to discount the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

15. Investment properties (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2019 and 31 December 2018 are as follows:

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Fair value AED '000
31 December 2019	**-**	**-**	**58,327**	**58,327**
31 December 2018	-	-	78,044	78,044

At the end of reporting period, as a result of indication of decline in fair value of investment properties, the Group carried out a review of the recoverable amount of its investment properties. The review led to the recognition of an impairment loss of AED 0.5 million (2018: AED 23.6 million), which has been recognised in profit or loss in the 'net impairment loss on non-financial assets' line item. A 5% decrease in recoverable amount will lead to an impairment charge of AED 2.4 million (2018: AED 2.6 million).

All investment properties are within the UAE. During the year the Group recognised rental income of AED 2.6 million (2018: AED 6.3 million) from investment properties which is included in other operating income in note 33. The group also incurred AED 0.9 million (2018: AED 0.90 million) operating expenses from investment property that generated rental income during the year.

16. Intangible assets

Intangible assets mainly comprise of software and licenses. Significant intangible assets include the 'Core Banking System' and 'Digital Bank Platform'. The carrying amount of these intangible assets is AED 31.4 million and AED 17.4 million respectively (31 December 2018: AED 35.6 million and AED 24.6 million respectively) and will be fully amortised in 7.5 years and 2.5 years respectively (31 December 2018: 8.5 years and 3.5 years respectively).

	2019 AED '000	2018 AED '000
Cost:		
Balance at 1 January	**105,077**	95,795
Additions during the year	**673**	408
Transfer	**5,430**	8,874
Balance at 31 December	**111,180**	105,077
Accumulated amortisation:		
Balance at 1 January	**33,308**	17,230
Amortisation charge for the year	**16,404**	16,078
Balance at 31 December	**49,712**	33,308
Carrying value:		
Balance at 31 December	**61,468**	71,769

CBI

17. Property and equipment

	Freehold land and buildings AED '000	Property Improvem-ents AED '000	Furniture, fixtures, equipment and vehicles AED '000	Right of use assets AED '000	Capital work in progress AED '000	Total AED '000
Cost or revalued amount:						
Balance at 1 January 2018 (restated)	102,867	30,007	46,865	48,277	6,751	234,767
Revaluations	(46,770)	-	-	-	-	(46,770)
Additions during the year	-	192	2,387	-	12,831	15,410
Disposals during the year	-	-	(745)	-	-	(745)
Adjustments	-	-	-	23,771	-	23,771
Written off	-	(6,495)	(156)	-	-	(6,651)
Transfer	95,857	4,358	317	-	(13,549)	86,983
Balance at 31 December 2018 (restated)	151,954	28,062	48,668	72,048	6,033	306,765
Revaluations	3,995	-	-	-	-	3,995
Additions during the year	-	443	229	-	17,126	17,798
Disposals during the year	(99,852)	(3,092)	(296)	-	-	(103,240)
Adjustments	-	-	-	(3,010)	-	(3,010)
Written off	-	-	-	-		-
Transfer	-	1,540	2,090	-	(9,060)	(5,430)
Balance at 31 December 2019	**56,097**	**26,953**	**50,691**	**69,038**	**14,099**	**216,878**
Accumulated depreciation and accumulated impairment:						
Balance at 1 January 2018 (restated)	1,616	19,904	34,512	10,317	-	66,349
Revaluations	(2,993)	-	-	-	-	(2,993)
Depreciation for the year	5,757	3,907	7,769	11,665	-	29,098
Impairment	(9,020)	333	-	-	-	(8,687)
Written off	-	(6,171)	(156)	-	-	(6,327)
Disposals	-		(711)	-	-	(711)
Transfer	12,225	-	-	-	-	12,225
Balance at 31 December 2018 (restated)	7,585	17,973	41,414	21,982	-	88,954
Revaluations	-	-	-	-	-	-
Depreciation for the year	3,552	3,722	4,188	13,352	-	24,814
Impairment	(58)	-	-	-	-	(58)
Adjustments	-	-	-	(1,891)	-	(1,891)
Written off	-	-	-	-	-	-
Disposals	(4,792)	(3,086)	(273)	-	-	(8,151)
Balance at 31 December 2019	**6,287**	**18,609**	**45,329**	**33,443**	**-**	**103,668**
Carrying value:						
Balance at 31 December 2019	**49,810**	**8,344**	**5,362**	**35,595**	**14,099**	**113,210**
Balance at 31 December 2018 (restated)	144,369	10,089	7,254	50,066	6,033	217,811

17. Property and equipment (continued)

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 31 December 2019 and 31 December 2018 were performed by independent valuers not related to the Group. The valuers have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value of the buildings was determined based on a present value calculation of the estimated future cash flows supported by existing lease and current market rents for similar properties in the same location. The interest rate, which is used to discount the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows. Details of the Group's freehold land and buildings and information about the fair value hierarchy as at 31 December 2019 and 31 December 2018 are as follows:

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Fair value AED '000
31 December 2019				
Land	**-**	**-**	**22,000**	**22,000**
Buildings	**-**	**-**	**27,810**	**27,810**
31 December 2018				
Land	-	-	22,000	22,000
Buildings	-	-	122,369	122,369

At the end of reporting period, as a result of an indication of a decline in fair value of its properties, the Group carried out a review of the recoverable amount of its properties. The review led to an reversal of impairment loss of AED 0.06 million (2018: reversal of impairment loss of AED 8.7 million), which has been recognised in profit or loss in the 'net impairment loss on non-financial assets' line item. A 5% decrease in recoverable amount will lead to an impairment charge of AED 0.5 million (2018: AED 5.0 million).

Had the Group's land and buildings been measured on a historical cost basis their carrying amount would have been as follows:

	2019 AED '000	2018 AED '000
Freehold land	**11,929**	11,929
Buildings	**12,353**	105,262
	24,282	117,191

Right of use assets include premises that the Group has leased. The lease term ranges between 2 to 5 years (2018: 2 to 5 years).

Leases amounting to AED 1.8 million (2018: Nil) expired/amended in the current financial year. New leases for identical underlying assets replaced the expired/pre-amended contracts. This resulted in adjustment to right-of use assets of AED 0.4 million in 2019. Details of sensitivity of depreciation expense of right of use assets to changes in discount rate are provided in note 22.2.

18. Discontinued operations

18.1 Abandonment of brokerage operations

During 2017, the management decided to abandon its brokerage operations, which constituted a separate line of business and consequently brokerage operations were ceased on 1 July 2018. The results of brokerage operations, which in 2019 mainly consists of regulatory fees paid to obtain required approvals, are presented separately as 'discontinued operation' in the consolidated income statement.

18.2 Subsidiary acquired exclusively with a view for subsequent disposal

The Group had acquired a subsidiary ACDL exclusively with a view for subsequent disposal. At the time of acquisition, management anticipated that disposal would be completed by 30 September 2019 and assets and liabilities of the ACDL acquired were classified as held for sale.

During the year, disposal of ACDL did not take place as anticipated. At the end of the reporting period, management reassessed its classification as 'non-current asset held for sale' to assess whether CBI should continue to classify it as 'Non-current asset held for sale'. Based on the reassessment, management concluded that the assets still meets the criteria of IFRS 5 to be classified as 'non-current asset held for sale'.

18.3 Analysis of profit and cash flows for the year from discontinued operations

The combined results of the discontinued operations included in the profit for the year are set out below.

- **Assets and liabilities comprising the discontinued operations classified as held for sale**

	2019 AED '000	2018 AED '000
Property and equipment	**104,064**	106,540
Other assets	**15,126**	15,545
Total assets	**119,190**	122,085
Other liabilities	**(13,323)**	(13,323)
Net assets	**105,867**	108,762

- **Profit/(loss) from discontinued operations**

	2019 AED '000	2018 AED '000
Fee and commission income	**-**	37
Other operating income	**-**	500
Net operating income	**-**	537
General and administrative expenses	**(47)**	(2,255)
Net impairment gain on financial asset	**46**	569
Net impairment gain/(loss) on non-financial assets	**24,379**	(26,597)
	24,378	(27,746)
Profit/(loss) from discontinued operations attributable to:		
Owners of the Bank	**24,378**	(27,743)
Non-controlling interests	**-**	(3)
	24,378	(27,746)

18. Discontinued operations (continued)

18.3 Analysis of profit and cash flows for the year from discontinued operations (continued)

- **Cash flows from discontinued operations**

	2019 AED '000	2018 AED '000
Net cash used in operating activities	**(1)**	(9,819)
Net cash used in investing activities	**-**	(18)
	(1)	(9,837)

- **Earnings per share from discontinued operations**

	2019 AED '000	2018 AED '000
Basic and diluted	**0.014**	(0.003)

19. Deposits and balances due to banks

	2019 AED '000	2018 AED '000 (restated)
Demand and call deposits	**27,867**	37,454
Term borrowings	**1,664,875**	1,783,144
	1,692,742	1,820,598

The geographical analysis of deposits and balances due to banks is as follows:

	2019 AED '000	2018 AED '000 (restated)
Within the UAE	**312,218**	566,350
Outside the UAE	**1,380,524**	1,254,248
	1,692,742	1,820,598

20. Customers' deposits

	2019 AED '000	2018 AED '000
Current accounts	**2,694,664**	3,808,925
Saving accounts	**937,299**	629,178
Time deposits	**7,371,529**	9,875,766
Other	**250,779**	303,756
	11,254,271	14,617,625

20. Customers' deposits (continued)

The geographical analysis of customers' deposits is as follows:

	2019 AED '000	2018 AED '000
Within the UAE	**10,995,464**	13,782,406
Outside the UAE	**258,807**	835,219
	11,254,271	14,617,625

21. Islamic customers' deposits

	2019 AED '000	2018 AED '000
Current accounts	**69,579**	98,787
Investment deposits	**705,831**	499,902
Other	**37,840**	38,443
	813,250	637,132

All Islamic customers' deposits are from customers within the UAE.

22. Payables and other liabilities

	Current liabilities 2019 AED '000	Non-current liabilities 2019 AED '000	Total 2019 AED '000	Current liabilities 2018 AED '000 (restated)	Non-current liabilities 2018 AED '000 (restated)	Total 2018 AED '000 (restated)
Non-financial liabilities						
Unearned commission	**12,114**	**-**	**12,114**	20,612	-	20,612
Liability arising from defined benefit obligation (see 22.1.2)	**35,324**	**-**	**35,324**	37,558	-	37,558
Value Added Tax (VAT) payable	**3,586**	**-**	**3,586**	9,542	-	9,542
ECL allowance	**24,081**	**-**	**24,081**	34,741	-	34,741
	75,105		**75,105**	102,453	-	102,453
Financial liabilities						
Interest payable	**117,638**	**-**	**117,638**	165,351	-	165,351
Profit payable	**8,867**	**-**	**8,867**	7,983	-	7,983
Lease liability (see 22.2)	**11,952**	**23,556**	**35,508**	13,274	36,062	49,336
Cheques and drafts payable	**32,713**	**-**	**32,713**	31,150	-	31,150
Customer acceptances	**1,905,926**	**-**	**1,905,926**	2,582,835	-	2,582,835
Amounts to mitigate value of collaterals for derivatives	**68,811**	**-**	**68,811**	94,936	-	94,936
Other	**89,955**	**-**	**89,955**	123,371	-	123,371
	2,235,862	**23,556**	**2,259,418**	3,018,900	36,062	3,054,962
	2,310,967	**23,556**	**2,334,523**	3,121,353	36,062	3,157,415

22. Payables and other liabilities (continued)

22.1 Retirement benefit plans

22.1.1 Defined contribution plan

The UAE national employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labour Law No. 7 of 1999, the Group is required to contribute 15% of the "contribution calculation salary" of the UAE payroll costs to the retirement benefit scheme to fund the benefits. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement.

22.1.2 Defined benefit plan

The Group sponsors defined benefit plan for qualifying employees as per the UAE Labour Law. Under the plan the employees' entitlement to the benefit is based upon the employees' salary and length of service, subject to completion of minimum service period.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2019 and 31 December 2018 by an independent Actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2019	2018
Discount rate	**3.16%**	3.95%
Expected rate of salary increase	**3.00%**	2.00%

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	2019 AED '000	2018 AED '000
Service cost:		
Current service cost	**5,165**	7,410
Past service cost and gain/(loss) from settlements	**(1,268)**	-
Interest expense	**1,254**	-
	5,151	7,410

Amounts recognised in other comprehensive income are as follows:

	2019 AED '000	2018 AED '000
Actuarial gains and losses arising from changes in assumptions	**8,361**	-
Other remeasurement of net defined benefit liability	**-**	4,958
	8,361	4,958

22. Payables and other liabilities (continued)

22.1 Retirement benefit plans (continued)

22.1.2 Defined benefit plan (continued)

The amount included in the statement of financial position arising from the Group's obligations in respect of its defined benefit plans is as follows:

	2019 AED '000	**2018 AED '000**
Present value of defined benefit obligation	**35,324**	37,558

Movements in the present value of defined benefit obligations in the year were as follows:

	2019 AED '000	**2018 AED '000**
Balance at 1 January	**37,558**	41,044
Service cost	**3,897**	7,410
Interest expense	**1,254**	-
Remeasurement (gain)/loss	**8,361**	(4,958)
Acquisition of a subsidiary	**-**	197
Benefits paid during the year	**(15,746)**	(6,135)
Balance at 31 December	**35,324**	37,558

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected rate of salary increase and turnover rate. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 50 basis points higher, the defined benefit obligation would decrease by AED 1.7 million (2018: AED 1.0 million) and if the discount rate is 50 basis points lower, the defined benefit obligation would increase by AED 1.9 million (2018: AED 1.0 million).

If the expected rate of salary increase increases by 50 basis points, the defined benefit obligation would increase by AED 1.9 million (2018: AED 1.0 million) and If the expected rate of salary increase decreases by 50 basis points, the defined benefit obligation would decrease by AED 1.7 million (2018: AED 1.0 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

22. Payables and other liabilities (continued)

22.2 Lease liability

Maturity analysis of lease liability is as follows:

	2019 AED '000	2018 AED '000
Year 1	**11,952**	13,274
Year 2	**11,636**	12,920
Year 3	**8,844**	12,025
Year 4	**1,626**	8,844
Year 5	**1,450**	1,626
Onwards	**-**	647
	35,508	49,336

At the end of the reporting period, the Group is committed to AED 0.9 million (2018: AED 1.4 million) for short-term leases. None of the leases in which the Group is the lessee contain variable lease payment terms. At the end of reporting period, there are no leases that are committed but not commenced.

Discount rate, among others, is the significant assumption that is used in determination of carrying value of right of use assets and lease liability. The sensitivity analyses below have been determined based on a 50 basis points change in discount rate at the end of the reporting period, while holding all other assumptions constant.

	Increase/(decrease) in interest expense		Increase/(decrease) in depreciation expense	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Discount rate is 50 basis points higher	**179**	201	**(136)**	(131)
Discount rate is 50 basis points lower	**(183)**	(206)	**139**	134

23. Share capital

The authorised, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (2018: 1,737,383,050 shares of AED 1 each). Fully paid up shares carry one vote per share and carry a right to dividends.

24. Tier 1 Capital Securities

On 23 December 2015, the Bank issued Tier 1 Capital Securities (the "Capital Securities") through an SPV, CBI Tier 1 Private Ltd, (the "Issuer") amounting to USD 125 million (AED 459.125 million). These Capital Securities are perpetual and carry an interest rate of 6.50 % (calculated based on the relevant Six- Years Mid Swap Rate plus 4.71 percent per annum) during the "initial period". After the initial period, at every reset date, interest would be calculated for the next reset period at the relevant Six-Year Mid Swap Rate plus a margin of 4.71 percent per annum. Interest is payable semi-annually in arrears on these Capital Securities. The "Initial Period" is the period (from and including) the Issue Date to (but excluding) the First Call Date. The "Reset Date" is the First Call Date and every sixth anniversary thereafter. These Capital Securities are callable by the Bank beginning from 23 December 2021 "First Call date" and every interest payment date thereafter.

Tier 1 Capital Securities are perpetual, subordinated and unsecured. The Bank may elect not to pay a coupon at its own discretion. The holder of the Capital Securities does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default.

25. Reserves

25.1 Statutory reserve

In accordance with UAE Federal Law and the Bank's Articles of Association, a transfer equivalent to at least 10% of the annual net profit is made annually to the statutory reserve until such reserve equals 50% of the paid up share capital.

25.2 General reserve

In accordance with the Bank's Articles of Association, a transfer equivalent to at least 10% of the annual net profit should be made to a general reserve each year until the value of the reserve is equal to 50% of the nominal value of the issued share capital.

25.3 Properties revaluation reserve

The properties revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings. The revaluation surplus is also transferred as the properties are used by the Group. The amount of surplus so transferred is the difference between depreciation based on the revalued carrying amount of the properties and depreciation based on the properties original cost.

25.4 Investments revaluation reserve

The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of financial assets carried at fair value through other comprehensive income.

25.5 CBUAE provision reserve

CBUAE provision reserve comprise of following

	2019 AED '000	2018 AED '000
Specific provision reserve	**223,377**	133,833
General provision reserve	**33,534**	-
	256,911	133,833

25.5.1 Specific provision reserve

In accordance with the requirements of CBUAE the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance for stage 3 exposures calculated under IFRS 9 is transferred to 'specific provision reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends. Had the Group taken provision in accordance with the requirements of the CBUAE, the profit for the year would have been lower by AED 89.5 million (2018: AED 133.8 million).

25.5.2 General provision reserve

In accordance with the requirements of CBUAE the excess of the credit impairment provisions of 1.5% of total credit risk weighted assets calculated in accordance with CBUAE requirements over the ECL allowance of stage 1 and stage 2 exposures calculated under IFRS 9 is transferred to 'general provision reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends. Had the Group taken provision in accordance with the requirements of the CBUAE, the profit for the year would have been lower by AED 33.5 million (2018: Nil).

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25. Reserves (continued)

The movement in these reserves is as follows:

	Statutory reserve AED '000	General reserve AED '000	Properties revaluation reserve AED '000	Investment revaluation reserve AED '000	CBUAE provision reserve AED '000	Total AED '000
2019						
As at 1 January	257,674	22,551	27,178	(43,870)	133,833	397,366
Other comprehensive income/(loss)	-	-	3,995	(11,039)	-	(7,044)
Transfers	11,104	(11,447)	(3,995)	-	123,078	118,740
Depreciation of properties revaluation reserve	-	-	(1,708)	-	-	(1,708)
As at 31 December	**268,778**	**11,104**	**25,470**	**(54,909)**	**256,911**	**507,354**
2018						
As at 1 January	235,123	17,459	72,950	(39,706)	-	285,826
Other comprehensive income/(loss)	-	-	(43,778)	(4,164)	-	(47,942)
Transfers	22,551	5,092	-	-	133,833	161,476
Depreciation of properties revaluation reserve	-	-	(1,994)	-	-	(1,994)
As at 31 December	257,674	22,551	27,178	(43,870)	133,833	397,366

26. Non-controlling interests

Non-controlling interests in respect of the Group's non-wholly owned subsidiary is set out below.

	% of ownership and voting rights		Profit/(loss) allocated to non-controlling interests for the year		Non-controlling interests	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
IFB	**99.4%**	99.4%	6	(3)	312	306

27. Interest income

	2019 AED '000	2018 AED '000 (restated)
Loans and overdrafts	**777,814**	803,273
Bills discounted	**16,382**	13,849
Debt instruments	**35,148**	8,993
Placements with banks	**72,775**	35,329
	902,119	861,444

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28. Income from Islamic financing and investing assets

	2019 AED '000	2018 AED '000
Murabahas	**5,577**	6,953
Ijarah Munttahiya Bittamleek	**4,082**	1,760
Islamic sukuk	**9,094**	25,686
Islamic investment deposits	**222**	3,571
	18,975	37,970

29. Interest expense

	2019 AED '000	2018 AED '000 (restated)
Customers' deposits	**338,906**	308,191
Borrowings from banks	**83,160**	37,944
Defined benefit obligation	**1,254**	-
Lease liabilities	**1,864**	2,064
	425,184	348,199

30. Distribution to Islamic depositors

	2019 AED '000	2018 AED '000
Islamic customers' deposits	**22,157**	16,046
Islamic investment deposits from banks	**374**	-
	22,531	16,046

31. Net fee and commission income

	2019 AED '000	2018 AED '000 (restated)
Fee and commission income:		
Commission on trade finance products	**65,835**	70,079
Advisory fee	**71,832**	145,840
Facility processing fee	**28,650**	34,199
Account service fee	**38,056**	26,093
Banking fee and commission	**9,769**	10,608
Insurance commission	**7,962**	12,930
Credit card related fee	**22,975**	28,309
Clearing and settlement fee	**6,034**	6,404
Other	**8,059**	7,059
	259,172	341,521
Fee and commission expense:		
Credit card related expenses	**(14,128)**	(17,157)
Other	**(10,468)**	(9,206)
	(24,596)	(26,363)
	234,576	315,158

32. Net gain from derecognition of financial asset measured at amortised cost

During the year ended 31 December 2019 and 2018, the Group sold certain financial assets measured at amortised cost in response to changes in regulatory requirements.

The table below summarises the carrying amount of derecognised financial assets measured at amortised cost and the gain/(loss) on derecognition.

	Carrying amount		Gain/(loss) from derecognition	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Sovereign bonds	**204,418**	55,208	**2,111**	1,185

33. Other operating income, net

	2019 AED '000	2018 AED '000
Foreign exchange gains	**42,347**	59,438
Dividend income	**264**	804
Net (loss)/income from financial assets at FVTPL	**(324)**	(498)
Amortisation of day 1 profit	**15,588**	-
Other	**11,094**	14,623
	68,969	74,367

34. General and administrative expenses

	2019 AED '000	2018 AED '000 (restated)
Payroll and related expenses (i)	**221,718**	251,988
Contributions to defined contribution plan	**3,000**	4,753
Rent	**2,043**	5,768
Amortisation of intangible assets	**16,404**	16,078
Depreciation on property and equipment	**24,814**	29,098
Depreciation on investment properties	**3,376**	5,415
Directors' expenses	**1,624**	1,889
Write-off of property and equipment	**-**	398
Social contributions	**-**	2
Insurance expense	**9,882**	10,180
Consultation fees	**32,310**	9,591
Maintenance costs	**24,529**	24,131
Other	**35,930**	49,938
	375,630	409,229

(i) These include provision for VR of AED 23.0 million. During the period, the Group offered a VR program to all of its existing employees. The VR program is part of the Group's transformation strategy and it will help generate sustainable growth, improve efficiency and continue delivering high quality services to customers.

35. Net impairment loss on financial assets

	2019 AED '000	2018 AED '000
Net ECL charge for the year	**342,473**	254,983
Recoveries against written off loans	**(63,243)**	(112,642)
Bad debts written off	**129**	6,631
Other	**5,855**	7,194
	285,214	156,166

36. Net impairment loss on non-financial assets

	2019 AED '000	2018 AED '000
Impairment loss on property inventory	**22,103**	84,874
Impairment loss on investment properties	**460**	23,595
Impairment loss on property and equipment	**(58)**	(8,687)
Impairment loss on other non-financial assets	**4,817**	3,988
	27,322	103,770

37. Contingent liabilities and commitments

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to provide a loan. Even though these obligations may not be recognised on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

37.1 Letters of credit and guarantees

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The contractual amounts of contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the end of reporting period if counterparties failed to perform as contracted.

	2019 AED '000	2018 AED '000
Guarantees	**3,174,176**	3,160,482
Letters of credit	**489,808**	316,824
	3,663,984	3,477,306

37. Contingent liabilities and commitments (continued)

37.1 Other commitments

At any time, the Group has outstanding irrevocable Commitments to provide a loan. These commitments are in the form of approved loan facilities. The amounts reflected in the table below for commitments assume that amounts are fully advanced.

	2019 AED '000	**2018 AED '000**
Loan commitments	**1,997,163**	2,487,308
Capital commitments	**1,805**	3,359
	1,998,968	2,490,667

38. Basic and diluted earnings per share

Earnings per share are calculated by dividing the profit for the year attributed to the owners of the Bank less interest paid on Tier 1 Capital Securities by the weighted average number of shares in issue throughout the period as follows:

	From continuing operations		**From continuing and discontinued operations**	
	2019	**2018 (restated)**	**2019**	**2018 (restated)**
Profit for the period attributable to owners of the Bank (AED '000)	**86,659**	250,862	**111,031**	223,119
Interest on Tier 1 Capital Securities (AED '000)	**-**	(29,843)	**-**	(29,843)
	86,659	221,019	**111,031**	193,276
Weighted average number of shares in issue ('000)	**1,737,383**	1,737,383	**1,737,383**	1,737,383
Basic and diluted earnings per share (AED)	**0.050**	0.127	**0.064**	0.111

39. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2019 AED '000	**2018 AED '000**
Cash and balances with the Central Bank of the UAE	**2,410,568**	3,740,658
Deposits and balances due from banks	**190,313**	1,265,104
	2,600,881	5,005,762
Less: Statutory reserve with the Central Bank of the UAE (note 6)	**(668,291)**	(669,222)
Less: Certificates of deposit with an original maturity of more than 90 days.	**(1,550,000)**	(500,000)
Less: Deposits and balances due from banks with an original maturity of more than 90 days.	**-**	(183,665)
	382,590	3,652,875

40. Classification of financial assets and financial liabilities

40.1 Non-derivative financial assets and financial liabilities

	At fair value		At amortised cost		Total	
	2019 AED '000	2018 AED '000 (restated)	2019 AED '000	2018 AED '000 (restated)	2019 AED '000	2018 AED '000 (restated)
Non-derivative financial assets						
Cash and balances with the Central Bank of the UAE	**-**	-	**2,410,568**	3,740,658	**2,410,568**	3,740,658
Deposits and balances due from banks	**-**	-	**190,313**	1,265,104	**190,313**	1,265,104
Loans and advances to customers	**-**	-	**12,331,090**	13,168,916	**12,331,090**	13,168,916
Islamic financing and investing assets	**-**	-	**243,821**	206,463	**243,821**	206,463
Receivables and other assets	**-**	-	**2,180,365**	2,845,694	**2,180,365**	2,845,694
Investment securities at fair value - FVTOCI	**50,286**	61,527	**-**	-	**50,286**	61,527
Investment securities measured at amortised cost	**-**	-	**1,240,351**	1,009,737	**1,240,351**	1,009,737
	50,286	61,527	**18,596,508**	22,236,572	**18,646,794**	22,298,099
Derivative financial assets - FVTPL	**26,792**	29,659	**-**	-	**26,792**	29,659
	77,078	91,186	**18,596,508**	22,236,572	**18,673,586**	22,327,758
Non-derivative financial liabilities						
Balance due to the Central Bank of the UAE	**-**	-	**-**	60,874	**-**	60,874
Deposits and balances due to banks	**-**	-	**1,692,742**	1,820,598	**1,692,742**	1,820,598
Customers' deposits	**-**	-	**11,254,271**	14,617,625	**11,254,271**	14,617,625
Islamic customers' deposits	**-**	-	**813,250**	637,132	**813,250**	637,132
Payables and other liabilities	**-**	-	**2,259,418**	3,054,962	**2,259,418**	3,054,962
	-	-	**16,019,681**	20,191,191	**16,019,681**	20,191,191
Derivative financial liabilities - FVTPL	**27,409**	30,107	**-**	-	**27,409**	30,107
	27,409	30,107	**16,019,681**	20,191,191	**16,047,090**	20,221,298

41. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments. The exposures to these risks and how they arise has remained unchanged from last year.

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The following section discusses the Group's risk management policies which remain unchanged from last year.

41.1 Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

41.1.1 Management of credit risk

The Group's credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, which is based on an approved risk appetite framework, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.2 Significant increase in credit risk

As explained in note 3 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 rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises ten 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 utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For wholesale exposures: information obtained by periodic review of customer files including review of audited financial statements, analysis of market data such as prices of credit default swaps (CDS) or quoted bonds where available, assessment for changes in the financial sector in which the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.2 Significant increase in credit risk (continued)

Risk grade	Description	Moody's rating
1	Low to fair risk	Aaa
2+	Low to fair risk	Aa1
2	Low to fair risk	Aa2
2-	Low to fair risk	Aa3
3+	Low to fair risk	A1
3	Low to fair risk	A2
3-	Low to fair risk	A3
4+	Low to fair risk	Baa1
4	Low to fair risk	Baa2
4-	Standard monitoring	Baa3
5+	Standard monitoring	Ba1
5	Standard monitoring	Ba2
5-	Standard monitoring	Ba3
6+	Watch and special monitoring	B1
6	Watch and special monitoring	B2
6-	Watch and special monitoring	B3
7+	Watch and special monitoring	Caa1
7	Watch and special monitoring	Caa2
7-	Watch and special monitoring	Caa3
8	Default: Substandard	Ca - C
9	Default: Doubtful	Ca - C
10	Default: Impaired	Ca - C

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as oil prices, Dubai real estate change, and economic composite indicator. 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. The table below summarises certain indicative qualitative indicators assessed.

	Qualitative indicators assessed
Retail lending	Internal rating downgrade, changes in performance behavior of borrower or portfolio (past due days), LTV ratio (for mortgage loans), extension to the terms granted, actual or expected forbearance or restructuring, blacklisted employers or loss of job, adverse change in economic conditions, uncollateralised bullet payment loans.

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.2 Significant increase in credit risk (continued)

	Qualitative indicators assessed
Wholesale lending	Significant change in operating results of a borrower, significant adverse change in regulatory, economic or technological environment, actual or expected forbearance or restructuring, early signs of cash flows and liquidity problems, past due days, internal ratings downgrade, significant increase in exposure at default due to change in collateral value, uncollateralised bullet payment loans.
Due from banks	Significant increase in credit spread, external credit ratings
Debt instruments	Significant increase in credit spread, external credit ratings
Financial guarantee contract	Increase in credit risk of other financial instruments of the borrower

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a wholesale loan are assessed using similar criteria to wholesale loans.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

41.1.3 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 uses 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. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2019 for the years 2019 to 2021, for the UAE, which is the country where the Group operates and therefore is the country that has a material impact on ECL.

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.3 Incorporation of forward-looking information (continued)

	2019	2020	2021
Oil prices (USD per barrel)			
▪ Base scenario	65.9	64.5	64.2
▪ Adverse scenario	35.0	35.5	40.8
Dubai real estate change			
▪ Base scenario	(2.5%)	0.5%	1.5%
▪ Adverse scenario	(13.8%)	(9.3%)	3.1%
Economic composite indicator			
▪ Base scenario	1.6%	2.6%	3.0%
▪ Adverse scenario	(5.0%)	(2.4%)	(1.0%)

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2018 for the years 2018 to 2020, for the United Arab Emirates, which is the country where the Group operates and therefore is the country that has a material impact on ECL.

	2018	2019	2020
Oil prices (USD per barrel)			
▪ Base scenario	55.5	54.7	65.9
▪ Adverse scenario	30.8	37.5	53.1
Dubai real estate change			
▪ Base scenario	(2.9%)	7.7%	5.4%
▪ Adverse scenario	(6.7%)	1.5%	3.5%
Economic composite indicator			
▪ Base scenario	3.1%	3.1%	3.1%
▪ Adverse scenario	(1.1%)	1.3%	1.4%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 years. Other forward-looking considerations, such as inflation and the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to ECL for such factors. This is reviewed and monitored for appropriateness at the end of each reporting period.

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 5%. The table below outlines the total ECL per portfolio as at 31 December 2018, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 5%. The changes are applied in isolation, and are applied to each probability weighted scenario used to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.3 Incorporation of forward-looking information (continued)

	Retail lending AED '000	Wholesale lending AED '000	Due from banks AED '000	Investment securities AED '000
2019				
Oil prices (USD per barrel)				
▪ +5%	**(9)**	**7**	**-**	**-**
▪ -5%	**9**	**5**	**-**	**-**
Dubai real estate change	**(91)**	**649**	**-**	**-**
▪ +5%	**91**	**(651)**	**-**	**-**
▪ -5%				
Economic composite indicator				
▪ +5%	**(424)**	**-**	**-**	**-**
▪ -5%	**432**	**-**	**-**	**-**
2018				
Oil prices (USD per barrel)				
▪ +5%	(2)	(2)	-	-
▪ -5%	2	2	-	-
Dubai real estate change				
▪ +5%	(18)	(998)	-	-
▪ -5%	18	1,006	-	-
Economic composite indicator				
▪ +5%	(46)	-	-	-
▪ -5%	47	-	-	-

Retail lending and wholesale lending in the table above include loan commitments and financial guarantee contracts.

41.1.4 Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

As explained above these figures are generally derived from internally developed statistical models and other historical data and 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 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. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.4 Measurement of ECL (continued)

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 any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted using the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce, in the normal day-to-day management, the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

41.1.5 Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics such as instrument type, credit risk grade, utilisation band and collateral type. The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

41.1.6 Credit quality

Credit risk concentrations

An analysis of the Group's credit risk concentrations per class of financial asset, subject to impairment, is provided in the following tables. The amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

Concentration by sector	**2019 AED '000**	**2018 AED '000 (restated)**
Balances with Central Bank of the UAE		
Central bank	**2,327,982**	3,569,222
Deposits and balances due from banks		
Other banks	**190,313**	1,265,104
Loans and advances to customers		
Retail lending		
Mortgages	**1,087,663**	1,159,495
Unsecured lending	**1,020,878**	1,932,439
	2,108,541	3,091,934
Wholesale lending		
Real estate	**2,568,482**	1,952,390
Construction	**916,438**	860,184
Trade	**1,904,910**	1,977,688
Manufacturing	**626,982**	734,896
Transport, storage and communication	**350,131**	803,627
Gas, electricity and water	**386,921**	339,736
Other	**3,468,685**	3,408,461
	10,222,549	10,076,982
Islamic financing and investing assets		
Wholesale lending		
Real estate	**-**	1,526
Construction	**25,237**	18,493
Trade	**26,542**	23,304
Manufacturing	**27,521**	57,416
Transport, storage and communication	**7,436**	76,989
Other	**157,085**	28,735
	243,821	206,463
Receivables and other assets		
Construction	**190,687**	114,715
Trade	**1,527,040**	1,762,169
Manufacturing	**180,063**	248,396
Other	**282,575**	720,414
	2,180,365	2,845,694
Investment securities measured at amortised cost		
Sovereign	**1,240,351**	1,009,737
Loan commitments, letters of credit and financial guarantee contracts		
Retail lending	**205,919**	292,194
Real estate	**145,275**	72,034
Construction	**3,121,401**	3,468,823
Trade	**686,021**	859,487
Manufacturing	**582,508**	438,773
Transport, storage and communication	**41,957**	32,736
Gas, electricity and water	**59,875**	74,064
Other	**818,191**	726,503
	5,661,147	5,964,614
	24,175,069	28,029,750

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41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

Concentration by region

	2019 AED '000	2018 AED '000 (restated)
The UAE	**22,456,314**	25,483,542
The GCC	**902,602**	1,270,384
Other Arab countries	**15,254**	1,798
Europe	**123,089**	259,184
The USA	**89,266**	183,125
Asia	**325,535**	182,125
Other	**263,009**	649,592
	24,175,069	28,029,750

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

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

- **Balances with Central Bank of the UAE**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2019					
Low to fair risk	2,327,982	-	-	-	2,327,982
Gross carrying amounts	**2,327,982**	**-**	**-**	**-**	**2,327,982**
ECL allowance	-	-	-	-	-
Carrying amount	**2,327,982**	**-**	**-**	**-**	**2,327,982**
31 December 2018					
Low to fair risk	3,569,222	-	-	-	3,569,222
Gross carrying amounts	3,569,222	-	-	-	3,569,222
ECL allowance	-	-	-	-	-
Carrying amount	3,569,222	-	-	-	3,569,222

- **Deposits and balances due from banks**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2019					
Low to fair risk	190,313	-	-	-	190,313
Gross carrying amounts	**190,313**	**-**	**-**	**-**	**190,313**
ECL allowance	-	-	-	-	-
Carrying amount	**190,313**	**-**	**-**	**-**	**190,313**

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Deposits and balances due from banks** (continued)

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2018					
Low to fair risk	1,265,104	-	-	-	1,265,104
Gross carrying amounts	1,265,104	-	-	-	1,265,104
ECL allowance	(2,249)	-	-	-	(2,249)
Carrying amount	1,262,855	-	-	-	1,262,855

- **Loans and advances to customers - retail lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2019					
Low to fair risk	1,765,949	-	-	-	1,765,949
Standard monitoring	65,600	-	-	-	65,600
Watch	-	175,602	-	-	175,602
Substandard	-	-	46,717	-	46,717
Doubtful	-	-	18,513	-	18,513
Impaired	-	-	36,160	-	36,160
Gross carrying amounts	**1,831,549**	**175,602**	**101,390**	**-**	**2,108,541**
ECL allowance	(13,091)	(19,405)	(34,148)	-	(66,644)
Carrying amount	**1,818,458**	**156,197**	**67,242**	**-**	**2,041,897**
31 December 2018					
Low to fair risk	2,755,564	-	-	-	2,755,564
Standard monitoring	97,814	-	-	-	97,814
Watch	-	128,644	-	-	128,644
Substandard	-	-	47,825	-	47,825
Doubtful	-	-	26,539	-	26,539
Impaired	-	-	35,548	-	35,548
Gross carrying amounts	2,853,378	128,644	109,912	-	3,091,934
ECL allowance	(31,356)	(29,021)	(35,826)	-	(96,203)
Carrying amount	2,822,022	99,623	74,086	-	2,995,731

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Loans and advances to customers - wholesale lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2019					
Low to fair risk	3,052,249	-	-	-	3,052,249
Standard monitoring	3,789,778	-	-	-	3,789,778
Watch	-	1,880,300	-	-	2,057,253
Substandard	-	-	191,254	-	14,301
Doubtful	-	-	55,298	-	55,298
Impaired	-	-	1,253,670	-	1,253,670
Gross carrying amounts	**6,842,027**	**1,880,300**	**1,500,222**	**-**	**10,222,549**
ECL allowance	(24,927)	(91,888)	(623,306)	-	(740,121)
Carrying amount	**6,817,100**	**1,788,412**	**876,916**	**-**	**9,482,428**
31 December 2018 (restated)					
Low to fair risk	4,045,551	-	-	-	4,045,551
Standard monitoring	2,830,288	-	-	-	2,830,288
Watch	-	2,048,156	-	-	2,048,156
Substandard	-	-	449,090	-	449,090
Doubtful	-	-	103,857	-	103,857
Impaired	-	-	600,040	-	600,040
Gross carrying amounts	6,875,839	2,048,156	1,152,987	-	10,076,982
ECL allowance	(41,817)	(133,685)	(241,412)	-	(416,914)
Carrying amount	6,834,022	1,914,471	911,575	-	9,660,068

- **Islamic financing and investing assets - wholesale lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2019					
Low to fair risk	72,047	-	-	-	72,047
Standard monitoring	171,774	-	-	-	171,774
Gross carrying amounts	**243,821**	**-**	**-**	**-**	**243,821**
ECL allowance	(2,726)	-	-	-	(2,726)
Carrying amount	**241,095**	**-**	**-**	**-**	**241,095**
31 December 2018					
Low to fair risk	133,693	-	-	-	133,693
Standard monitoring	71,709	-	-	-	71,709
Substandard	-	-	1,061	-	1,061
Gross carrying amounts	205,402	-	1,061	-	206,463
ECL allowance	(719)	-	(8)	-	(727)
Carrying amount	204,683	-	1,053	-	205,736

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Receivables and other assets**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2019					
Low to fair risk	1,636,028	-	-	-	1,636,028
Standard monitoring	542,439	-	-	-	542,439
Watch	-	1,898	-	-	1,898
Gross carrying amounts	**2,178,467**	**1,898**	**-**	**-**	**2,180,365**
ECL allowance	(2,963)	(17)	-	-	(2,980)
Carrying amount	**2,175,504**	**1,881**	**-**	**-**	**2,177,385**
31 December 2018					
Low to fair risk	2,398,010	-	-	-	2,398,010
Standard monitoring	437,020	-	-	-	437,020
Watch	-	10,664	-	-	10,664
Gross carrying amounts	2,835,030	10,664	-	-	2,845,694
ECL allowance	(4,937)	(1,140)	-	-	(6,077)
Carrying amount	2,830,093	9,524	-	-	2,839,617

- **Investment securities measured at amortised cost**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2019					
Low to fair risk	1,240,351	-	-	-	1,240,351
Gross carrying amounts	**1,240,351**	**-**	**-**	**-**	**1,240,351**
ECL allowance	(2,937)	-	-	-	(2,937)
Carrying amount	**1,237,414**	**-**	**-**	**-**	**1,237,414**
31 December 2018					
Low to fair risk	1,009,737	-	-	-	1,009,737
Gross carrying amounts	1,009,737	-	-	-	1,009,737
ECL allowance	(440)	-	-	-	(440)
Carrying amount	1,009,297	-	-	-	1,009,297

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Loan commitments, letters of credit and financial guarantee contracts**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2019					
Low to fair risk	2,523,590	-	-	-	2,523,590
Standard monitoring	2,790,524	-	-	-	2,790,524
Watch	-	327,833	-	-	327,833
Substandard	-	-	1,699	-	1,699
Doubtful	-	-	382	-	382
Impaired	-	-	17,119	-	17,119
Gross carrying amounts	**5,314,114**	**327,833**	**19,200**	**-**	**5,661,147**
ECL allowance	(12,923)	(6,679)	(4,479)	-	(24,081)
Net exposure	**5,301,191**	**321,154**	**14,721**	**-**	**5,637,066**
31 December 2018					
Low to fair risk	2,948,877	-	-	-	2,948,877
Standard monitoring	2,624,521	-	-	-	2,624,521
Watch	-	354,408	-	-	354,408
Substandard	-	-	19,210	-	19,210
Doubtful	-	-	8,565	-	8,565
Impaired	-	-	9,033	-	9,033
Gross carrying amounts	5,573,398	354,408	36,808	-	5,964,614
ECL allowance	(17,094)	(5,976)	(11,671)	-	(34,741)
Net exposure	5,556,304	348,432	25,137	-	5,929,873

The carrying amounts of the Group's financial assets at FVTPL (not subject to impairment) as disclosed in note 40 best represents the assets' maximum exposure to credit risk.

Expected credit loss allowance

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

	2019 AED '000	2018 AED '000
Deposits and balances due from banks	**-**	2,249
Loans and advances to customers - retail lending	**66,644**	96,203
Loans and advances to customers - wholesale lending	**740,121**	416,914
Islamic financing and investing assets - wholesale lending	**2,726**	727
Receivables and other assets	**2,980**	6,077
Other financial assets measured at amortised cost	**2,937**	440
Contingencies and commitments	**24,081**	34,741
	839,489	557,351

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

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

- **Deposits and balances due from banks**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2019	2,249	-	-	-	2,249
Financial assets derecognised	(2,249)	-	-	-	(2,249)
As at 31 December 2019	**-**	**-**	**-**	**-**	**-**
As at 1 January 2018	1,108	-	-	-	1,108
New financial assets recognised	2,249	-	-	-	2,249
Financial assets derecognised	(1,108)	-	-	-	(1,108)
As at 31 December 2018	2,249	-	-	-	2,249

- **Loans and advances to customers - retail lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2019	31,356	29,021	35,826	-	96,203
Transfer to stage 1	3,430	(3,430)	-	-	-
Transfer to stage 2	(2,333)	5,405	(3,072)	-	-
Transfer to stage 3	(1,054)	(2,549)	3,603	-	-
Change in credit risk	(10,614)	(1,245)	17,920	-	6,061
Write-offs	(955)	(6,350)	(17,775)	-	(25,080)
New financial assets recognised	1,133	927	3,296	-	5,356
Financial assets derecognised	(7,872)	(2,374)	(5,650)	-	(15,896)
As at 31 December 2019	**13,091**	**19,405**	**34,148**	**-**	**66,644**
As at 1 January 2018	43,165	34,012	56,962	-	134,139
Transfer to stage 1	22,840	(11,263)	(11,577)	-	-
Transfer to stage 2	(998)	1,504	(506)	-	-
Transfer to stage 3	(1,220)	(4,785)	6,005	-	-
Change in credit risk	(28,528)	7,811	20,947	-	230
Write-offs	(1,569)	(8,663)	(28,476)	-	(38,708)
New financial assets recognised	9,399	10,086	5,260	-	24,745
Financial assets derecognised	(11,733)	(5,215)	(12,789)	-	(29,737)
Changes in models/risk parameters	-	5,534	-	-	5,534
As at 31 December 2018	31,356	29,021	35,826	-	96,203

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Loans and advances to customers - wholesale lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2019	41,817	133,685	241,412	-	416,914
Transfer to stage 1	17,087	(17,087)	-	-	-
Transfer to stage 2	(4,400)	4,400	-	-	-
Transfer to stage 3	(834)	(28,560)	29,394	-	-
Change in credit risk	(28,330)	(121)	352,693	-	324,242
Write-offs	-	(30)	(192)	-	(222)
New financial assets recognised	4,019	-	-	-	4,019
Financial assets derecognised	(4,432)	(399)	(1)	-	(4,832)
As at 31 December 2019	**24,927**	**91,888**	**623,306**	**-**	**740,121**
As at 1 January 2018	51,966	157,345	305,996	-	515,307
Transfer to stage 1	496	(496)	-	-	-
Transfer to stage 2	(10,120)	26,648	(16,528)	-	-
Transfer to stage 3	(351)	(83,498)	83,849	-	-
Change in credit risk	(6,968)	25,616	86,565	-	105,213
Write-offs	-	(749)	(209,174)	-	(209,923)
New financial assets recognised	8,421	1,265	-	-	9,686
Financial assets derecognised	(1,627)	(1,182)	(9,296)	-	(12,105)
Changes in models/risk parameters	-	8,736	-	-	8,736
As at 31 December 2018	41,817	133,685	241,412	-	416,914

- **Islamic financing and investing assets - wholesale lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2019	719	-	8	-	727
Change in credit risk	2,010	-	-	-	2,010
Write-offs	-	-	(8)	-	(8)
Financial assets derecognised	(3)	-	-	-	(3)
As at 31 December 2019	**2,726**	**-**	**-**	**-**	**2,726**
As at 1 January 2018	1,467	-	-	-	1,467
Transfer to stage 3	(8)	-	8	-	-
Change in credit risk	(1,037)	-	-	-	(1,037)
New financial assets recognised	297	-	-	-	297
As at 31 December 2018	719	-	8	-	727

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Receivables and other assets**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2019	4,937	1,140	-	-	6,077
Transfer to stage 1	2	(2)	-	-	-
Transfer to stage 2	(215)	215	-	-	-
Change in credit risk	(1,780)	(1,336)	-	-	(3,116)
New financial assets recognised	19	-	-	-	19
As at 31 December 2019	**2,963**	**17**	**-**	**-**	**2,980**
As at 1 January 2018	4,745	2,844	22,147	-	29,736
Transfer to stage 2	(99)	99	-	-	-
Change in credit risk	193	(2,932)	-	-	(2,739)
Write-offs	-	-	(20,314)	-	(20,314)
New financial assets recognised	58	1,130	-	-	1,188
Financial assets derecognised	(45)	(1)	(1,833)	-	(1,879)
Other	85	-	-	-	85
As at 31 December 2018	4,937	1,140	-	-	6,077

- **Investment securities measured at amortised cost**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2019	440	-	-	-	440
Change in credit risk	2,037	-	-	-	2,037
New financial assets recognised	548	-	-	-	548
Financial assets derecognised	(88)	-	-	-	(88)
As at 31 December 2019	**2,937**	**-**	**-**	**-**	**2,937**
As at 1 January 2018	355	-	-	-	355
Change in credit risk	54	-	-	-	54
New financial assets recognised	66	-	-	-	66
Financial assets derecognised	(35)	-	-	-	(35)
As at 31 December 2018	440	-	-	-	440

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Loan commitments, letters of credit and financial guarantee contracts**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2019	17,094	5,976	11,671	-	34,741
Transfer to stage 1	285	(285)	-	-	-
Transfer to stage 2	(307)	351	(44)	-	-
Transfer to stage 3	-	(247)	247	-	-
Change in credit risk	(3,802)	889	(7,373)	-	(10,286)
New financial guarantees and commitments recognised	233	2	-	-	235
Financial guarantees and commitments derecognised	(580)	(7)	(22)	-	(609)
As at 31 December 2019	**12,923**	**6,679**	**4,479**	**-**	**24,081**
As at 1 January 2018	17,985	17,815	2,339	-	38,139
Transfer to stage 1	380	(376)	(4)	-	-
Transfer to stage 2	(1,246)	1,246	-	-	-
Transfer to stage 3	(28)	(47)	75	-	-
Change in credit risk	(1,237)	(12,072)	9,309	-	(4,000)
New financial guarantees and commitments recognised	2,224	69	-	-	2,293
Financial guarantees and commitments derecognised	(984)	(659)	(48)	-	(1,691)
As at 31 December 2018	17,094	5,976	11,671	-	34,741

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided in the table below:

- **Balances with the Central Bank of the UAE**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2019	3,569,222	-	-	-	3,569,222
Change in exposure	(1,241,240)	-	-	-	(1,241,240)
As at 31 December 2019	**2,327,982**	**-**	**-**	**-**	**2,327,982**
As at 1 January 2018	1,875,801	-	-	-	1,875,801
Change in exposure	1,693,421	-	-	-	1,693,421
As at 31 December 2018	3,569,222	-	-	-	3,569,222

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Deposits and balances due from banks**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2019	1,265,104	-	-	-	1,265,104
Change in exposure	85,011	-	-	-	85,011
Financial assets derecognised	(1,159,802)	-	-	-	(1,159,802)
As at 31 December 2019	**190,313**	**-**	**-**	**-**	**190,313**
As at 1 January 2018	817,007	-	-	-	817,007
Change in exposure	(139,425)	-	-	-	(139,425)
New financial assets recognised	1,159,802	-	-	-	1,159,802
Financial assets derecognised	(572,280)	-	-	-	(572,280)
As at 31 December 2018	1,265,104	-	-	-	1,265,104

- **Loans and advances to customers - retail lending**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2019	2,853,378	128,644	109,912	-	3,091,934
Transfer to stage 1	23,881	(23,717)	(164)	-	-
Transfer to stage 2	(129,760)	143,157	(13,397)	-	-
Transfer to stage 3	(58,216)	(15,955)	74,171	-	-
Change in exposure	(380,639)	(28,206)	(7,241)	-	(416,086)
Write-offs	(36,308)	(25,412)	(47,862)	-	(109,582)
New financial assets recognised	162,992	6,601	7,119	-	176,712
Financial assets derecognised	(603,779)	(9,510)	(21,148)	-	(634,437)
As at 31 December 2019	**1,831,549**	**175,602**	**101,390**	**-**	**2,108,541**
As at 1 January 2018	3,650,093	179,411	153,812	-	3,983,316
Transfer to stage 1	109,065	(80,215)	(28,850)	-	-
Transfer to stage 2	(45,025)	46,111	(1,086)	-	-
Transfer to stage 3	(62,130)	(30,559)	92,689	-	-
Change in exposure	(520,442)	(9,611)	(13,032)	-	(543,085)
Write-offs	(64,804)	(32,781)	(76,495)	-	(174,080)
New financial assets recognised	655,545	74,737	14,970	-	745,252
Financial assets derecognised	(868,924)	(18,449)	(32,096)	-	(919,469)
As at 31 December 2018	2,853,378	128,644	109,912	-	3,091,934

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Loans and advances to customers - wholesale lending**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2019	6,875,839	2,048,156	1,152,987	-	10,076,982
Transfer to stage 1	406,856	(406,856)	-	-	-
Transfer to stage 2	(567,434)	567,434	-	-	-
Transfer to stage 3	(60,857)	(345,898)	406,755	-	-
Change in exposure	445,418	41,095	(37,441)	-	449,072
Write-offs	-	(2,256)	(26,846)	-	(29,102)
New financial assets recognised	905,161	-	-	-	905,161
Financial assets derecognised	(1,162,956)	(21,375)	4,767	-	(1,179,564)
As at 31 December 2019	**6,842,027**	**1,880,300**	**1,500,222**	**-**	**10,222,549**
As at 1 January 2018 (restated)	6,677,219	1,399,330	1,036,707	-	9,113,256
Transfer to stage 1	38,078	(38,078)	-	-	-
Transfer to stage 2	(862,722)	940,484	(77,762)	-	-
Transfer to stage 3	(25,186)	(392,546)	417,732	-	-
Change in exposure	(206,154)	135,198	(21,474)	-	(92,430)
Write-offs	-	(5,384)	(268,723)	-	(274,107)
New financial assets recognised	1,553,382	23,389	-	-	1,576,771
Financial assets derecognised	(298,778)	(14,237)	66,507	-	(246,508)
As at 31 December 2018 (restated)	6,875,839	2,048,156	1,152,987	-	10,076,982

- **Islamic financing and investing assets - wholesale lending**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2019	205,402	-	1,061	-	206,463
Change in exposure	84,710	-	-		84,710
Financial assets derecognised	(46,291)	-	(1,061)	-	(47,352)
As at 31 December 2019	**243,821**	**-**	**-**	**-**	**243,821**
As at 1 January 2018	264,278	-	1,188	-	265,466
Change in exposure	(107,107)	-	(127)	-	(107,234)
New financial assets recognised	48,231	-	-	-	48,231
As at 31 December 2018	205,402	-	1,061	-	206,463

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Receivables and other assets**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2019	2,835,030	10,664	-	-	2,845,694
Transfer to stage 1	233	(233)	-	-	-
Transfer to stage 2	(31,953)	31,953	-	-	-
Transfer to stage 3	-	(9,093)	9,093	-	-
Change in exposure	(586,086)	(31,393)	(9,093)	-	(626,572)
New financial assets recognised	4,577	-	-	-	4,577
Financial assets derecognised	(43,334)	-	-	-	(43,334)
As at 31 December 2019	**2,178,467**	**1,898**	**-**	**-**	**2,180,365**
As at 1 January 2018	2,909,548	40,820	22,744	-	2,973,112
Transfer to stage 2	(233)	233	-	-	-
Change in exposure	164,234	(40,685)	-	-	123,549
Write-offs	-	-	(20,314)	-	(20,314)
New financial assets recognised	430,104	10,374	-	-	440,478
Financial assets derecognised	(668,623)	(78)	(2,430)	-	(671,131)
As at 31 December 2018	2,835,030	10,664	-	-	2,845,694

- **Investment securities measured at amortised cost**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2019	1,009,737	-	-	-	1,009,737
Change in exposure	181,460	-	-	-	181,460
New financial assets recognised	253,800	-	-	-	253,800
Financial assets derecognised	(204,646)	-	-	-	(204,646)
As at 31 December 2019	**1,240,351**	**-**	**-**	**-**	**1,240,351**
As at 1 January 2018	852,826	-	-	-	852,826
New financial assets recognised	291,556	-	-	-	291,556
Financial assets derecognised	(128,833)	-	-	-	(128,833)
Other	(5,812)	-	-	-	(5,812)
As at 31 December 2018	1,009,737	-	-	-	1,009,737

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Loan commitments, letters of credit and financial guarantee contracts**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2019	5,573,398	354,408	36,808	-	5,964,614
Transfer to stage 1	51,382	(51,382)	-	-	-
Transfer to stage 2	(106,765)	106,996	(231)	-	-
Transfer to stage 3	(88)	(7,993)	8,081	-	-
Change in exposure	102,340	(73,663)	(25,283)	-	3,394
New financial guarantees and commitments recognised	160,696	1,212	-	-	161,908
Financial guarantees and commitments derecognised	(466,849)	(1,745)	(175)	-	(468,769)
As at 31 December 2019	**5,314,114**	**327,833**	**19,200**	**-**	**5,661,147**
As at 1 January 2018	5,668,693	681,186	30,658	-	6,380,537
Transfer to stage 1	55,477	(55,177)	(300)	-	-
Transfer to stage 2	(231,010)	232,148	(1,138)	-	-
Transfer to stage 3	(10,127)	(1,140)	11,267	-	-
Change in exposure	92,129	(480,680)	(1,930)	-	(390,481)
New financial guarantees and commitments recognised	610,945	21,185	-	-	632,130
Financial guarantees and commitments derecognised	(612,709)	(43,114)	(1,749)	-	(657,572)
As at 31 December 2018	5,573,398	354,408	36,808	-	5,964,614

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is AED 117.9 million (2018: AED 245.4 million).

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

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

- **Past due but not impaired**

	Loans and advances to customers		Islamic financing and investing assets	
	2019	**2018**	**2019**	**2018**
	AED '000	**AED '000**	**AED '000**	**AED '000**
Low to fair risk				
Past due up to 30 days	**24,460**	145,099	**301**	-
Standard monitoring				
Past due up to 30 days	**172,442**	421,189	**-**	1,845
Past due 31 - 60 days	**190,722**	12,870	**-**	-
Watch				
Past due up to 30 days	**151,057**	142,015	**-**	-
Past due 31 - 60 days	**103,576**	76,641	**-**	-
Past due 61 - 90 days	**45,509**	20,391	**-**	-
Past due 91 - 180 days	**1,121**	2	**-**	-
Past due of more than 180 days	**406,916**	66	**-**	-
	1,095,803	818,273	**301**	1,845

- **Neither past due nor impaired**

	Loans and advances to customers		Islamic financing and investing assets	
	2019	**2018**	**2019**	**2018**
	AED '000	**AED '000**	**AED '000**	**AED '000**
Low to fair risk	**4,795,935**	6,694,566	**71,747**	133,693
Standard monitoring	**3,492,215**	2,494,043	**171,775**	69,864
Watch	**1,345,526**	1,937,685	**-**	-
	9,633,676	11,262,294	**243,522**	203,557

Modified financial assets

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

	2019	**2018**
	AED '000	**AED '000**
Financial assets (with ECL allowance based on lifetime ECL) modified during the period		
Gross carrying amount before modification	**96,719**	227,612
ECL allowance before modification	**(5,204)**	(26,645)
Net amortised cost before modification	**91,515**	200,967
Net modification gain/(loss)	**-**	-
Net amortised cost after modification	**91,515**	**200,967**

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Credit quality (continued)

	2019 AED '000	2018 AED '000
Financial assets modified since initial recognition at a time when ECL allowance was based on lifetime ECL		
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL cost after modification	-	-

41.1.7 Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The Group holds financial instruments of AED 5,070 million (2018: AED 4,306 million) for which no loss allowance is recognised because of collateral at the end of the reporting period. The estimated value of collaterals held at end of the reporting period is AED 10,121 million (2018: AED 10,149 million). This value of the collateral is only considered to the extent that mitigates the credit risk. There was no change in the Group's collateral policy during the year. The main types of collateral and the types of assets these are associated with are listed below.

Derivatives

The Group enters into derivatives bilaterally under International Swaps and Derivative Association (ISDA) master netting agreements. ISDA master netting agreements give either party the legal right of offset on termination of the contract or on default of the other party. No financial instruments subject to master netting agreements are setoff in the statement of financial position. The Group executes a credit support annex in conjunction with each ISDA agreement, which requires the Group and each counterparty to post collateral to mitigate credit risk. Collateral is also posted daily in respect of derivatives transacted. The collateral posted with regards to open derivatives is cash or marketable securities.

Reverse sale and repurchase agreements (Reverse REPO)

Reverse sale and repurchase agreement (Reverse REPO) lending are collateralised by marketable securities. These lending agreements require the Group and each counterparty to post collateral to mitigate credit risk. Collateral is also posted daily in respect of shortfall in value of collaterals. The collateral posted with regards to Reverse REPO is cash or marketable securities.

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan, or the amount committed for loan commitments, to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. At 31 December 2019 the net carrying amount of credit impaired mortgage lending was AED 41.2 million (2018: AED 29.0 million) and the value of the respective collateral was AED 28.0 million (2018: AED 13.8 million).

41. Financial risk management (continued)

41.1 Credit risk (continued)

41.1.7 Collateral held as security and other credit enhancements (continued)

Personal lending

The Group's personal lending portfolio consists of unsecured loans and credit cards.

Wholesale lending

The Group requests collateral (including properties, equity shares and cash margins) and guarantees for wholesale lending (including loan commitments and financial guarantee contract). The most relevant indicator of wholesale customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason, the valuation of collateral held against wholesale lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

For credit-impaired loans the Group obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2019 the net carrying amount of credit impaired loans and advances to wholesale customers was AED 1,519.4 million (2018: AED 1,195.9 million) and the value of the respective collateral was AED 892.3 million (2018: AED 993.2 million).

Investment securities

The Group holds investment securities measured at amortised cost. The investment securities held by the Group are sovereign bonds which are not collateralised.

Assets obtained by taking possession of collateral

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

	2019 AED '000	**2018 AED '000**
Property	**84,896**	-
Equity securities	**-**	44,473
Other	**16,900**	-
	101,796	**44,473**

41.2 Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events.

41.2.1 Management of liquidity risk

Liquidity risk is managed by the Treasury in line with the regulatory and internal policies and guidelines.

41. Financial risk management (continued)

41.2 Liquidity risk (continued)

41.2.1 Management of liquidity risk (continued)

The Group's approach to managing liquidity risk is to ensure that it has adequate funding from diversified sources at all times and that it can withstand any major shocks to its liquidity position. Funds are raised using a broad range of instruments including customer deposits, money market instruments and capital. The Treasury monitor the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions. The Group's liquidity policy is set by the Board of Directors and is subject to annual review. Adherence to the policies is monitored by the Group Risk Management Department and Assets and Liability Committee (ALCO).

41.2.2 Exposure to liquidity risk

The key measures used by the Group for measuring liquidity risk are advances to stable resources (which is a regulatory measure) as well as the ratio of net liquid assets, i.e., total assets by maturity against total liabilities by maturity.

The Bank performs product-wise behavioural analysis for its financial instruments (including financial guarantee contracts) in order to analyse and ascertain appropriate level of liquidity requirements.

The following table summarises the maturity profile of the cash flows of the Group’s financial assets and financial liabilities at the end of the reporting period. The amounts disclosed in the table are determined on the basis of the remaining period at the end of reporting period to the contractual maturity date.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the management 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.

The maturity profile of financial assets and financial liabilities in the following table shows discounted cash flows on the Group’s financial assets and financial liabilities on the basis of their earliest possible contractual maturity.

41. Financial risk management (continued)

41.2 Liquidity risk (continued)

41.2.2 Exposure to liquidity risk (continued)

- **As at 31 December 2019**

	Less than 3 months AED '000	3 to 6 months AED '000	6 to 12 months AED '000	More than 1 year AED '000	No fixed Maturity AED '000	Total AED '000
Non-derivative financial assets						
Cash and balances with the Central Bank of the UAE	1,092,277	250,000	400,000	-	668,291	**2,410,568**
Deposits and balances due from banks	190,313	-	-	-	-	**190,313**
Loans and advances to customers including Islamic financing and investing assets	1,469,788	1,012,342	714,572	7,288,709	2,089,500	**12,574,911**
Receivables and other assets	815,975	714,614	649,776	-	-	**2,180,365**
Investment securities at fair value	-	-	-	-	50,286	**50,286**
Investment securities measured at amortised cost	-	78,201	200,739	961,411	-	**1,240,351**
	3,568,353	2,055,157	1,965,087	8,250,120	2,808,077	**18,646,794**
Derivative financial assets	26,792	-	-	-	-	**26,792**
	3,595,145	**2,055,157**	**1,965,087**	**8,250,120**	**2,808,077**	**18,673,586**
Non-derivative financial liabilities						
Deposits and balances due to banks	21,459	-	422,412	1,248,871	-	**1,692,742**
Customers' deposits including Islamic customers' deposits	2,490,688	2,834,290	2,973,249	114,751	3,654,543	**12,067,521**
Payables and other liabilities	816,076	762,152	676,997	4,193	-	**2,259,418**
	3,328,223	3,596,442	4,072,658	1,367,815	3,654,543	**16,019,681**
Derivative financial liabilities	27,409	-	-	-	-	**27,409**
Issued financial guarantee contacts	2,180,067	546,813	278,104	169,192	-	**3,174,176**
Loan commitments	-	-	-	-	1,997,163	**1,997,163**
	5,535,699	**4,143,255**	**4,350,762**	**1,537,007**	**5,651,706**	**21,218,429**
Liquidity gap	**(1,940,554)**	**(2,088,098)**	**(2,385,675)**	**6,713,113**	**(2,843,629)**	**(2,544,843)**

41. Financial risk management (continued)

41.2 Liquidity risk (continued)

41.2.2 Exposure to liquidity risk (continued)

- **As at 31 December 2018 (restated)**

	Less than 3 months AED '000	3 to 6 months AED '000	6 to 12 months AED '000	More than 1 year AED '000	No fixed Maturity AED '000	Total AED '000
Non-derivative financial assets						
Cash and balances with the Central Bank of the UAE	2,800,000	-	100,000	-	840,658	3,740,658
Deposits and balances due from banks	1,159,802	-	-	-	105,302	1,265,104
Loans and advances to customers including Islamic financing and investing assets	3,660,234	1,035,930	1,116,287	7,562,928	-	13,375,379
Receivables and other assets	982,540	584,977	1,278,177	-	-	2,845,694
Investment securities at fair value	-	-	-	-	61,527	61,527
Investment securities measured at amortised cost	-	-	-	1,009,737	-	1,009,737
	8,602,576	1,620,907	2,494,464	8,572,665	1,007,487	22,298,099
Derivative financial assets	43	-	-	29,616	-	29,659
	8,602,619	1,620,907	2,494,464	8,602,281	1,007,487	22,327,758
Non-derivative financial liabilities						
Balance due to the Central Bank of the UAE	-	-	-	-	60,874	60,874
Deposits and balances due to banks	111,792	367,330	1,304,022	-	37,454	1,820,598
Customers' deposits including Islamic customers' deposits	2,457,824	3,047,776	4,650,257	562,010	4,536,890	15,254,757
Payables and other liabilities	1,191,808	584,977	1,278,177	-	-	3,054,962
	3,761,424	4,000,083	7,232,456	562,010	4,635,218	20,191,191
Derivative financial liabilities	22	-	-	30,085	-	30,107
Issued financial guarantee contacts	-	-	-	-	3,160,482	3,160,482
Loan commitments	-	-	2,465,275	22,033	-	2,487,308
	3,761,446	4,000,083	9,697,731	614,128	7,795,700	25,869,088
Liquidity gap	4,841,173	(2,379,176)	(7,203,267)	7,988,153	(6,788,213)	(3,541,330)

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41. Financial risk management (continued)

41.3 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income and/or the value of the financial instrument. The Group manages its market risk in order to achieve an optimum return while maintaining market risk exposure within prudent limits.

41.3.1 Management of market risk

The Board of directors has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Department, reported frequently to Senior Management and discussed monthly by the ALCO.

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested in the ALCO. The Risk Management Department is responsible for the development of detailed risk management policies and for the day to day review of their implementation subject to the review and approval by ALCO.

41.3.2 Exposure to interest rate risk

The principal risk to which interest bearing financial instruments are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing brands. The ALCO monitors compliance with these limits and is assisted by the Risk Management Department for day to day monitoring of activities. The table below analyses the Group's interest rate risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

- **As at 31 December 2019**

	Less than 3 months AED '000	3 to 6 months AED '000	6 to 12 months AED '000	More than 1 year AED '000	Total AED '000
Interest sensitive financial assets					
Cash and balances with the Central Bank of the UAE	900,000	250,000	400,000	-	**1,550,000**
Deposits and balances due from banks	-	-	-	-	**-**
Loans and advances to customers including Islamic financing and investing assets	6,458,086	1,025,525	-	-	**7,483,611**
Investment securities measured at amortised cost	-	78,201	200,738	961,411	**1,240,350**
	7,358,086	1,353,726	600,738	961,411	**10,273,961**
Interest sensitive financial liabilities					
Deposits and balances due to banks	(1,692,742)	-	-	-	**(1,692,742)**
Customers' deposits including Islamic customers' deposits	(3,251,118)	(2,782,837)	(2,930,429)	(97,274)	**(9,061,658)**
	(4,943,860)	(2,782,837)	(2,930,429)	(97,274)	**(10,754,400)**
Effect of derivatives held	346	-	-	-	**346**
Net interest gap	**2,414,572**	**(1,429,111)**	**(2,329,691)**	**864,137**	**(480,093)**
Impact on profit and loss if interest rates had been 200 bps higher	**34,683**	**(18,011)**	**(12,127)**	**32,407**	**36,952**

41. Financial risk management (continued)

41.2 Market risk (continued)

41.3.2 Exposure to interest rate risk (continued)

- **As at 31 December 2018 (restated)**

	Less than 3 months AED '000	3 to 6 months AED '000	6 to 12 months AED '000	More than 1 year AED '000	Total AED '000
Interest sensitive financial assets					
Cash and balances with the Central Bank of the UAE	2,800,000	-	100,000	-	2,900,000
Deposits and balances due from banks	1,159,802	-	-	-	1,159,802
Loans and advances to customers including Islamic financing and investing assets	7,132,037	1,132,400	-	-	8,264,437
Investment securities measured at amortised cost	-	-	-	1,009,737	1,009,737
	11,091,839	1,132,400	100,000	1,009,737	13,333,976
Interest sensitive financial liabilities					
Deposits and balances due to banks	(1,427,722)	-	-	(367,330)	(1,795,052)
Customers' deposits including Islamic customers' deposits	(2,905,494)	(2,970,669)	(4,588,213)	(540,470)	(11,004,846)
	(4,333,216)	(2,970,669)	(4,588,213)	(907,800)	(12,799,898)
Effect of derivatives held	(1,247)	-	-	-	(1,247)
Net interest gap	6,757,376	(1,838,269)	(4,488,213)	101,937	532,831
Impact on profit and loss if interest rates had been 200 bps higher	135,148	(36,765)	(89,764)	2,039	10,658

41.3.3 Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the AED. The Board of Directors has set limits on positions by currency. Positions are closely monitored to ensure positions are maintained within established limits. At the end of the reporting period, the Group had the following significant net exposure denominated in foreign currencies:

	Net spot position		Forward position		Total	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Currency						
USD	(203,153)	471,055	9,366	(364,474)	(193,787)	106,581
GBP	15,389	(30)	(15,526)	-	(137)	(30)
JPY	87	376	-	-	87	376
EUR	(6,567)	(6,551)	6,008	6,941	(559)	390
Other	2,709	4,666	-	(974)	2,709	3,692

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% adverse change in the relevant foreign currency position against AED both for a long and short position in order to assess the impact of loss on profit and loss.

41. Financial risk management (continued)

41.2 Market risk (continued)

41.3.3 Exposure to currency risk (continued)

	2019 AED '000	**2018 AED '000**
GBP	**14**	3
JPY	**9**	38
EUR	**56**	39

There are no exchange rate risks relating to financial assets and financial liabilities denominated in USD, which is pegged to the AED.

41.3.4 Other price risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, other comprehensive income as at year end would have been higher/lower by AED 2.5 million (2018: AED 3.1 million).

42. Fair value of financial instruments

This note provides information about how the Group determines the fair value of various financial assets and financial liabilities.

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The fair value of financial assets and financial liabilities are determined as follows:

- Fair value of all quoted investments measured at fair value through profit or loss and at fair value through other comprehensive income (note 12) are based on quoted bid prices in an active market;
- Fair value of all unquoted equity investments and unquoted investment funds measured at fair value through other comprehensive income (note 12) is mainly based on market approach based valuation technique using price/book value multiple of trading peers and precedent transactions. These price/book values multiples and precedent transactions are unobservable inputs; and
- Fair value of all derivatives (note 43) is calculated using discounted cash flows. Discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Derivatives are measured using quoted rates and yield curves derived from quoted rates matching maturities of the contracts.

42. Fair value of financial instruments (continued)

42.1 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

The table below summarises the Group's financial instruments fair value according to fair value hierarchy:

	Level 1		Level 2		Level 3	
	2019 AED '000	**2018 AED '000**	**2019 AED '000**	**2018 AED '000**	**2019 AED '000**	**2018 AED '000**
Financial assets at fair value through other comprehensive income						
Equity shares	**14,475**	16,004	**-**	-	**33,116**	42,828
Investment funds	**-**	-	**-**	-	**2,695**	2,695
Financial assets at fair value through profit or loss						
Positive fair value of derivatives financial assets	**-**	-	**26,792**	29,659	**-**	-
Financial liabilities at fair value through profit or loss						
Negative fair value of derivatives financial liabilities	**-**	-	**27,409**	30,107	**-**	-

For level 3 fair valuation, the higher the unobservable input of price/book value multiple, the higher is fair value. The price/book value multiple used in valuation ranges between 0.91X to 0.95X (2018: 1.29X to 2.42X). There were no transfers between Level 1 and 2 during the years ended 31 December 2019 and 2018.

Reconciliation of Level 3 fair value measurements of financial assets

	2019 AED '000	2018 AED '000
Balance at January 1	**45,523**	54,477
Total gains/(losses) in other comprehensive income	**(9,510)**	(2,476)
Redemption	**(202)**	(6,478)
Balance at December 31	**35,811**	45,523

The financial liabilities subsequently measured at fair value are classified as level 2 in the fair value hierarchy.

There are no financial liabilities classified at fair value as level 3 in the fair value hierarchy.

All gains and losses included in other comprehensive income relate to FVTOCI (quoted investments or unquoted investments) held at the end of the period and are reported as changes in 'Investment revaluation reserve'.

42.2 Fair value of the Group's financial assets and financial liabilities that are measured at amortised cost

Except as detailed below, the directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

42. Fair value of financial instruments (continued)

42.2 Fair value of the Group's financial assets and financial liabilities that are measured at amortised cost (continued)

	Carrying amount		Fair value	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Investment securities measured at amortised cost	**1,237,414**	1,009,297	**1,262,240**	957,459

Investment securities measured at amortised cost are quoted instruments and categorised as level 1 in the fair value hierarchy. The fair value is determined using unadjusted quoted market prices.

43. Derivative financial instruments

Derivative financial instruments are utilised by the Group primarily to satisfy the requirements of its customers and are also used to a limited extent to manage the Group's own exposure to currency, interest rate and other market risks. The derivatives most frequently used by the Group are as follows:

Swaps

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

Foreign exchange forwards contracts

Foreign exchange forwards contracts are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customised contracts transacted in the over-the counter market.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	Foreign exchange forward contracts		Interest rate swaps		Total	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Positive fair value	**19**	43	**26,773**	29,616	**26,792**	29,659
Negative fair value	**179**	22	**27,230**	30,085	**27,409**	30,107
Maturity of notional amount						
Upto 3 months	**24,250**	718,778	**-**	-	**24,250**	718,778
3 to 6 months	**-**	12,104	**322,416**	-	**322,416**	12,104
6 to 12 months	**-**	-	**-**	-	**-**	-
1 to 5 years	**-**	-	**1,084,114**	1,579,911	**1,084,114**	1,579,911
More than 5 years	**-**	-	**1,118,290**	1,380,008	**1,118,290**	1,380,008
	24,250	730,882	**2,524,820**	2,959,919	**2,549,070**	3,690,801

44. Capital management

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

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern and to increase returns for shareholders; and
- To comply with regulatory capital requirements set by the Central Bank of the UAE.

In implementing current capital requirements, the Group calculates its capital adequacy ratio in accordance with the Basel III guidelines issued by the Central Bank of the UAE. Under these regulations, minimum capital requirements are monitored at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1 ('T1') and Total Capital.

44.1 Regulatory capital

The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the UAE.

The Group's regulatory capital is analysed into different tiers:

- Common Equity Tier 1 Capital, which includes Common shares issued by a bank, Share premium resulting from the issue of instruments included in CET1, retained earnings, legal reserves, statutory reserves, accumulated other comprehensive income and other disclosed reserves, minority interest, which are eligible for inclusion in CET1 and regulatory adjustments applied in the calculation of CET1;
- Additional Tier 1 Capital (AT1);
- Tier 1 capital, which is the total of Common equity Tier 1 (CET1) Capital and Additional Tier 1 (AT1) capital;
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of credit 'Risk Weighted Assets' (RWA)), perpetual equity instruments not included in Tier 1 capital and Instruments which are eligible for inclusion of Tier 2 e.g. subordinated loan.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced under Basel III guidelines are over and above the minimum CET1 requirement of 7%.

For 2019, CCB is required at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2019.

For the purpose of Basel III capital adequacy reporting, only financial subsidiaries are consolidated. Commercial subsidiaries are excluded from consolidated reporting.

The bank's RWA are weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The bank is following the standardised measurement approach for credit, market and operational risk, as per Basel Requirements.

The Group has complied with all externally imposed capital requirements throughout the period.

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44. Capital management (continued)

44.1 Regulatory capital (continued)

The Group's regulatory capital position at the end of reporting period under Basel III is as follows:

	2019 AED '000	2018 AED '000 (restated)
Capital base		
Share capital	**1,737,383**	1,737,383
Statutory reserve	**266,008**	288,407
General reserve	**11,104**	-
Accumulated other comprehensive income	**(50,095)**	(38,857)
Accumulated losses	**(148,550)**	(160,105)
Non-controlling interests	**312**	306
CET1 capital (prior to regulatory deductions)	**1,816,162**	1,827,134
Regulatory deductions		
Intangible assets	**(61,468)**	(71,769)
Total CET1 capital	**1,754,694**	1,755,365
Additional Tier 1 (AT1) Capital	**459,125**	459,125
Total AT1 capital	**459,125**	459,125
Total Tier 1 Capital	**2,213,819**	2,214,490
Eligible general provision	**175,167**	197,006
Total Tier 2 (T2) Capital	**175,167**	197,006
Total capital base	**2,388,986**	2,411,496
Risk weighted assets		
Credit risk	**14,013,333**	15,760,457
Market risk	**10,594**	14,257
Operational risk	**1,494,604**	1,410,174
Total risk weighted assets	**15,518,531**	17,184,888
CET1 capital ratio	**11.31%**	10.21%
Tier 1 capital ratio	**14.27%**	12.89%
Total capital ratio	**15.39%**	14.03%

44.2 Capital allocation

The Group also assesses internally its capital requirements taking into consideration its growth requirements and business plans, and quantifies its regulatory and risk/economic capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk on the banking book, concentration risk, stress testing, strategic risk, legal and compliance risk, and reputational risk are all part of the ICAAP.

The Group also calculates Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis.

45. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in IAS 24 *Related Party Disclosures*. Related parties comprise companies under common ownership and/or common management and control, their shareholders and key management personnel. Transactions with associate and other related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties.

45. Related party transactions (continued)

	Terms %	2019 AED '000	2018 AED '000
Balances at the end of the reporting period			
Subsidiaries			
Financial guarantee contract		**25,000**	25,000
Associate			
Loans and advances to customers	**5.0**	**95,000**	43,129
Key management personnel			
Loans and advances to customers	**2.75 - 3.0**	**3,934**	12,377
Customers' deposits	**2.5**	**1,193**	5,122
Other related parties			
Loans and advances to customers	**6.0 - 13.0**	**542,204**	516,984
Deposits and balances due from banks	**-**	**8,020**	1,066
Deposits and balances due to banks	**1.9**	**23,533**	73,942
Customers' deposits	**3.0**	**300,314**	251,337
Interest rate swaps (Notional amount)	**-**	**36,730**	36,730
Tier 1 Capital Securities	**6.5**	**459,125**	459,125
Transactions during the reporting period			
Associate			
Interest income		**2,924**	2,423
Key management personnel			
Interest income		**325**	260
Interest expense		**66**	189
Directors' expenses		**1,624**	1,889
Compensation of key management personnel (i)		**17,515**	18,783
Other related parties			
Interest income		**22,781**	20,679
Interest expense		**7,787**	12,059
Interest piad on Tier 1 Capital Securities		**-**	29,843

(i) These include long-term benefits amounting to AED 0.8 million (2018: AED 1.2 million) and termination benefits of AED 2.9 million (2018: Nil).

46. Prior period error

According to IAS 1:82(a) the income statement shall include line items that present revenue, presenting separately interest revenue calculated using effective interest method.

In prior periods, the fees that are integral part of the effective interest rate of a financial instrument were presented together with fees that are not integral part of the effective interest rate of a financial instrument. In the current period, management identified and corrected the error such that the fees that are integral part of the effective interest rate of a financial instrument are presented under 'interest income' and 'interest expense' line items. Similarly, advance portion of the fee is presented under 'loans and advances to customers' and 'Deposits and balances due to banks'. Financial impact of restatement is described in note 48.

47. Operating segments

Operating Segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO in order to allocate resources to the segment and to assess its performance. The Group's reportable segments under IFRS 8 are therefore as follows:

- Wholesale banking;
- Retail banking;
- Treasury;
- Real estate (financial position and results of real estate subsidiary TRE);
- Other

The segmental information provided to the Group's CEO for the reportable segments for the years ended 31 December 2019 and 31 December 2018 were as follows:

	Wholesale banking AED '000	Retail banking AED '000	Treasury AED '000	Real estate AED '000	Other AED '000	Total AED '000
Year ended 31 December 2019						
Net interest income from external customers	258,688	178,796	25,602	-	10,293	**473,379**
Inter-segmental net interest income	7,098	-	-	(7,098)	-	**-**
Fee and commission income	179,404	79,768	-	-	-	**259,172**
Fee and commission expense	(8,601)	(14,901)	(968)	-	(126)	**(24,596)**
Other operating income, net	33,233	17,988	15,181	3,907	771	**71,080**
Impairment losses and provisions, net	(216,242)	(83,980)	(249)	(10,231)	(1,834)	**(312,536)**
General and administrative expenses excluding depreciation and amortisation	(43,488)	(109,841)	(5,264)	(1,890)	(170,553)	**(331,036)**
Depreciation and amortisation	(6,999)	(12,894)	(719)	(3,696)	(20,286)	**(44,594)**
Share of results of associates	(4,210)	-	-	-	-	**(4,210)**
Gain from discontinued operations	24,379	-	-	-	(1)	**24,378**
Profit/(loss) for the period	**223,262**	**54,936**	**33,583**	**(19,008)**	**(181,736)**	**111,037**
As at 31 December 2019						
Assets	11,732,868	2,157,117	3,976,640	285,211	480,942	**18,632,778**
Liabilities	9,418,160	4,558,679	1,696,134	445	462,100	**16,135,518**

Non-current asset held for sale and associated liabilities are presented in 'Wholesale banking' segment.

47. Operating segments (continued)

	Wholesale banking AED '000	Retail banking AED '000	Treasury AED '000	Real estate AED '000	Other AED '000	Total AED '000
Year ended 31 December 2018 (restated)						
Net interest income from external customers	278,418	238,451	5,422	-	12,878	535,169
Inter-segmental net interest income	8,940	-	-	(8,940)	-	-
Fee and commission income	252,920	88,601	-	-	-	341,521
Fee and commission expense	(2,756)	(22,913)	(650)	-	(44)	(26,363)
Other operating income, net	29,553	23,710	11,041	10,858	390	75,552
Impairment losses and provisions, net	(60,293)	(137,169)	(1,226)	(49,308)	(11,940)	(259,936)
General and administrative expenses excluding depreciation and amortisation	(48,062)	(124,495)	(7,222)	(8,734)	(170,125)	(358,638)
Depreciation and amortisation	(3,647)	(13,365)	(504)	(7,652)	(25,423)	(50,591)
Share of results of associates	(5,852)	-	-	-	-	(5,852)
Loss from discontinued operations	(26,597)	-	-	-	(1,149)	(27,746)
Profit/(loss) for the period	422,624	52,820	6,861	(63,776)	(195,413)	223,116
As at 31 December 2018 (restated)						
Assets	12,514,743	3,166,634	6,139,359	405,460	512,506	22,738,702
Liabilities	11,652,247	6,160,610	1,923,487	4,003	596,727	20,337,074

Non-current asset held for sale and associated liabilities are presented in 'Wholesale banking' segment. The Group conducted all of its operation in the UAE, there is no operation outside the UAE apart from non-current asset held for sale and associated liabilities.

48. Financial impact of restatement

The table below shows the amount of adjustment for each financial statement line item affected by restatement for prior periods.

	IFRS 16 restatement AED '000	Prior period error AED '000
Year ended 31 December 2018		
Impact on profit or loss		
Interest income	-	13,338
Interest expense	(2,064)	(2,954)
Fee and commission income	-	(13,338)
Fee and commission expense	-	2,954
General and administrative expenses	(332)	-
Net impact on profit or loss	**(2,396)**	**-**

48. Financial impact of restatement (continued)

	IFRS 16 restatement AED '000	Prior period error AED '000
Year ended 31 December 2018		
Impact on earnings per share		
Basic and diluted earnings per share from continuing operations (AED)	(0.002)	-
Basic and diluted earnings per share from continuing and discontinued operations (AED)	(0.002)	-
Impact on cash flows		
Cash flows from operating activities	-	-
Cash flows from investing activities	-	-
Cash flows from financing activities	-	-
Net impact on cash flows	**-**	**-**
As at 1 January 2018		
Impact on assets, liabilities and equity		
Loans and advances to customers	-	(41,353)
Receivables and other assets	(943)	(2,630)
Property and equipment	37,960	-
Net impact on total assets	**37,017**	**(43,983)**
Deposits and balances due to banks	-	(2,630)
Payables and other liabilities	39,445	(41,353)
Net impact on total liabilities	**39,445**	**(43,983)**
Accumulated losses	2,428	-
Net impact on total equity	**2,428**	**-**
As at 31 December 2018		
Impact on assets, liabilities and equity		
Loans and advances to customers	-	(38,550)
Receivables and other assets	(1,940)	(11,908)
Property and equipment	50,066	-
Net impact on total assets	**48,126**	**(50,458)**
Deposits and balances due to banks	-	(11,908)
Payables and other liabilities	52,950	(38,550)
Net impact on total liabilities	**52,950**	**(50,458)**
Accumulated losses	4,824	-
Net impact on total equity	**4,824**	**-**

49. Approval of the financial statements

The consolidated financial statements for the year ended 31 December 2019 were approved by the Board of Directors and authorised for issue on 9 February 2020.

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Glossary of abbreviations

ACDL	Al Caribi Development Limited
AED	United Arab Emirates Dirham
AKPI	Al Khaleejiah Property Investments LLC
ARZAQ	Arzaq Holdings (Private J.S.C.)
AT1	Additional Tier 1
Basel III	Basel III: International regulatory framework for banks
CBI	Commercial Bank International PSC
CBUAE	the Central Bank of the UAE
CDs	Certificates of Deposit
CDS	Credit Default Swaps
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
ECL	Expected Credit Losses
EIR	Effective Interest Rate
EPS	Earnings Per Share
EUR	Euro
FVTOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
GBP	British pound sterling
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASs	International Accounting Standards
IFB	International Financial Brokerage LLC
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IFRSs	International Financial Reporting Standards
JPY	Japanese yen
LGD	Loss Given Default
LLC	Limited Liability Company
OCI	Other Comprehensive Income
PD	Probability of Default
POCI	Purchased or Originated Credit Impaired
SCA	Securities and Commodities Authority of the UAE
SIC	Standard Interpretations Committee
SPPI	Solely Payments of Principal and Interest on the principal amount outstanding
SPV	Special Purpose Vehicle
T2	Tier 2
TCHA	Time Crystal Hotel Apartments FZ-LLC
the GCC	the Gulf Cooperation Council
the UAE	the United Arab Emirates
the USA	the United States of America
TRE	Takamul Real Estate LLC
USD	United States dollar
VR	Voluntary Redundancy