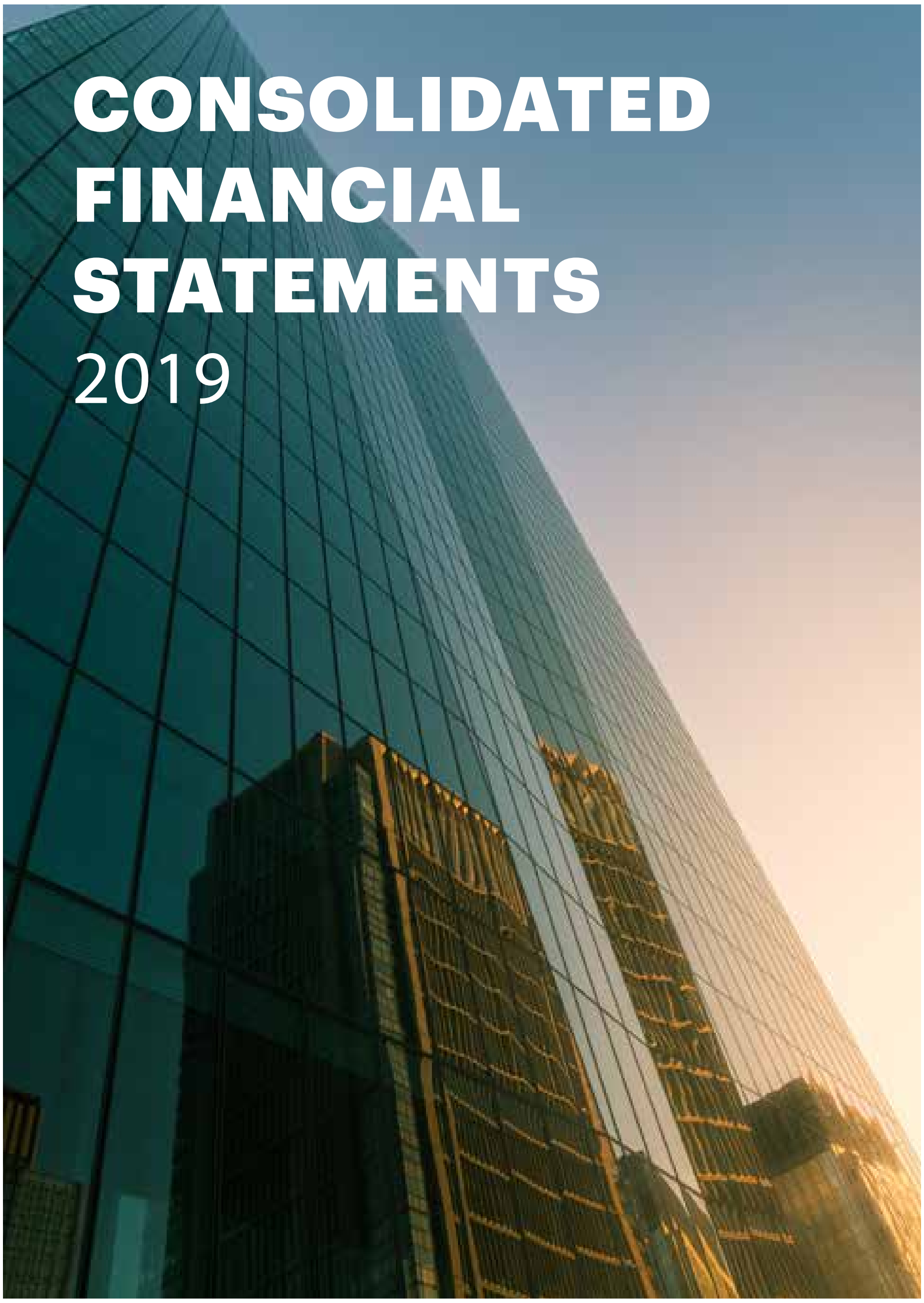
CONSOLIDATED FINANCIAL STATEMENTS
2019



Grow Stronger

بنك أبوظبي الأول

FAB

First Abu Dhabi Bank

Grow Stronger

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

TABLE OF CONTENTS

KPMG Lower Gulf Limited
Level 19, Nation Tower 2
Abu Dhabi Corniche, UAE
Tel. +971 (2) 40 14800, Fax +971 (2) 632 7612

Independent Auditors' Report

To the Shareholders of First Abu Dhabi Bank P.J.S.C.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of First Abu Dhabi Bank P.J.S.C. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters (continued)

Impairment of loans and advances

Refer to notes 12 and 35 of the consolidated financial statements for year-end disclosures.

The Group recognized allowances for credit losses on its consolidated statement of financial position using an expected credit loss ("ECL") model. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models, which include probability of default, loss given default, exposure at default, forward looking information and staging criteria. Qualitative adjustments or overlays may also be recorded by the Group using credit judgement where the inputs, assumptions and / or modelling techniques do not capture all relevant risk factors.

Given the inherently judgemental nature of computation of ECL for loans and advances, this is considered a key audit matter.

Our response

We have performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL process and to understand the governance framework around model review, validation and approval of ECL model, data gathering and its integrity and underlying estimates and assumptions used by management.

Our procedures included the following:

- Testing key controls over the modelling process, including model review, validation and approval;
- Testing key controls over the accuracy of key inputs used in the models;
- Testing key controls over significant increase in credit risk ("SICR") criteria involved testing controls relating to authorisation of the criteria and the application of the criteria in the models;
- Testing key controls over internal credit grading (which is a key driver in determining SICR) and monitoring process, to assess if the risk grades allocated to counterparties were appropriately identified and updated on a timely basis;
- Testing the design and implementation over the assessment of model outputs and authorisation and review of post model adjustments and management overlays;

Key audit matters (continued)

Impairment of loans and advances *(continued)*

- We involved our Financial Risk Modelling ("FRM") specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This included challenging key assumptions/judgments relating to significant increase in credit risk, definition of default, probability of default, recovery rates, use of macro-economic variables and probability weighted outcomes. FRM specialists also re-performed key elements of the Group's models calculations and evaluated the models performance results for accuracy;

- We have involved our Information Technology ("IT") specialists to assist in testing the relevant general IT and application controls over key systems used in the ECL process;

- Sample testing over key inputs impacting ECL calculations to confirm the accuracy of information used and evaluating key assumptions including economic forecasts and weightages;

- Re-performing key aspects of the Group's SICR determinations and selecting samples of loans and advances to determine whether a SICR was appropriately identified;

- Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing to source data on a sample basis;

- Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades at a given point in time and assess the financial performance of the borrower, source of repayment and future cash flows of the borrower to assess recoverability and ECL by comparing key assumptions to progress against business plans and our own understanding of relevant industries and business environment and where possible to externally derived evidence such as business performance and real estate valuations for assessing the appropriateness of collateral values held by the Group; and

- Assessing the adequacy of the Group's disclosure in relation to the requirements of IFRS 7 and IFRS 9.

Key audit matters (continued)

Carrying value of goodwill

Refer to note 3 for significant accounting policies and note 16 of the consolidated financial statements for year-end disclosures.

The Group acquired National Bank of Abu Dhabi on 1 April 2017 and finalised the purchase price accounting in the first quarter of 2018. Management performed impairment assessment of goodwill which arose from the acquisition. For cash generating units (CGUs) which contain goodwill, the determination of recoverable amount being the higher of fair value less cost to sell and value in use requires judgement on the part of management in both identifying and then determining the recoverable amount of the CGUs.

Our response

Our procedures included the following:

- We assessed the management's identification of CGUs, the allocation of assets to each CGU and the methodology adopted by management in its impairment assessments of goodwill;
- For each of the CGUs we assessed the reasonableness of the cash flow projections alongside with the growth rate assumption to externally available industry, economic and financial data;
- We involved our valuation specialists to critically assess the appropriateness of the discount rates used in order to determine estimated discounted cash flows and benchmarking these against external data sources and peer banks' data;
- We performed sensitivity analysis over the estimated discounted future cash flows and assessed the impact of changes in the key assumptions to the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias;
- We performed an assessment over management's ability to accurately forecast compared to actual results based on historic data available; and
- We reviewed budgets approved by the Board Management Committee to critically assess whether projected cash flows for the CGUs are in line with approved plans.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon ('the Annual report'). The Annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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.

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, as required by 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 Chairman's statement, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;

v) as disclosed in notes 9 and 13 to the consolidated financial statements, the Group has purchased or invested in shares during the financial year ended 31 December 2019;

vi) note 43 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

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

viii) note 34 to the consolidated financial statements discloses the social contributions made during the year.

Report on other legal and regulatory requirements (continued)

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 clarifications deemed necessary for the purposes of our audit.

KPMG Lower Gulf Limited

Emilio Pera

Registration number: 1146

Abu Dhabi, United Arab Emirates

Date: 27 January 2020

Grow Stronger

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

Consolidated statement of financial position
As at 31 December

Assets	Note	2019 AED'000	2018 AED'000
Cash and balances with central banks	8	**169,702,008**	182,908,727
Investments at fair value through profit or loss	9	**20,099,181**	14,620,910
Due from banks and financial institutions	10	**17,026,502**	19,176,092
Reverse repurchase agreements	11	**24,678,375**	19,033,451
Derivative financial instruments	40	**15,917,321**	13,084,192
Loans and advances	12	**407,903,028**	352,966,420
Non-trading investments	13	**114,644,422**	90,433,574
Investment properties	14	**7,956,854**	7,388,493
Property and equipment	15	**4,618,986**	3,991,215
Intangibles	16	**19,498,087**	19,699,711
Other assets	17	**19,923,251**	20,583,602
Total assets		**821,968,015**	743,886,387
Liabilities			
Due to banks and financial institutions	18	**36,007,875**	40,266,535
Repurchase agreements	19	**38,821,848**	34,769,685
Commercial paper	20	**21,236,955**	18,144,105
Derivative financial instruments	40	**19,228,541**	15,219,464
Customer accounts and other deposits	21	**519,161,857**	465,237,066
Term borrowings	22	**55,751,819**	42,268,173
Subordinated notes	23	**381,305**	401,979
Other liabilities	24	**23,340,779**	25,606,380
Total liabilities		**713,930,979**	641,913,387
Equity			
Share capital	25	**10,920,000**	10,897,545
Share premium		**53,434,461**	53,188,043
Treasury shares		**(18,864)**	(25,530)
Statutory and special reserves		**10,920,000**	9,483,238
Other reserves	25	**2,474,032**	(37,477)
Tier 1 capital notes	26	**10,754,750**	10,754,750
Share option scheme	27	**249,816**	266,841
Retained earnings		**18,872,367**	17,083,868
Total equity attributable to shareholders of the Bank		**107,606,562**	101,611,278
Non-controlling interest		**430,474**	361,722
Total Equity		**108,037,036**	101,973,000
Total liabilities and equity		**821,968,015**	743,886,387

To the best of our knowledge, the financial statements present fairly in all material respects the financial condition, financial performance and cash flows of the Group as of, and for, the periods presented therein.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 27 January 2020 and signed on its behalf:

Chairman	Group Chief Executive Officer	Group Chief Financial Officer

For

The notes 1 to 46 are an integral part of these consolidated financial statements.
The independent auditor's report on audit of consolidated financial statements is set out on pages 2 to 9.

Consolidated statement of profit or loss

For the year ended 31 December

	Note	2019 AED'000	2018 AED'000
Interest income	*28*	**24,368,947**	21,840,614
Interest expense	*29*	**(11,594,145)**	(8,810,445)
Net interest income		**12,774,802**	13,030,169
Fee and commission income		**4,730,688**	4,879,988
Fee and commission expense		**(1,561,259)**	(1,487,616)
Net fee and commission income	*30*	**3,169,429**	3,392,372
Net foreign exchange gain	*31*	**2,600,978**	2,042,480
Net gain on investments and derivatives	*32*	**1,506,277**	826,225
Other operating income	*33*	**197,571**	154,496
Operating income		**20,249,057**	19,445,742
General, administration and other operating expense	*34*	**(5,498,991)**	(5,328,555)
Profit before net impairment charge and taxation		**14,750,066**	14,117,187
Net impairment charge	*35*	**(1,842,980)**	(1,725,794)
Profit before taxation		**12,907,086**	12,391,393
Overseas income tax expense	*36*	**(314,463)**	(325,004)
Profit for the year		**12,592,623**	12,066,389
Profit attributable to:			
Shareholders of the Bank		**12,520,203**	12,010,820
Non-controlling interests		**72,420**	55,569
		12,592,623	12,066,389
Basic earnings per share (AED)	*42*	**1.10**	1.06
Diluted earnings per share (AED)	*42*	**1.10**	1.06

The notes 1 to 46 are an integral part of these consolidated financial statements.
The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 9.

Consolidated statement of comprehensive income

For the year ended 31 December

	2019 AED'000	2018 AED'000
Profit for the year	**12,592,623**	12,066,389
Other comprehensive income		
Items that are or may subsequently be reclassified to consolidated statement of profit or loss		
Exchange difference on translation of foreign operations	**(47,394)**	(270,017)
Net change in fair value reserve during the year (including ECL)	**1,941,181**	(936,930)
Items that will not be subsequently be reclassified to consolidated statement of profit or loss		
Net change in fair value of investments in equity instruments designated at fair value through other comprehensive income	**27,308**	(102,223)
Re-measurement of defined benefit obligations	**(17,295)**	(13,601)
Board of Director's remuneration	**(54,750)**	(54,750)
Other comprehensive income for the year	**1,849,050**	(1,377,521)
Total comprehensive income for the year	**14,441,673**	10,688,868
Comprehensive income attributable to:		
Shareholders of the Bank	**14,372,921**	10,655,460
Non-controlling interest	**68,752**	33,408
Total comprehensive income for the year	**14,441,673**	10,688,868

The notes 1 to 46 are an integral part of these consolidated financial statements.
The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 9.

Consolidated statement of cash flows

For the year ended 31 December

	Note	2019 AED'000	2018 AED'000
Cash flows from operating activities			
Profit before taxation		**12,907,086**	12,391,393
Adjustments for:			
Depreciation and amortization	*15,16*	**652,936**	437,249
Loss on revaluation of investment properties	*14*	**6,699**	95,764
Gain on sale of investment property		**(136)**	(1,551)
Gain on sale of fixed assets		**(28,897)**	(111,422)
Net impairment charges	*35*	**2,187,815**	2,029,564
Accreted interest		**1,425,680**	36,452
Foreign currency translation adjustment		**(22,997)**	(670,603)
Share option scheme		**(17,025)**	10,576
		17,111,161	14,217,422
Changes in:			
Investments at fair value through profit or loss		**(5,478,271)**	7,093,387
Due from central banks, banks and financial institutions		**(8,870,320)**	(9,379,910)
Reverse repurchase agreements		**(5,629,982)**	2,298,167
Loans and advances		**(56,983,821)**	(27,190,417)
Other assets		**681,475**	(5,009,629)
Due to banks and financial institutions		**(4,258,660)**	9,690,199
Repurchase agreements		**4,052,163**	(2,904,331)
Customer accounts and other deposits		**53,925,873**	69,872,574
Derivative financial instruments		**2,884,178**	(2,308,854)
Other liabilities		**(2,949,789)**	4,086,161
		(5,515,993)	60,464,769
Overseas income tax paid, net of recoveries	*24*	**(312,750)**	(293,342)
Directors' remuneration paid		**(54,750)**	(49,000)
Net cash (used in) / from operating activities		**(5,883,493)**	60,122,427
Cash flows from investing activities			
Net purchase of non-trading investments		**(22,427,994)**	(5,381,782)
Purchase of investment property		**(489,805)**	(270,046)
Sale proceeds from disposal of investment property		**8,865**	20,990
Purchase of property and equipment, net of disposals		**(869,740)**	(885,837)
Net cash used in investing activities		**(23,778,674)**	(6,516,675)
Cash flows from financing activities			
Proceeds from issue of shares under share option scheme	*27*	**275,539**	178,302
Dividend paid	*25*	**(7,843,642)**	(7,578,784)
Net movement of commercial paper		**3,092,850**	(5,979,992)
Issue of term borrowings	*22*	**23,906,212**	9,076,645
Repayment of term borrowings	*22*	**(13,529,379)**	(7,735,417)
Payment on Tier 1 capital notes	*26*	**(571,855)**	(495,047)
Net cash from / (used in) financing activities		**5,329,725**	(12,534,293)
Net (decrease) / increase in cash and cash equivalents		**(24,332,442)**	41,071,459
Cash and cash equivalents at 1 January		**175,677,376**	134,605,917
Cash and cash equivalents at 31 December	*37*	**151,344,934**	175,677,376

The notes 1 to 46 are an integral part of these consolidated financial statements.
The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 9.

Consolidated statement of changes in equity
For the year ended 31 December

	Share capital AED'000	Share premium AED'000	Treasury shares AED'000	Statutory and special reserves AED'000	Other reserves AED'000	Tier 1 capital notes AED'000	Share option scheme AED'000	Convertible notes – equity component AED'000	Retained earnings AED'000	Equity attributable to share-holders of the Group AED'000	Non-controlling interest AED'000	Total AED'000
Balance at 1 January 2018	10,897,545	53,026,644	(42,433)	7,081,074	962,736	10,754,750	256,265	108,265	18,677,552	101,722,398	487,015	102,209,413
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	(184,078)	-	-	-	(2,682,560)	(2,866,638)	(158,701)	(3,025,339)
Restated balance at 1 January 2018	10,897,545	53,026,644	(42,433)	7,081,074	778,658	10,754,750	256,265	108,265	15,994,992	98,855,760	328,314	99,184,074
Profit for the year	-	-	-	-	-	-	-	-	12,010,820	12,010,820	55,569	12,066,389
Other comprehensive income for the year	-	-	-	-	(1,287,009)	-	-	-	(68,351)	(1,355,360)	(22,161)	(1,377,521)
Transactions with owners of the Group												
Zakat	-	-	-	-	-	-	-	-	7,597	7,597	-	7,597
Share options exercised *(note 27)*	-	161,399	16,903	-	-	-	-	-	-	178,302	-	178,302
Dividend for the year (net of treasury shares)	-	-	-	-	-	-	-	-	(7,601,370)	(7,601,370)	-	(7,601,370)
Options granted to staff	-	-	-	-	-	-	10,576	-	-	10,576	-	10,576
Payment on Tier 1 capital notes *(note 26)*	-	-	-	-	-	-	-	-	(495,047)	(495,047)	-	(495,047)
Transfer during the year	-	-	-	2,402,164	108,265	-	-	(108,265)	(2,402,164)	-	-	-
IFRS 9 reserve movement	-	-	-	-	362,609	-	-	-	(362,609)	-	-	-
Balance at 31 December 2018	10,897,545	53,188,043	(25,530)	9,483,238	(37,477)	10,754,750	266,841	-	17,083,868	101,611,278	361,722	101,973,000
Balance at 1 January 2019	**10,897,545**	**53,188,043**	**(25,530)**	**9,483,238**	**(37,477)**	**10,754,750**	**266,841**	**-**	**17,083,868**	**101,611,278**	**361,722**	**101,973,000**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,520,205**	**12,520,205**	**72,420**	**12,592,625**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**1,924,762**	**-**	**-**	**-**	**(72,045)**	**1,852,717**	**(3,668)**	**1,849,049**
Transactions with owners of the Group												
Zakat	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,279)**	**(1,279)**	**-**	**(1,279)**
Share options exercised *(note 27)*	**-**	**246,418**	**29,121**	**-**	**-**	**-**	**-**	**-**	**-**	**275,539**	**-**	**275,539**
Dividend for the year (net of treasury shares)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,063,018)**	**(8,063,018)**	**-**	**(8,063,018)**
Options granted to staff	**-**	**-**	**-**	**-**	**-**	**-**	**(17,025)**	**-**	**-**	**(17,025)**	**-**	**(17,025)**
Payment on Tier 1 capital notes *(note 26)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(571,855)**	**(571,855)**	**-**	**(571,855)**
Transfer during the year	**-**	**-**	**-**	**1,436,762**	**-**	**-**	**-**	**-**	**(1,436,762)**	**-**	**-**	**-**
IFRS 9 reserve movement	**-**	**-**	**-**	**-**	**595,921**	**-**	**-**	**-**	**(595,921)**	**-**	**-**	**-**
Realised gain on sale of FVOCI investment	**-**	**-**	**-**	**-**	**(9,174)**	**-**	**-**	**-**	**9,174**	**-**	**-**	**-**
Issuance of share capital	**22,455**	**-**	**(22,455)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2019	**10,920,000**	**53,434,461**	**(18,864)**	**10,920,000**	**2,474,032**	**10,754,750**	**249,816**	**-**	**18,872,367**	**107,606,562**	**430,474**	**108,037,036**

The notes 1 to 46 are an integral part of these consolidated financial statements.
The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 9.

Notes to the consolidated financial statements

1 Legal status and principal activities

On 7 December 2016, Shareholders of National Bank of Abu Dhabi PJSC ("NBAD") and First Gulf Bank PJSC ("FGB") approved the merger of the two banks pursuant to Article 283(1) of UAE Federal Law No. 2 of 2015 Concerning Commercial Companies (the Law). The merger was effected through the issuance of 1.254 new NBAD shares for every 1 share in FGB on close of business 30 March 2017, subsequent to which FGB shares were delisted from Abu Dhabi Securities Exchange. On 25 April 2017, NBAD shareholders approved the proposal to change the name of the combined bank to 'First Abu Dhabi Bank' (the "Bank") and have its registered office in FAB Building, Khalifa Business Park 1 Al Qurum P. O. Box 6316 Abu Dhabi, United Arab Emirates.

These consolidated financial statements as at and for the year ended 31 December 2019 comprises the Bank and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in corporate, retail, private and investment banking activities, management services, Islamic banking activities, real estate activities; and carries out its operations through its local and overseas branches, subsidiaries and representative offices located in the United Arab Emirates, Bahrain, Brazil, Cayman Islands, China, Egypt, France, Hong Kong, India, Jordan[1], Kingdom of Saudi Arabia, Kuwait, Lebanon, Libya, Malaysia[1], Oman, Qatar[2], Singapore, South Korea, Sudan[1], Switzerland, the United Kingdom and the United States of America.

The Group's Islamic banking activities are conducted in accordance with Islamic Sharia'a laws issued by the Sharia'a Supervisory Board.

The Group is listed on the Abu Dhabi Securities Exchange (Ticker: FAB).

The consolidated financial statements of the Group as at and for the year ended 31 December 2019 are available upon request from the Group's registered office or at http://www.bankfab.com

[1] Under closure.
[2] During the period, the Bank has notified the Qatar Financial Centre Regulatory Authority ("QFCRA") that it will relinquish its Qatar Financial Centre ("QFC") branch license and permanently close its QFC branch.

2 Basis of Preparation

(a) Statement of Compliance

These consolidated financial statements have been prepared on going concern basis in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and the requirements of applicable laws in the UAE.

On 1 April 2015, UAE Federal Law No 2 for Commercial Companies ("UAE Companies Law of 2015") was issued with effective date 1 July 2015. The Bank is in compliance with applicable sections of the UAE Companies Law of 2015 as at the date of these financial statements.

On 23 September 2018, a new Decretal Federal Law No 14 of 2018 regarding the Central Bank and Organization of Financial Institutions and Activities was issued. As per the transitional provisions of the new law, financial institutions are to ensure compliance within 3 years from the date of issuance of the decretal law. The Bank is in the process of adopting the new decretal federal law and will be fully compliant before the transitional provisions deadline.

These consolidated financial statements were authorised for issue by the Board of Directors on 27th January 2020.

(b) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in general, administration and other operating expenses, except if related to the issue of debt or equity securities.

Notes to the consolidated financial statements *(continued)*

2 Basis of Preparation *(continued)*

(b) Business combinations *(continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred or in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(c) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following:

- investments at fair value through profit or loss are measured at fair value;
- derivative financial instruments are measured at fair value;
- debt and equity instruments designated at fair value through other comprehensive income are measured at fair value;
- investment properties are measured at fair value;
- recognised assets and liabilities designated as hedged items in qualifying hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- non-financial assets acquired in settlement of loans and advances are measured at the lower of their fair value less costs to sell and the carrying amount of the loan and advances.

(d) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. Items included in the financial statements of each of the Bank's overseas subsidiaries and branches are measured using the currency of the primary economic environment in which they operate.

Notes to the consolidated financial statements *(continued)*

2 Basis of Preparation *(continued)*

(e) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements are described in note 6.

3 Significant accounting policies

(a) New and Amended standards and interpretations adopted

The Group initially adopted IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 – Leases

The Group applied IFRS 16 using the modified retrospective approach, under which the right of use assets is equal to lease liabilities, less prepaid lease rental, if any, as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 *Determining whether an Arrangement* contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 3 (aj).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

As a lessee

As a lessee, the Group leases some branches and office premises and IT equipment. The Group previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for leases of branches and office premises the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(a) New and Amended standards and interpretations adopted *(continued)*

IFRS 16 – Leases *(continued)*

As a lessee *(continued)*

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- relied on its assessment of whether leases are onerous under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

As a lessor

The Group leases out certain property and equipment. The Group had classified these leases as follows:

- finance leases of property and equipment; and
- operating leases of investment property.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

The Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

The impact on the consolidated financial statements has been disclosed in note 4.

(b) Basis of consolidation

(i) Subsidiaries

IFRS 10 governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) the investor has power over an investee;
(b) the investor has exposure to, or rights, to variable returns from its involvement with the investee; and
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are entities that are controlled by the Group. The Group controls the investee if it meets the control criteria set out above. The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

(i) Subsidiaries *(continued)*

The consolidated financial statements comprise the financial statements of the Group and those of its following subsidiaries:

Legal Name	Country of incorporation	Principal activities	Holding % 2019
First Abu Dhabi Bank USA N.V.	Curacao	Banking	100%
FAB Securities LLC	United Arab Emirates	Brokerage	100%
Abu Dhabi National Leasing LLC	United Arab Emirates	Leasing	100%
Abu Dhabi National Properties Pvt. JSC	United Arab Emirates	Property Management	100%
FAB Private Bank (Suisse) SA	Switzerland	Banking	100%
First Abu Dhabi Islamic Finance PJSC	United Arab Emirates	Islamic Finance	100%
Abu Dhabi Securities Brokerage Egypt[1]	Egypt	Brokerage	96%
National Bank of Abu Dhabi Malaysia Berhad[1]	Malaysia	Banking	100%
NBAD Employee Share Options Limited	United Arab Emirates	Shares and Securities	100%
SAS 10 Magellan	France	Leasing	100%
National Bank of Abu Dhabi Representações Ltda	Brazil	Representative office	100%
FAB Global Markets (Cayman) Limited	Cayman Islands	Financial Institution	100%
Nawat Management Services - One Man Company LLC	United Arab Emirates	Services	100%
Mismak Properties Co. LLC (Mismak)	United Arab Emirates	Real estate investments	100%
Moora Properties Co. LLC (Subsidiary of Mismak)	United Arab Emirates	Real estate investments	67%
First Merchant International LLC (FMI)	United Arab Emirates	Real estate investments	100%
FAB Employment Services LLC (Subsidiary of FMI)	United Arab Emirates	Resourcing services	100%
FAB Resourcing Services LLC (Subsidiary of FMI)	United Arab Emirates	Resourcing services	100%
FAB Sukuk Company Limited	Cayman Islands	Special purpose vehicle	100%
First Gulf Libyan Bank[2]	Libya	Banking services	50%
FGB Global Markets Cayman Limited	Cayman Islands	Financial Institution	100%
FAB Properties LLC	United Arab Emirates	Management and brokerage of real estate properties	100%
Aseel Finance PJSC	United Arab Emirates	Islamic finance	100%
Dubai First PJSC	United Arab Emirates	Credit card finance	100%
First Gulf Information Technology LLC	United Arab Emirates	IT Services	100%
FAB Investment KSA (single Shareholder LLC)	Kingdom of Saudi Arabia	Financial Institution	100%

[1] Under liquidation.

[2] Although the Bank owns 50% of the outstanding shares of First Gulf Libyan Bank, the investment has been classified as a subsidiary as the Bank exercises control over the investee because it casts the majority of the votes on the board of directors.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

(ii) Structured entities

A structured entity is established by the Group to perform a specific task. Structured entities are designed so that their activities are not governed by way of voting rights. In assessing whether the Group acts as a principal or has power over investees in which it has an interest, the Group considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund. Whilst assessing control, the Group reviews all facts and circumstances to determine whether as a fund manager the Group is acting as agent or principal. If deemed to be a principal, the Group controls the fund and would consolidate them else as an agent the Group would account for them as investments in funds.

The Group's interest in investment funds in which it act as an agent is set out below, these funds are included as part of investments.

Type of Structured Entity	Nature and purpose	Interest held by the Group
Investment Funds managing assets	Generate fees from managing assets on behalf of third-party investors	Investments in units issued by the fund amounting to AED 3,914 thousand *(2018: AED 2,050 thousand)*

(iii) Joint Arrangements and Investments in Associates

An Associate is an investee 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 not control or joint control over those policies. Investment in associates is accounted under the equity method of accounting.

A joint arrangement is an arrangement between the Group and other parties where the Group along with one or more parties has joint control by virtue of a contractual agreement. Joint arrangement may be a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to and record their respective share of the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement, have rights to the net assets of the arrangement and, thus, are accounted under the equity method of accounting.

Under the equity method, the investment in an associate is initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

(iii) Joint Arrangements and Investments in Associates *(continued)*

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement of income.

(iv) Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(v) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value when control is lost.

(vi) Transactions eliminated on consolidation

The carrying amount of the Group's investment in each subsidiary and the equity of each subsidiary are eliminated on consolidation. All significant intra-group balances, transactions and unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Financial assets and liabilities

(i) Recognition and initial measurement

The Group initially recognised loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (excluding regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive Income ("FVOCI") or Fair Value through profit or loss ("FVTPL"). A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI").

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(ii) Classification *(continued)*

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

Assessment of whether contractual cash flows are solely payments of principal and interest ("SPPI")

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

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(ii) Classification *(continued)*

Assessment of whether contractual cash flows are solely payments of principal and interest ("SPPI") *(continued)*

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

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also 3(iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(iii) Derecognition *(continued)*

Financial assets *(continued)*

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees receivable as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(iv) Modifications of financial assets and financial liabilities *(continued)*

Financial liabilities *(continued)*

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

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

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

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

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(vi) Fair value measurement *(continued)*

The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving similar investments, are based on the expected discounted cash flows.

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

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

(vii) Impairment

The Bank recognises loss allowances for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- due from banks and financial institutions;
- reverse repurchase agreements;
- financial assets that are debt instruments;
- loans and advances;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 5(a)).

The Group considers the above financial instruments to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(vii) Impairment *(continued)*

Measurement of ECL

The key inputs into the measurement of ECL are:
- Probability of default ("PD");
- Loss given default ("LGD");
- Exposure at default ("EAD")

These parameters are generally derived from statistical models and other historical data. They are adjusted to reflect forward-looking information. Additionally, the Group has elaborate review process to adjust ECL for factors not available in the model.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

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

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

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(vii) Impairment *(continued)*

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit‑impaired (referred to as 'Stage 3 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. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Purchased or Originally Credit Impaired ("POCI") financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated on initial recognition.

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:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally 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. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'net impairment charge' in the statement of profit or loss. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Central Bank of UAE ("CBUAE") provision requirements

As per the CBUAE notice no. CBUAE/BSD/2018/458 dated 30 April 2018, clause 6.4, if the specific provision and general/collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an "Impairment Reserve" as an appropriation from the Retained earnings. This impairment reserve should be split to that which relates to difference in specific provision and general/collective provision. The Impairment reserve will not be available for payment of dividend.

3 Significant accounting policies *(continued)*

(d) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with central banks and due from banks and financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are non-derivative financial assets stated at amortised cost in the consolidated statement of financial position.

(e) Due from banks and financial institutions

These are non-derivative financial assets that are stated at amortised cost, less any allowance for impairment.

(f) Investments at fair value through profit or loss

These are securities that the Group acquire principally for the purpose of selling in the near term or holding as a part of portfolio that is managed together for short-term profit or position taking. These assets are initially recognised and subsequently measured at fair value in the consolidated statement of financial position. All changes in fair values are recognised as part of profit or loss.

(g) Reverse repurchase agreements

Assets purchased with a simultaneous commitment to resell at a fixed price on a specified future date are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements in the consolidated statement of financial position. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(h) Loans and advances

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- finance lease receivables.

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

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

In determining whether an arrangement is a lease, the Group ascertains the substance of the arrangement and assesses whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets.

These are derecognised when either the borrower repays its obligations or the loan are sold or written-off.

(i) Islamic financing and investing contracts

The Group engages in Sharia'a compliant Islamic banking activities through various Islamic instruments such as Ijara, Murabaha, Mudaraba and Wakala.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(i) Islamic financing and investing contracts *(continued)*

(i) Definitions

Ijara

Ijara consists of Ijara muntahia bitamleek.

Ijara financing is an agreement whereby the Group (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee. Ijara income is recognised on an effective profit rate basis over the lease term.

Murabaha

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal. Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

(i) Revenue recognition

Ijara

Income from Ijara is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Murabaha

Income from Murabaha is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

3 Significant accounting policies *(continued)*

(i) Islamic financing and investing contracts *(continued)*

(ii) Revenue recognition *(continued)*

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the consolidated statement of profit or loss on their declaration by the Mudarib.

Wakala

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(j) Non-trading investments

The 'non-trading investments' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI;
- equity investment securities designated as at FVOCI; and
- Investment in associate and joint venture

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Fair value gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

(k) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement under 'other income' in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Notes to the consolidated financial statements (*continued)*

3 Significant accounting policies *(continued)*

(l) Property and equipment

(i) Recognition and measurement

All items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any, except for land, which is measured at fair value. Capital projects in progress are initially recorded at cost and regularly tested for impairment and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other operating income in the consolidated statement of profit or loss.

Subsequent expenditures are only capitalised when it is probable that the future economic benefits of such expenditures will flow to the Group. On-going expenses are charged to consolidated statement of profit or loss as incurred.

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

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

(ii) Depreciation

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of all property and equipment. Freehold land and capital work in progress are not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

Buildings and villas	20 to 50 years
Office furniture and equipment	5 to 7 years
Fit-out leased premises	10 years
Safes	10 years
Computer systems and equipment	3 to 7 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reassessed at every reporting date.

(iii) Capital work in progress

Capital work in progress assets are assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property capitalised in accordance with Group’s accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group’s policies.

(iv) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Goodwill is tested annually for impairment.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(l) Property and equipment *(continued)*

(iv) Impairment of non-financial assets *(continued)*

For impairment testing, assets are grouped together into smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or group of CGUs that are expected benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less cost to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of any other assets in the CGU on a prorate basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(m) Intangible assets

Goodwill arises on the acquisition represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired in case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill and license acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill and license impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

The Group's intangible assets other than goodwill include intangible assets arising out of business combinations. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(m) Intangible assets *(continued)*

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

Customer relationships	7.5 – 15 years
Core deposits	2.5 years – 15 years
Brand	20 years

(n) Collateral pending sale

Real estate and other collateral may be acquired as the result of settlement of certain loans and advances and are recorded as assets held for sale and reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of profit or loss. The Group's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Group operates.

(o) Due to banks and financial institutions, Customer accounts and other deposits and Commercial Paper

Due to banks and financial institutions, customer deposits and Commercial Paper are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method.

(p) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a fixed price on a specified future date are not derecognised. The liability to the counterparty for amounts received under these agreements is shown as repurchase agreements in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(q) Term borrowings and subordinated notes

Term borrowings and subordinated notes include convertible notes that can be converted into share capital at the option of the holder, where the number of shares issued do not vary with changes in their fair value, are accounted for as compound financial instruments. The equity component of the convertible notes is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

Term borrowing which are designated at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in fair value of the related instruments.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(q) Term borrowings and subordinated notes *(continued)*

Term borrowings and subordinated notes without conversion option and that are at fair value through profit or loss are financial liabilities which are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method and adjusted to the extent of fair value changes for the risks being hedged.

(r) Treasury shares

Own equity instruments which are acquired (treasury shares) are deducted from the equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancelation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. If treasury shares are distributed as part of a bonus share issue, the cost of the shares is charged against retained earnings. Voting rights relating to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

(s) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

(t) Share option scheme

On the grant date fair value of options granted to staff is estimated and the cost is recognised as staff cost, with a corresponding increase in equity, over the period required for the staff to become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service conditions are expected to be met; as such the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date. These shares may contribute to the calculation of dilutive EPS once they are deemed as potential ordinary shares.

(u) Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(u) Interest income and expense *(continued)*

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

For information on when financial assets are credit-impaired, see Note 3(c)(vii).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on financial assets and financial liabilities at FVTPL are presented as in interest income or interest expense from financial instruments at FVTPL.

(v) Income from Islamic financing activities

Ijara income is recognised on a time-proportion basis over the lease term.

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding. Mudaraba income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

(w) Depositors' share of profit

Depositors' share of profit is amount accrued as expense on the funds accepted from banks and customers in the form of wakala and mudaraba deposits and recognised as expenses in the consolidated statement of profit or loss. The amounts are calculated in accordance with agreed terms and conditions of the wakala deposits and Sharia'a principles.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(x) Fee and commission income and expense

The Group earns fee and commission income from a diverse range of services provided to its customers. The basis of accounting treatment of fees and commission depends on the purposes for which the fees are collected and accordingly the revenue is recognised in consolidated statement of profit or loss. Fee and commission income is accounted for as follows:

- income earned from the provision of services is recognised as revenue as the services are provided;
- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in "Interest income".

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

Customer loyalty programme

The Group operates loyalty programs, which allow customers to accumulate points when they use the Bank's products and services that can then be redeemed for free or discounted products or services, subject to certain conditions. The loyalty programs give rise to separate performance obligations under the separate schemes. The fair value of issued points is generally estimated based on equivalent standalone prices for the mix of awards expected and is recognized in other liabilities until the points get redeemed or lapsed. Management judgment is involved in determining the redemption rate to be used in the estimate of points to be redeemed as evidenced by the Group's historical experience.

(y) Zakat

Zakat is only paid on behalf of shareholders in jurisdictions where zakat payment is made mandatory by the regulations of the jurisdictions. Such payment is made in accordance with the regulations of the jurisdictions.

(z) Net gain/loss on investments and derivatives

Net gain on investments and derivatives comprises realised and unrealised gains and losses on investments at fair value through profit or loss and derivatives, realised gains and losses on non-trading investments and dividend income. Net gain on investment at fair value through profit or loss includes changes in the fair value of financial assets and financial liabilities designated at fair value.

Gains and losses arising from changes in fair value of FVOCI assets are recognised in the statement of other comprehensive income and recorded in fair value reserve with the exception of ECL, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated statement of profit or loss. Where the investment is sold or realised, the cumulative gain or loss previously recognised in equity under fair value reserve is reclassified to the consolidated statement of profit or loss in case of debt instruments.

Non-trading investment includes FVOCI and amortised cost instruments.

The Group also holds investments in assets issued in countries with negative interest rates. The Group discloses interest paid on these assets in the line where its economic substance of transaction is reflected (note 31).

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(z) Net gain/loss on investments and derivatives *(continued)*

Amortised cost investments, which are not close to their maturity are not ordinarily sold. However when they are sold or realised, the gain or loss is recognised in the consolidated statement of profit or loss.

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

(aa) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on transaction are generally recognised in profit or loss. However, foreign currency differences arising from the transaction arising from the translation of the following item are recognised in OCI.

- available for sale equity instruments / FVOCI equity instruments
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective
- qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The activities of subsidiaries and branches based outside the UAE are not deemed an integral part of the head office operations, as they are financially and operationally independent of the head office. The assets and liabilities of the foreign operations are translated into UAE Dirhams at rates of exchange at the reporting date. The income and expense of foreign operations are translated at average rates, as appropriate. Exchange differences (including those on transactions which hedge such investments) arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income.

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

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

(ab) Overseas income tax expense

Income tax expense comprises of current and deferred tax. It is recognised in profit or loss except to the extent it relates to items recognised directly in equity or OCI.

3 Significant accounting policies *(continued)*

(ab) Overseas income tax expense *(continued)*

Current tax is provided for in accordance with fiscal regulations of the respective countries in which the Group operates and is recognised in the consolidated statement of profit or loss. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow for all or part of the deferred tax asset to be utilised.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest maybe due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(ac) Derivative financial instruments and hedging

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for trading are recognised in the consolidated statement of profit or loss. When derivatives are designated as hedges, the Group classifies them as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; (iii) hedge of net investment which are accounted similarly to a cash flow hedge. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided the criteria are met.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ac) Derivative financial instruments and hedging *(continued)*

Embedded derivatives *(continued)*

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Hedge accounting

It is the Group's policy to document, at the inception of a hedge, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy. The policy also requires documentation of the assessment, at inception and on an on-going basis, of the effectiveness of the hedge.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecasted transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a clearing counterparty ("CCP") by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortization begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flow attributable to a particular risk associated with a recognised assets or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivatives is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows which affect profit or loss and in the same line in the statement of profit or loss and OCI.

3 Significant accounting policies *(continued)*

(ac) Derivative financial instruments and hedging *(continued)*

Cash flow hedge *(continued)*

If the hedging derivative expires is sold, terminated or exercised or the hedge, no longer meets the criteria for cash flow hedge accounting the hedge accounting is discounted prospectively. However if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

Net investments hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of the changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. The effective portion of the change in fair value of the hedging instrument is computed with reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in the consolidated statement of profit or loss. The amount recognised under other comprehensive income is fully or partially reclassified to statement of profit or loss on disposal of the foreign operation or partial disposal of the foreign operation, respectively.

Other derivatives

Other non-trading derivatives are recognised on balance sheet at fair value. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net gain on investments and derivatives or net foreign exchange gain.

(ad) Provisions

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

(ae) Employees' end of service benefit

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

With respect to its UAE national employees, the Group makes contributions to the relevant government pension scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity or to a government organisation and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated statement of profit or loss in the periods during which services are rendered by employees.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ae) Employees' end of service benefit *(continued)*

Defined contribution plan *(continued)*

Pension and national insurance contributions for eligible employees are made by the Group to Pensions and Benefits Fund in accordance with the applicable laws of country where such contributions are made.

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit plans are recognised in Staff cost in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(af) Directors' remuneration

Pursuant to Article 169 of the UAE Companies of 2015 and in accordance with the Bank's Articles of Association, Directors' shall be entitled for remuneration which shall not exceed 10% of the net profits after deducting depreciation and reserves.

(ag) Fiduciary activities

Assets held in a fiduciary capacity are not treated as assets of the Group as they are only held in trust where the Group acts as a custodian on customers' behalf. The Group has no liability or obligations towards the customer on these assets held in trust. Accordingly, these assets are not included in these consolidated financial statements.

(ah) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise of convertible notes and share options granted to staff.

(ai) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive, being the chief operating decision maker, to make decisions about resources to be allocated to the segment and to assess its performance for which discrete financial information is available. Segment results that are reported to the Group Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3 Significant accounting policies *(continued)*

(aj) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

(i) Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

3 Significant accounting policies *(continued)*

(aj) Leases *(continued)*

Policy applicable from 1 January 2019 *(continued)*

(i) Group acting as a lessee *(continued)*

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy applicable before 1 January 2019

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

(ak) Settlement date accounting

Purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group settles the purchase or sale of an asset.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(al) Taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

(am) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Certain financial guarantee contracts in the nature of credit default guarantees are not held for proprietary trading purposes and are treated as insurance contracts and accounted for under IFRS 4.

For other financial guarantee contracts, these are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

Financial guarantees are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on loans and advances. If a specific provision is required for financial guarantees, the related unearned commissions recognised under other liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

(an) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Group’s consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- IFRS 17 Insurance Contracts.

4 Transitional impact

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

	1 Jan 2019 AED '000
Right-of-use assets presented in property and equipment	**130,152**
Lease liabilities	**110,998**
Other assets	**(19,154)**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019.

5 Financial risk management

Introduction and overview

Risk management framework

The primary objective of the Group is to manage risk and provide risk adjusted returns to the shareholders in line with the accepted risk profile. In the course of doing its regular business activities, the Group gets exposed to multiple risks notably credit risk, market risk, liquidity and funding risk, interest rate risk, operational risk and other risks like compliance risk, strategic risk, reputation risk, information security risk and business continuity. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Group. The Risk management tone is set right at the top from the Board of Directors ("BOD") and gets implemented through a well-defined risk management structure and framework.

Composition of Board

The Board of Directors ("BOD") is responsible for the overall direction, supervision and control of the Group. The Board has delegated authority for the day-to-day management of the Group is conducted by the BOD committees, and the Group Chief Executive Officer ("GCEO") and the Group Executive Committee. The BOD has overall responsibility for the Group including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. The BOD currently comprises nine members. Each Director holds his position for three years, which may then be renewed for a further three year term. The Board of Directors of the Bank's subsidiaries has the same fiduciary responsibilities towards their respective entities as the Group's Directors have towards the Bank.

Corporate Governance Framework

The Group has a comprehensive Corporate Governance Framework that puts in place rules, processes and policies through which BOD and Senior Management manages the Group. The BOD drives the implementation of the corporate governance standards and in accordance with its charter has oversight responsibility for the Group's corporate governance framework. The Group's corporate governance standards bind its signatories to the highest standards of professionalism and due diligence in the performance of their duties. The Group Chief Risk Officer ("GCRO") is the custodian of the Corporate Governance Framework document.

Risk Management Structure

The BOD approves risk management plans for the Bank, its subsidiaries, its associates and international offices including representative offices and overseas branches. Under authority delegated by the BOD, the Board Risk and Compliance Committee ("BRCC") through its separately convened risk management meetings formulates high-level enterprise risk management policy, exercises delegated risk authorities and oversees the implementation of risk management framework and controls. The GCRO functionally reports to this Committee.

5 Financial risk management *(continued)*

Board Level Committees within the Group

Board Management Committee ("BMC")

BMC comprises three members of the BOD and the GCEO. BMC oversees execution of the Group's business plan as per the strategy approved by the Board and oversees and reviews material aspects of the business of the Group. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the BMC charter.

Board Risk and Compliance Committee ("BRCC")

BRCC comprises three members of the BOD and the GCEO. The BRCC provides oversight and advice to the Group Board in relation to current and potential future risk and compliance exposures of the FAB Group. It also considers and helps direct future risk strategy, including determination of risk appetite and tolerance as well as promote a risk and compliance awareness culture among the Group. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the BRCC charter.

Board Audit Committee ("BAC")

BAC comprises three members of the BOD and the GCEO. BAC ensures oversight of the effectiveness of the internal control systems and the quality and integrity of financial statements and financial reporting. In addition, it reviews, approves and oversees the internal and external audit programs and ensures coordination between internal and external auditors. The Group Chief Audit Officer ("GCAO") provides reports to the Committee on Internal controls. The Head of Compliance provides reports to the committee on compliance related matters such as fraud and whistleblowing. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the Board Audit Committee charter.

Remuneration and Nomination Committee ("REMCO")

REMCO comprises three members of the BOD and the GCEO. REMCO recommends and oversees the appointment and termination of Directors and succession planning for the Group Executive Committee members. This includes an assessment of the skills, knowledge and expertise needed to ensure they are positioned to discharge their responsibilities in the interests of the shareholders and FAB Group. The Committee also reviews and recommends to the Board FAB's reward policy framework, approves and oversees reward design and ensures it is appropriate and consistent with the Group's culture, values, business performance and risk strategy. The Committee meets at least twice a year or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in REMCO charter.

Management Level Committees within the Group

Management committees are responsible for implementing the Risk management framework. The major functions of the ten management committees are listed below:

Group Executive Committee ("EXCO")

EXCO is FAB Group's most Senior Management level committee operating under a delegated authority from the Board. It is responsible for identifying matters required or appropriate for escalation to the Group Board or Board Committees. The Group EXCO also supports the GCEO to determine and implement the Bank's strategy as approved by the FAB Board.

The key responsibilities of the Committee include decisions on the Bank's strategy, annual budgets, capital management, risk management and FAB's more material policies and procedures. The Group EXCO may delegate certain authorities and powers to management committees and individuals, but the Group EXCO reserves the authority to deal with strategy, annual budget and structure; financial reporting and controls; capital management; risk and internal control; contracts; corporate governance matters; executive remuneration and human resources policies, and group policies generally; general meeting of shareholders and communication and any other matters in its discretion. EXCO consists

5 Financial risk management *(continued)*

Risk management framework *(continued)*

Management Level Committees within the Group *(continued)*

Group Executive Committee ("EXCO") *(continued)*

of the executive management team and is chaired by the Group Chief Executive Officer. The composition, guiding principles and detailed roles and responsibilities of EXCO are covered in the EXCO charter.

Corporate and Investment Banking Credit Committee ("CIBCC")

CIBCC assists EXCO in the development and implementation of the Group's Corporate and Investment Banking business credit strategy and policies and procedures. The purpose of the CIBCC is to oversee the credit and lending strategies and objectives of the Group, including identifying and managing the Group's Corporate and Investment Banking credit exposures and its response to trends affecting those exposures. It also assists in reviewing the quality and performance of the Group's credit portfolio; and overseeing the Corporate and Investment Banking credit function of the Group, including reviewing internal credit risk and credit policies and establishing portfolio limits. The composition, guiding principles and detailed roles and responsibilities of CIBCC are covered in the CIBCC charter.

Personal Banking Credit Committee ("PBCC")

PBCC assists EXCO in the development and implementation of credit strategy for Group's Personal Banking business. The Committee ensures a holistic overview of the business strategies across the Personal Banking business of the Group. It ensures a seamless coordination across the business to meet customer requirements within the framework of the FAB Group strategy. The Committee oversees the credit and lending strategies, Identifies and manages business credit strategy and strategic response to trends affecting the businesses; reviews the quality and performance of the portfolio; and oversees the credit risk management function including establishing product portfolio limits. The composition, guiding principles and detailed roles and responsibilities of PBCC are covered in the PBCC Charter.

Group Risk Committee ("GRC")

GRC assists EXCO in overseeing Group-wide risk strategy and exposures to enable integrated risk management in an effective manner. The committee defines, develops and periodically monitors the Group's risk appetite along with its related methodology, parameters, targets and tolerances taking into account the Bank's strategy and business planning. The GRC reports relevant matters to the Group EXCO, and as appropriate to the BRCC, advising and informing them as required on the Group's risk appetite and framework. The composition, guiding principles and detailed roles and responsibilities of GRC are covered in the GRC charter.

Group Compliance Committee ("GCC")

GCC assists EXCO in fulfilling its objective of overseeing the Bank's regulatory responsibilities as well as ensuring the Bank's compliance with the applicable laws and regulations issued by various regulatory authorities across the Group. The Committee also oversees that the relevant policies and procedures, including, but not limited to the Group Code of Ethics are complied with across the Group. The GCC reports relevant matters to the Group EXCO, and as appropriate to the BRCC, advising and informing them as required on the Group's compliance with applicable laws and regulations. The composition, guiding principles and detailed roles and responsibilities of GCC are covered in the GCC charter.

Group Asset Liability Management Committee ("GALCO")

G-ALCO is the driving force and key decision maker behind the structure and quality of the balance sheet. G-ALCO is directly accountable to the BRCC for ensuring that the risks within the Group Asset and Liability position are prudently managed by way of strong Group policy and procedures and an appropriate risk framework. The G-ALCO must be constantly aware of and actively manage these risks and their potential impact on the Bank's business and strategic objectives. The composition, guiding principles and detailed roles and responsibilities of G-ALCO are covered in the G-ALCO charter.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk management framework *(continued)*

Management Level Committees within the Group *(continued)*

Human Resources Steering Committee ("HRSC")

HRSC assists the EXCO and the REMCO in fulfilling its duties with regard to implementing strategic as well as operational HR initiatives in order to deliver long term value. It provides a forum to discuss and approve HR initiatives and policies to ensure that the needs of the organization from an employee perspective are considered and changes, as necessary, are approved or are submitted for approval to the relevant governance body. The Committee is the formal sponsor of all material HR initiatives across FAB in line with its Employee Value Proposition ("EVP"). The composition, guiding principles and detailed roles and responsibilities of HRSC are covered in the HRSC charter.

Group Operational Risk Committee ("GORC")

GORC assists EXCO in fulfilling its objective of overseeing the Bank's operational and fraud risk management related business continuity responsibilities. It ensures that appropriate framework is in place for Operational risk management, Fraud Risk Management and Business Continuity Management including review and approval of such frameworks. The GORC reports relevant matters to the Group EXCO, and as appropriate to the BRCC, advising and informing them as required on the Group's Operational and Fraud Risk matters and business continuity framework. The composition, guiding principles and detailed roles and responsibilities of GORC are covered in the GORC charter.

Information Security Committee ("ISC")

ISC assists the EXCO in overseeing, reviewing and taking decisions on the implementation of FAB's security controls to ensure that information assets of the Bank are adequately protected. It also serves as an independent and objective governance forum which ensures the adequacy and effectiveness of the Bank's information security framework. The ISC reports relevant matters to the Group EXCO, and as appropriate to the BRCC, advising and informing them as required on the Group's security controls framework. The composition, guiding principles and detailed roles and responsibilities of ISC are covered in the ISC charter.

Group Technology Steering Committee ("GTSC")

The GTSC assists in fulfilling EXCO's corporate governance and oversight responsibilities of all technology and information systems across the FAB Group and supports the work of the Board Risk and Compliance Committee ("BRCC") in its oversight of the Group IT governance framework. The GTSC will make recommendations to EXCO regarding significant technology investments in support of the Group's strategy. The GTSC ensures alignment of business strategies with technology priorities and acts to protect and enhance the shareholder's investment in technology. The composition, guiding principles and detailed roles and responsibilities of GTSC are covered in the GTSC charter.

Group Risk Management

The Group has a centralized Risk Management and Legal functions led by the GCRO. The Risk Management function comprises Enterprise Risk, Credit Risk, Operational and Fraud Risk Management Unit, Market and Liquidity Risk Management Unit, Information Security and Business Continuity Management unit. The Legal function supports business and enabling functions through dedicated units and also includes the Group Corporate Governance function.

Enterprise Risk Management Policy Framework

FAB's Enterprise Risk Management Policy ("ERMP") framework aims to accomplish its core values and purpose of being a world class organization maximizing its risk adjusted returns for all stakeholders by establishing an enterprise wide risk management framework across FAB including local and international branches, subsidiaries, associates and foreign representative offices. Core objective of ERMP is to provide a reasonable degree of assurance to the BOD that the risks threatening FAB's achievement of its core purpose are being identified, measured, monitored and controlled through an effective integrated risk management system. The ERMP framework consists of specific policy documents covering all material risks across FAB; which include ERM policy, Risk Appetite Policy, Corporate and Investment Banking Credit

5 Financial risk management *(continued)*

Risk management framework *(continued)*

Enterprise Risk Management Policy Framework *(continued)*

Policy, Personal Banking Credit Policy, IFRS 9 Impairment Policy, Market and Liquidity Risk related policies, Operational Risk Management Policy, Fraud Risk Policy, Compliance Risk related policies, Information Security risk related policies, BCM Policy, Internal Capital Adequacy Assessment Process ("ICAAP") Policy, New Products Approval policy, Outsourcing Policy, Model Governance policy, Strategic Risk Policy, Reputational Risk Policy, Corporate Governance Policy and Framework etc. In addition to these risk management policies, the Group has also put in place detailed operational policies, procedures and programs wherever needed.

FAB manages risks using three lines of defense comprising of business units and enabling functions, control units and Internal Audit. Business units and enabling functions, as the first line of defense, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and are in compliance with all relevant internal policies and processes. Group Credit, Group Risk and Legal and Group Compliance, as the second line of defense, establishes risk controls comprising of policies and processes while also providing oversight and independent challenge to the first line of defense. The Group Chief Risk Officer ("GCRO") has a direct reporting line to the BRCC to ensure the independence of Group Risk from business. Internal audit, as the third line of defense, provides assurance to management and the Board of the effectiveness of risk management practices employed by the first two lines of defense. The Group Chief Audit Officer has a direct reporting line to the Board Audit Committee.

(a) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, due from banks and financial institutions, reverse repurchase agreements and non-trading debt investments, derivative financial instruments and certain other assets.

Management of credit risk

Credit risk identification and assessment at FAB Group is carried out through a comprehensive mechanism comprising three levels of defense. The first level of defense lies with the business units and is responsible for maintaining a sound credit quality of Assets in line with the approved business strategy and credit risk appetite. The second level of defense is with the Group Credit Unit that assesses the risk on a customer and facility level and ensures proper documentation of customer, facility and security documents along with Group Risk management unit that assesses credit risk on a portfolio basis and maintains credit risk policies and credit risk rating models up to date. Internal Audit acts as a third level of defense with regular reviews of credit analysis and the risk functions to check the compliance with policies and procedures of the Group. The unit also reviews the policy documents on a regular basis.

As a part of credit risk monitoring and control framework, regular risk monitoring at both individual and portfolio levels is carried out along several parameters which include credit quality, provisioning levels, exposure limits across several dimensions, financial and operating performance, account conduct, end use of funds, adequacy of credit risk mitigants, adherence to financial and non-financial covenants, recovery performance, rating system performance among others.

The Group has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation (CRM) include netting agreements, collaterals, guarantees, credit derivatives, Stand by Letter of Credit (SBLC) and Comfort Letters. The Group ensures that all documentation used in collateralized transactions and for documenting on and off-balance sheet netting, guarantees, credit derivatives and collateral is binding on all parties and is legally enforceable in all relevant jurisdictions. The Group also ensures that all the documents are reviewed by appropriate authority and have appropriate legal opinions to verify and ensure its enforceability. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk management framework *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost, and FVOCI debt investments without taking into account collateral or other credit enhancement. Unless specifically indicated, for financial assets, 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.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk Management Framework *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis *(continued)*

As of 31 December 2019	Stage 1		Stage 2		Stage 3		Purchased or originally credit impaired[4]		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Balances with central banks	164,343,649	40,694	3,520,018	112,473	-	-	-	-	**167,863,667**	**153,167**
Due from banks and financial institutions	16,186,541	10,310	887,930	37,659	-	-	-	-	**17,074,471**	**47,969**
Reverse repurchase agreements	24,678,789	414	-	-	-	-	-	-	**24,678,789**	**414**
Loans and advances[1]	385,583,423	1,739,418	19,642,585	3,228,577	11,768,567	4,581,173	4,735,753	1,478,975	**421,730,328**	**11,028,143**
Non-trading investments										
Amortised cost	5,387,087	1,020	-	-	-	-	-	-	**5,387,087**	**1,020**
FVOCI Debt[2]	108,576,288	159,477	22,582	1,806	-	-	-	-	**108,598,870**	**161,283**
Other assets[3]	13,282,010	61,762	46,176	1,363	3,791	486	-	-	**13,331,977**	**63,611**
Unfunded exposure	200,490,346	190,504	5,341,218	106,985	1,532,564	304,272	-	-	**207,364,128**	**601,761**
	918,528,133	**2,203,599**	**29,460,509**	**3,488,863**	**13,304,922**	**4,885,931**	**4,735,753**	**1,478,975**	**966,029,317**	**12,057,368**

[1]The exposure represents gross loans and advances.
[2]The provision against financial instruments classified as FVOCI is netted off against the fair value reserve.
[3]On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.
[4]The Group, from an internal credit quality point of view, considers AED 4,560 million as par to non-performing loans.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk Management Framework *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis *(continued)*

As of 31 December 2018	Stage 1		Stage 2		Stage 3		Purchased or originally credit impaired[4]		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Balances with central banks	176,630,171	26,142	4,838,929	230,651	-	-	-	-	181,469,100	256,793
Due from banks and financial institutions	18,540,275	19,658	685,973	30,498	-	-	-	-	19,226,248	50,156
Reverse repurchase agreements	19,048,807	15,356	-	-	-	-	-	-	19,048,807	15,356
Loans and advances[1]	335,890,867	1,507,539	17,228,374	4,063,427	8,894,605	4,682,146	4,803,837	1,630,136	366,817,683	11,883,248
Non-trading investments										
Amortised cost	5,630,295	2,736	-	-	-	-	-	-	5,630,295	2,736
FVOCI Debt[2]	84,319,951	42,586	24,658	1,498	-	-	-	-	84,344,609	44,084
Other assets[3]	12,110,664	102,321	425,367	1,568	-	-	-	-	12,536,031	103,889
Unfunded exposure	205,202,317	121,991	5,104,229	153,389	488,030	137,568	-	-	210,794,576	412,948
	857,373,347	1,838,329	28,307,530	4,481,031	9,382,635	4,819,714	4,803,837	1,630,136	899,867,349	12,769,210

[1]The exposure represents gross loans and advances.
[2]The provision against financial instruments classified as FVOCI is netted off against the fair value reserve.
[3]On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.
[4]The Group, from an internal credit quality point of view, considers AED 4,572 million as par to non-performing loans.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk Management Framework *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis *(continued)*

Classification of investments as per their external ratings:

	Non-trading investments		Investments at fair value through profit or loss	
	2019 AED'000	2018 AED'000	**2019 AED'000**	2018 AED'000
AAA	**16,237,301**	14,156,082	**4,076**	16,562
AA to A	**71,921,751**	58,732,451	**9,030,149**	7,327,891
BBB to B	**21,514,326**	14,650,910	**6,577,622**	3,981,306
CCC and below	**-**	20,780	**-**	21
Unrated	**4,972,064**	2,876,087	**4,487,334**	3,295,130
	114,645,442	90,436,310	**20,099,181**	14,620,910

Unrated investments primarily consist of investments in Private equity funds and investments in equity which doesn't carry credit risk. Investments at fair value through profit or loss are neither past due nor impaired.

Collateral held and other credit enhancements

The Group has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation ("CRM") include netting agreements, collaterals, guarantees, credit derivatives, Stand by Letter of Credit ("SBLC") and Comfort Letters. The Group ensures that all documentation used in collateralized transactions and for documenting on and off-balance sheet netting, guarantees, credit derivatives and collateral is binding on all parties and is legally enforceable in all relevant jurisdictions. The Group also ensures that all the documents are reviewed by the appropriate authority and have appropriate legal opinions to verify and ensure its enforceability. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group holds collateral and other credit enhancements against certain of its credit exposures. An estimate of the collateral coverage (after application of haircut) against net credit-impaired loans and advances is shown below:

	2019 AED'000	2018 AED'000
Collateral value cover		
0 – 50%	**8,069,457**	6,599,383
51 – 100%	**3,861,786**	3,424,391
Above 100%	**1,598,753**	1,474,542
Total net credit impaired loans	**13,529,996**	11,498,316

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operations.

While the Group might not have repossessed significant amount of collateral in 2018 and 2019, maintaining repossession rights assist the Group in the restructuring and settlement of credit-impaired loans.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk Management Framework *(continued)*

(a) Credit risk *(continued)*

Derivatives, reverse sale-and-repurchase agreements and securities borrowing

The Group mitigates the credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

Derivative transactions are transacted on exchanges, with clearing counterparties (“CCPs") or entered into under International Swaps and Derivatives Association (ISDA) master agreements. In general, under these agreements, in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed as per the jurisdiction netting rules and the amount (due or payable) in settlement with the counterparty. The Group usually executes a credit support annex in conjunction with the ISDA agreement, which requires the Group and its counterparties to post collateral to mitigate counterparty credit risk. Collateral is also posted daily in respect of derivatives transacted on exchanges and with CCPs.

The Group’s sale-and-repurchase, and reverse sale-and-repurchase, transactions and securities borrowing and lending are covered by master agreements with netting terms similar to those of ISDA master netting agreements.

Loans and advances to customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Group’s focus on corporate customers’ creditworthiness, the Group does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Group obtains appraisals of collateral because it provides input into determining the management credit risk actions.

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy 3(c)(vii).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

For retail portfolio historical payment behavior of the exposure is evaluated to determine significant increase in credit risk.

In addition to the quantitative test based on movement of PD, the Group also applies experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk Management Framework *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Credit risk grades

The Group allocates each Corporate exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on expert judgment and relevant historical experiences.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- For retail, a facility or any material credit obligation to the Group is more than 90 days past due;
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes (see 5(e)).

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk management framework *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at 31 December 2019 included the following key indicators for the years ending 31 December 2020 to 2024.

Region	Macro Variable[1,2]	Scenario	2020	2021	2022	2023	2024
MENA	Oil Price	Base	2.08%	2.62%	0.93%	1.57%	2.06%
		Upside	23.55%	1.23%	-0.83%	-0.41%	0.37%
		Downside	-29.25%	14.29%	10.20%	10.40%	7.32%
	UAE Equity Index	Base	6.85%	2.61%	7.24%	6.55%	5.47%
		Upside	27.94%	22.12%	16.95%	5.61%	-0.52%
		Downside	-22.08%	-9.54%	1.15%	5.34%	5.01%
	Egypt GDP	Base	6.77%	5.51%	5.68%	5.61%	5.54%
		Upside	8.76%	5.57%	5.27%	5.42%	5.54%
		Downside	4.77%	5.44%	6.10%	5.79%	5.54%
	Egypt Equity Index	Base	13.22%	13.55%	11.64%	9.31%	8.76%
		Upside	21.96%	14.45%	11.75%	9.15%	8.75%
		Downside	-10.07%	9.82%	10.07%	8.54%	9.91%
UK	UK GDP	Base	0.96%	1.00%	1.11%	1.20%	1.28%
		Upside	3.20%	1.72%	1.13%	0.99%	1.16%
		Downside	-2.40%	0.34%	1.87%	1.36%	1.55%
	UK Equity Index	Base	0.27%	5.37%	4.13%	3.78%	2.79%
		Upside	12.97%	1.72%	1.36%	3.12%	2.37%
		Downside	-11.15%	10.98%	8.17%	6.28%	3.89%

(1) Represents the average annualized increase / decrease over the period.
(2) There are additional macro variables factors used for other regions which are relevant to their market.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(c)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk management framework *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Modified financial assets *(continued)*

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(c)(vii)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made material concessions that it would not otherwise consider. Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish satisfactory track record of performance under the restructuring agreement. The Group determines the twelve-month period to commence from the date of signing of the agreement for restructuring. As at the reporting date, the Group has renegotiated the following exposures:

	2019 AED'000	2018 AED'000
Loans with renegotiated terms		
Gross carrying amount	**11,323,970**	7,322,938
Impaired amount	**2,742,663**	2,719,912
Allowance for impairment	**2,976,105**	3,008,807

Measurement of ECL

The key inputs into the measurement of ECL are:

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

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk management framework *(continued)*

(a) Credit risk *(continued)*

Measurement of ECL *(continued)*

The Lifetime PDs are determined based on maturity profile. The maturity profile looks at how defaults develop on a portfolio throughout the remaining life of the loans. The maturity profile is based on historical observed data.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD term structure based on current collateral, counterparty industry, country of risk and recovery costs that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios incorporating the impact of change in oil prices, equity index and other parameters.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using statistical techniques.

As described above, and subject to using a maximum of a 12-month for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if 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. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but 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, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk management framework *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Loss allowance *(continued)*

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in the Group's accounting policy; see Note 3(c)(vii).

	Stage 1[1] AED'000	Stage 2 AED'000	Stage 3 AED'000	Purchased credit impaired AED'000	2019 Total AED'000
Beginning of the period	1,838,329	4,481,031	4,819,715	1,630,135	12,769,210
Transfers:					
Transfer from Stage 1 to Stage 2	(154,401)	154,401	-	-	-
Transfer from Stage 1 to Stage 3	(53,470)	-	53,470	-	-
Transfer from Stage 2 to Stage 1	151,137	(151,137)	-	-	-
Transfer from Stage 2 to Stage 3	-	(1,142,873)	1,142,873	-	-
Transfer from Stage 3 to Stage 2	-	197,841	(197,841)	-	-
Transfer from Stage 3 to Stage 1	46,493	-	(46,493)	-	-
	(10,241)	(941,768)	952,009	-	-
Impact of change in provision	376,231	(40,094)	1,604,096	(54,495)	1,885,738
Write-offs and other Adjustments	(721)	(10,304)	(2,489,889)	(96,665)	(2,597,579)
	2,203,598	3,488,865	4,885,931	1,478,975	12,057,369

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk management framework *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Loss allowance *(continued)*

	Stage 1[1] AED'000	Stage 2 AED'000	Stage 3 AED'000	Purchased credit impaired AED'000	2018 Total AED'000
Beginning of the period	8,146,848	-	4,581,263	-	12,728,111
Impact due to IFRS 9 adoption	(5,953,631)	6,405,571	264,455	2,383,559	3,099,954
	2,193,217	6,405,571	4,845,718	2,383,559	15,828,065
Transfers:					
Transfer from Stage 1 to Stage 2	(129,413)	129,413	-	-	-
Transfer from Stage 1 to Stage 3	(152,427)	-	152,427	-	-
Transfer from Stage 2 to Stage 1	141,307	(141,307)	-	-	-
Transfer from Stage 2 to Stage 3	-	(2,535,498)	2,535,498	-	-
Transfer from Stage 3 to Stage 2	-	177,075	(177,075)	-	-
Transfer from Stage 3 to Stage 1	10,423	-	(10,423)	-	-
	(130,110)	(2,370,317)	2,500,427	-	-
Impact of change in provision	(188,697)	657,932	1,708,792	(364,204)	1,813,823
Write-offs and other adjustments	(36,081)	(212,155)	(4,235,222)	(389,220)	(4,872,678)
	1,838,329	4,481,031	4,819,715	1,630,135	12,769,210

[1]On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

Risk management framework *(continued)*

(a) Credit risk *(continued)*

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

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Note	**Gross maximum exposure 2019 AED'000**	Gross maximum exposure 2018 AED'000
Balances with Central Bank	*8*	**167,863,667**	181,469,100
Investments at fair value through profit or loss	*9*	**17,385,250**	11,679,960
Due from banks and financial institutions	*10*	**17,074,471**	19,226,248
Reverse repurchase agreements	*11*	**24,678,789**	19,048,807
Loans and advances	*12*	**421,730,328**	366,817,683
Non-trading investments	*13*	**114,582,043**	90,371,169
Other assets		**19,757,099**	20,484,753
Total		**783,071,647**	709,097,720
Derivatives held for trading	*40*	**15,064,074**	11,258,237
Derivatives held for hedging	*40*	**853,247**	1,825,955
Total		**15,917,321**	13,084,192
Contingent liabilities	*39*	**167,922,102**	165,134,974
Commitment	*39*	**39,442,026**	45,659,602
Total		**207,364,128**	210,794,576
Total credit risk exposure		**1,006,353,096**	932,976,488

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

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(a) Credit risk *(continued)*

The Group monitors concentrations of credit risk by industry sector, counterparty and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

Concentrations by industry sector

	Loans and advances		Investments		Reverse repurchase agreements		Undrawn loan Commitments	
	2019 AED'000	2018 AED'000	**2019 AED'000**	2018 AED'000	**2019 AED'000**	2018 AED'000	**2019 AED'000**	2018 AED'000
Agriculture	**667,898**	313,175	**-**	-	**-**	-	**-**	-
Energy	**35,946,386**	35,074,356	**14,719,913**	14,134,203	**-**	-	**6,767,683**	7,718,901
Manufacturing	**23,859,479**	23,947,527	**1,463,452**	271,889	**-**	-	**3,451,075**	5,704,950
Construction	**10,212,445**	8,721,546	**319,869**	151,922	**-**	-	**972,225**	834,848
Real estate	**81,283,262**	80,261,445	**2,391,124**	1,484,402	**-**	-	**12,757,183**	7,514,438
Trading	**25,288,459**	22,885,471	**117,296**	88,183	**-**	-	**1,330,860**	2,686,769
Transport and communication	**25,534,949**	25,333,824	**5,388,929**	4,738,702	**-**	-	**2,706,854**	3,702,437
Banks	**24,681,349**	28,472,001	**29,767,786**	24,343,036	**22,622,936**	17,467,876	**-**	-
Other financial institutions	**33,943,336**	28,844,388	**14,091,567**	15,386,871	**2,055,853**	1,580,931	**3,429,740**	3,718,900
Services	**21,063,352**	22,340,939	**359,996**	140,337	**-**	-	**4,881,620**	6,187,837
Government	**66,387,415**	17,362,994	**66,124,691**	44,317,675	**-**	-	**3,033,116**	6,610,027
Personal – Loans and Credit cards	**53,826,058**	55,859,338	-	-	**-**	-	**111,670**	980,495
Personal - Retail Mortgage	**18,808,371**	16,979,596	-	-	**-**	-	**-**	-
Others	**227,569**	421,083	-	-	**-**	-	**-**	-
	421,730,328	366,817,683	**134,744,623**	105,057,220	**24,678,789**	19,048,807	**39,442,026**	45,659,602

The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any.
Included within investments are equity instruments where the credit risk is not applicable.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Concentration by location:

	UAE AED'000	Europe AED'000	Arab countries AED'000	Americas AED'000	Asia AED'000	Others AED'000	Total AED'000
As at 31 Dec 2019							
Cash and balances with central banks	**54,566,643**	**88,416,330**	**15,289,971**	**11,542,835**	**39,396**	**-**	**169,855,175**
Investments at fair value through profit or loss	**4,301,099**	**3,038,934**	**3,618,927**	**1,267,952**	**5,292,225**	**2,580,044**	**20,099,181**
Due from banks and financial institutions	**404,163**	**14,121,121**	**1,658,071**	**329,108**	**233,704**	**328,304**	**17,074,471**
Reverse repurchase agreements	**1,862,437**	**6,295,022**	**14,452,444**	**333,042**	**1,552,194**	**183,650**	**24,678,789**
Derivative financial instruments	**3,424,370**	**9,094,116**	**1,589,852**	**137,379**	**1,592,137**	**79,467**	**15,917,321**
Loans and advances	**286,108,908**	**38,920,838**	**35,344,158**	**27,260,040**	**28,419,159**	**5,677,225**	**421,730,328**
Non trading investments	**37,435,572**	**20,207,419**	**23,978,309**	**12,580,027**	**17,906,508**	**2,537,607**	**114,645,442**
	388,103,192	**180,093,780**	**95,931,732**	**53,450,383**	**55,035,323**	**11,386,297**	**784,000,707**
As at 31 Dec 2018							
Cash and balances with central banks	47,026,895	72,551,134	6,508,746	57,009,376	69,369	-	183,165,520
Investments at fair value through profit or loss	6,769,352	1,768,902	2,606,908	1,234,093	1,943,808	297,847	14,620,910
Due from banks and financial institutions	1,498,500	8,045,846	3,931,969	4,762,883	430,776	556,274	19,226,248
Reverse repurchase agreements	3,443,738	9,302,435	5,604,980	-	146,704	550,950	19,048,807
Derivative financial instruments	1,726,108	8,975,904	962,168	115,023	1,302,345	2,644	13,084,192
Loans and advances	230,645,073	40,954,112	29,518,809	29,948,854	31,483,051	4,267,784	366,817,683
Non trading investments	31,920,824	17,602,295	15,668,070	10,700,661	13,689,257	855,203	90,436,310
	323,030,490	159,200,628	64,801,650	103,770,890	49,065,310	6,530,702	706,399,670

Concentration by location for investments is measured based on the location of the issuer of the security. Concentration by location for all others is measured based on the residential status of the borrower. The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any. Concentration by location for undrawn commitments is stated in note 39 of these consolidated financial statements.

5 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Classification of investments as per their counterparties:

	Non-trading investments		Investments at fair value through profit or loss	
	2019	2018	**2019**	2018
	AED'000	AED'000	**AED'000**	AED'000
Government sector	**58,151,621**	41,637,190	**7,973,070**	2,680,485
Supranational	**1,806,646**	2,504,208	**1,851,821**	810,394
Public Sector	**23,953,560**	22,515,092	**1,442,491**	1,251,552
Banking sector	**23,049,215**	17,552,792	**6,718,571**	6,790,244
Corporate / private sector	**7,684,400**	6,227,028	**2,113,228**	3,088,235
	114,645,442	90,436,310	**20,099,181**	14,620,910
Less: allowance for impairment (expected credit loss) on amortised cost securities	**(1,020)**	(2,736)	**-**	-
	114,644,422	90,433,574	**20,099,181**	14,620,910

Settlement risk

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

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Group's derivative contracts are entered into with other banks and financial institutions.

(b) Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its financial obligations as and when they fall due or that it can only do so at an excessive cost.

Liquidity risk arises from cash flows generated by assets and liabilities, including derivatives and other off-balance sheet commitments, not being matched in currency, size, and term. FAB ensures that all liabilities can be met as they fall due under both businesses as usual and stress conditions without incurring undue cost.

Management of liquidity risk

The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate cash or cash-equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs, for a rolling period of three months. . The risk appetite is supported by a comprehensive risk management framework that includes Group ALCO approved limits for key funding and liquidity metrics, stress testing and a contingency funding plan.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

Management of liquidity risk *(continued)*

The liquidity risk appetite is also defined at a level to ensure continued compliance with current and proposed liquidity regulation from both domestic and international regulators, and aligned to support the Group's external credit rating objectives.

One of the critical means to measure adequacy of liquidity as per extant global regulation is through Liquidity Coverage Ratio ("LCR"). FAB has been internally reporting Basel III LCR numbers for a considerable period of time, and has invested heavily in ensuring systems and controls framework is in place to comply with all the qualitative and quantitative aspects of Basel III. In addition the Group also ensures that it is compliant with UAE Central Bank liquidity regulation on Eligible Liquid Assets Ratio ("ELAR") at all times.

Liquidity limits are defined at the Group level and are cascaded down throughout the organisation to ensure that the Group complies with the defined Group Liquidity Risk appetite. Similarly International limits are cascaded to ensure compliance with any additional local regulatory requirements on liquidity management.

All liquidity policies and procedures are subject to review and approval by G-ALCO.

Exposure to liquidity risk

The contractual asset and liability maturity mismatch report without considering the Group's retention history is detailed below.

5 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities as at 31 December 2019

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	169,702,008	157,052,194	12,649,814	-	-	-	-
Investments at fair value through profit or loss	20,099,181	7,039,406	4,988,693	3,804,611	768,014	784,526	2,713,931
Due from banks and financial institutions	17,026,502	15,553,869	1,470,664	1,969	-	-	-
Reverse repurchase agreements	24,678,375	14,548,779	10,129,596	-	-	-	-
Derivative financial instruments[1]	15,917,321	1,577,301	1,716,629	2,947,588	2,986,952	6,688,851	-
Loans and advances	407,903,028	101,578,990	40,796,737	87,188,070	60,981,193	117,358,038	-
Non-trading investments	114,644,422	10,026,052	11,575,687	19,638,363	26,383,410	46,361,425	659,485
Investment properties	7,956,854	-	-	-	-	-	7,956,854
Property and equipment	4,618,986	-	-	-	-	-	4,618,986
Intangibles	19,498,087	-	-	-	-	-	19,498,087
Other assets	19,923,251	14,943,541	4,979,710	-	-	-	-
	821,968,015	322,320,132	88,307,530	113,580,601	91,119,569	171,192,840	35,447,343
Liabilities and equity							
Due to banks and financial institutions	36,007,875	32,689,185	3,318,690	-	-	-	-
Repurchase agreements	38,821,848	31,022,552	4,066,570	3,732,726	-	-	-
Commercial Paper	21,236,955	19,934,339	1,302,616	-	-	-	-
Derivative financial instruments[1]	19,228,541	1,503,596	1,690,847	3,232,732	3,338,054	9,463,312	-
Customer accounts and other deposits	519,161,857	459,015,160	54,213,676	3,589,339	1,152,926	1,190,756	-
Term borrowings	55,751,819	6,398,243	4,195,259	10,190,316	17,610,323	17,357,678	-
Subordinated notes	381,305	-	-	-	-	381,305	-
Other liabilities	23,340,779	17,505,377	5,835,402	-	-	-	-
Equity	108,037,036	-	-	-	-	-	108,037,036
	821,968,015	568,068,452	74,623,060	20,745,113	22,101,303	28,393,051	108,037,036
Undrawn commitments to extend credit	39,442,026	8,634,424	21,590,701	3,239,297	2,134,177	3,843,427	-
Trade contingencies	167,922,102	77,220,091	20,842,492	33,130,448	10,041,478	26,687,593	-

[1]*The Group has the option to liquidate the derivatives at any point of time.*

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities as at 31 December 2018:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	182,908,727	173,951,213	8,957,514	-	-	-	-
Investments at fair value through profit or loss	14,620,910	3,099,469	3,615,152	3,750,902	620,869	593,569	2,940,949
Due from banks and financial institutions	19,176,092	19,176,092	-	-	-	-	-
Reverse repurchase agreements	19,033,451	7,812,517	9,042,380	342,059	1,836,495	-	-
Derivative financial instruments[1]	13,084,192	1,532,117	1,705,972	2,640,094	2,567,203	4,638,806	-
Loans and advances	352,966,420	58,757,473	49,905,144	68,651,892	68,877,833	106,774,078	-
Non-trading investments	90,433,574	4,001,571	5,936,507	25,316,677	14,378,331	40,339,082	461,406
Investment properties	7,388,493	-	-	-	-	-	7,388,493
Property and equipment	3,991,215	-	-	-	-	-	3,991,215
Intangibles	19,699,711	-	-	-	-	-	19,699,711
Other assets	20,583,602	15,437,701	5,145,901	-	-	-	-
	743,886,387	283,768,153	84,308,570	100,701,624	88,280,731	152,345,535	34,481,774
Liabilities and equity							
Due to banks and financial institutions	40,266,535	37,685,831	2,370,601	210,103	-	-	-
Repurchase agreements	34,769,685	31,628,667	1,304,559	1,836,459	-	-	-
Commercial Paper	18,144,105	17,254,974	889,131	-	-	-	-
Derivative financial instruments[1]	15,219,464	1,600,273	1,653,419	3,369,951	2,573,849	6,021,972	-
Customer accounts and other deposits	465,237,066	417,594,834	36,212,483	9,830,082	1,435,463	164,204	-
Term borrowings	42,268,173	2,945,133	10,352,657	10,245,303	7,479,023	11,246,057	-
Subordinated notes	401,979	-	-	-	-	401,979	-
Other liabilities	25,606,380	19,204,785	6,401,595	-	-	-	-
Equity	101,973,000	-	-	-	-	-	101,973,000
	743,886,387	527,914,497	59,184,445	25,491,898	11,488,335	17,834,212	101,973,000
Undrawn commitments to extend credit	45,659,602	12,887,475	23,726,362	5,524,790	3,122,821	398,154	-
Trade contingencies	165,134,974	75,782,817	19,340,637	27,536,499	15,504,100	26,970,921	-

[1] *The Group has the option to liquidate the derivatives at any point of time.*

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

Liabilities	Total AED'000	Gross nominal cash flows AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000
As at 31 December 2019							
Due to banks and financial institutions	**36,007,875**	**36,211,011**	**32,862,711**	**3,348,300**	-	-	-
Repurchase agreements	**38,821,848**	**39,131,621**	**31,206,879**	**4,179,726**	**3,745,016**	-	-
Commercial Paper	**21,236,955**	**21,277,912**	**19,966,199**	**1,311,713**	-	-	-
Customer accounts and other deposits	**519,161,857**	**527,077,505**	**464,357,773**	**55,913,718**	**4,009,781**	**1,316,654**	**1,479,579**
Term borrowings[1]	**55,751,819**	**91,784,613**	**6,815,902**	**4,781,987**	**11,717,654**	**18,205,708**	**50,263,362**
Subordinated notes	**381,305**	**619,632**	-	**21,384**	**42,769**	**42,593**	**512,886**
	671,361,659	**716,102,294**	**555,209,464**	**69,556,828**	**19,515,220**	**19,564,955**	**52,255,827**
Undrawn commitments to extend credit[2]	**39,442,026**	**39,442,026**	**8,634,424**	**21,590,701**	**3,239,297**	**2,134,177**	**3,843,427**
Trade contingencies	**167,922,102**	**167,922,102**	**77,220,091**	**20,842,492**	**33,130,448**	**10,041,478**	**26,687,593**
As at 31 December 2018							
Due to banks and financial institutions	40,266,535	40,424,411	37,797,953	2,409,127	217,331	-	-
Repurchase agreements	34,769,685	35,087,490	31,814,905	1,341,723	1,930,862	-	-
Commercial Paper	18,144,105	18,197,308	17,296,217	901,091	-	-	-
Customer accounts and other deposits	465,237,066	468,670,837	418,570,295	37,142,125	11,065,988	1,674,701	217,728
Term borrowings[1]	42,268,173	73,942,394	3,275,459	11,018,473	11,104,186	7,939,714	40,604,562
Subordinated notes	401,979	634,444	-	21,109	42,276	42,276	528,783
	601,087,543	636,956,884	508,754,829	52,833,648	24,360,643	9,656,691	41,351,073
Undrawn commitments to extend credit[2]	45,659,602	45,659,602	12,887,475	23,726,362	5,524,790	3,122,821	398,154
Trade contingencies	165,134,974	165,134,974	75,782,817	19,340,637	27,536,499	15,504,100	26,970,921

[1]Includes borrowings with callable feature for which the undiscounted contractual cash flows based on final contractual maturity are presented above without consideration of the call option.
[2]Calculated as per the contractual maturity profile.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(c) Market risk

Market risk is the risk that the Group's income or capital will fluctuate on account of changes in the value of a financial instrument because of movements in market factors such as interest rates, credit spreads, foreign exchange rates and market prices of equity and commodity.

Management of market risk

The Group separates its exposure to market risk between trading, investment and non-trading portfolios. Trading and investment portfolios are held by the Global Markets Division and are managed on a fair value basis.

Investment Management Committee ("IMCO") is responsible for oversight and guidance to Global Markets' trading and investment activities. It ensures effective management of market risks in accordance with the principles laid down in the market risk management policy. IMCO acts a sub-committee of Group Asset and Liabilities ("G-ALCO") which has the overall authority and responsibility to manage market risks.

Market Risk Group is responsible for the development and implementation of detailed market risk appetite, risk management methodologies and policies including the control framework that is reviewed by IMCO and submitted to G-ALCO and BRCC for approval.

Exposure to market risks – trading portfolios

The principal analytical tool used to measure and control market risk exposure within the Group's trading portfolios which comprise of investments at fair value through profit or loss and trading derivatives is Value at Risk ("VaR"). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model uses historical simulation based on a 99% confidence level and assumes a 1-day holding period. Using market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

The Group uses VaR limits for foreign exchanges, interest rates, credit spread and equities. The overall structure of Trading VaR limits is subject to review and approval by the IMCO and then ratified at G-ALCO. VaR limits are then cascaded down to trading desks.

VaR is driven by actual historical observations and hence, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation the VaR is further supplemented with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. Moreover the trading activity at Group and desk level is subject to Management Action Triggers ("MAT") that are limits on maximum losses that trigger actions from management. The VaR is as follows:

	2019 AED'000	**2019 AED'000**	**2019 AED'000**	**2019 AED'000**	2018 AED'000
	As at	**Average**	**Max**	**Min**	As at
VaR – Trading Book					
All	**24,736**	**37,287**	**71,388**	**13,957**	14,660
Interest rate	**24,863**	**34,782**	**81,154**	**11,339**	11,076
Credit	**9,132**	**6,317**	**13,222**	**3,739**	4,520
Foreign Exchange	**6,010**	**7,844**	**32,805**	**4,089**	8,062
Equity	**683**	**1,741**	**4,887**	**595**	4,023
Diversification Benefit	**(15,952)**	**(13,397)**	**(60,680)**	**(5,805)**	(13,021)

Commodity risk is not currently captured in the VaR model. This is under regular monitoring by the Risk Group through a set of market risk sensitivities, notional limits, and management action triggers.

5 Financial risk management *(continued)*

(c) Market risk *(continued)*

Exposure to market risk – banking portfolios

Exposure to Market Risk in the banking portfolios which comprise of non-trading investments, reverse repurchase agreements and certain derivative instruments which are designated as hedging instruments arise primarily from the investment portfolios, interest rate gaps in the banking book, and the Group's overall FX positions.

The principal analytical tool used to measure and control the investment risk exposure within the Group is Value at Risk ("VaR"). The VaR model is the same as the one used for the trading portfolios. The Group uses VaR limits for controlling the overall investment risk, including foreign exchange, interest rate and credit spread. The overall structure of Banking VaR limits is subject to review and approval by IMCO and then ratified by G-ALCO. VaR limits are then cascaded to different Investment desks. The investment risk VaR is as follows:

	2019 AED'000	**2019 AED'000**	**2019 AED'000**	**2019 AED'000**	2018 AED'000
	As at	**Average**	**Max**	**Min**	As at
VaR – Banking Book					
All	**166,793**	**160,245**	**210,750**	**105,706**	112,130
Interest rate	**26,499**	**20,185**	**50,000**	**14,598**	20,400
Credit	**180,865**	**161,191**	**208,526**	**115,210**	115,533
Foreign Exchange	**15,548**	**14,374**	**36,792**	**6,241**	17,078
Equity	**6,901**	**5,612**	**10,549**	**4,142**	4,147
Diversification Benefit	**(63,020)**	**(41,117)**	**(95,117)**	**(34,485)**	(45,028)

Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities. Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 40.

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points *(2018: 50 basis points)* and estimates the following impact on the net profit for the year and equity at that date:

	Net profit for the year		**Equity**	
	2019 AED'000	2018 AED'000	**2019 AED'000**	2018 AED'000
Fluctuation in yield	**±534,036**	±472,083	**±773,385**	±532,858

The interest rate sensitivities set out above are based on AED 616,651 million *(2018: AED 555,714 million)* interest bearing assets and AED 533,118 million *(2018: AED 472,889 million)* interest bearing liabilities with interest re-pricing less than one year, for assessing the impact on net profit. The impact on equity as given in the table below is based on the sensitivity of interest bearing assets and liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(c) Market risk *(continued)*

The Group's interest rate gap and sensitivity position based on contractual cash flow arrangements at 31 December 2019 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
Assets							
Cash and balances with central banks	169,702,008	118,546,742	12,649,814	-	-	-	38,505,452
Investments at fair value through profit or loss	20,099,181	7,724,439	4,400,968	1,699,223	688,152	2,317,558	3,268,841
Due from banks and financial institutions	17,026,502	13,130,412	1,469,648	1,969	-	-	2,424,473
Reverse repurchase agreements	24,678,375	14,548,779	10,129,596	-	-	-	-
Derivative financial instruments	15,917,321	15,917,321	-	-	-	-	-
Loans and advances	407,903,028	315,624,872	57,832,645	10,220,078	8,546,551	15,678,882	-
Non-trading investments	114,644,422	14,201,971	11,337,755	18,045,151	24,564,226	45,835,834	659,485
Investment properties	7,956,854	-	-	-	-	-	7,956,854
Intangible assets	19,498,087	-	-	-	-	-	19,498,087
Property and equipment	4,618,986	-	-	-	-	-	4,618,986
Other assets	19,923,251	14,475,328	4,661,085	93,284	53,649		639,905
	821,968,015	514,169,864	102,481,511	30,059,705	33,852,578	63,832,274	77,572,083
Liabilities and equity							
Due to banks and financial institutions	36,007,875	30,199,502	3,392,824	-	-	-	2,415,549
Repurchase agreements	38,821,848	31,022,552	4,066,570	3,732,726	-	-	-
Commercial Paper	21,236,955	19,934,339	1,302,616	-	-	-	-
Derivative financial instruments	19,228,541	19,228,541	-	-	-	-	-
Customer accounts and other deposits	519,161,857	334,972,912	54,114,220	3,081,938	833,061	1,089,483	125,070,243
Term borrowings	55,751,819	21,323,690	857,255	5,295,540	11,367,549	16,907,785	-
Other liabilities	23,340,779	9,166,969	3,536,481	308,344	270,661	-	10,058,324
Subordinated notes	381,305	-	-	-	-	381,305	-
Equity	108,037,036	-	-	-	-	-	108,037,036
	821,968,015	465,848,505	67,269,966	12,418,548	12,471,271	18,378,573	245,581,152
On statement of financial position gap		48,321,359	35,211,545	17,641,157	21,381,307	45,453,701	(168,009,069)
Off statement of financial position gap		40,229,529	(1,580,669)	(9,538,714)	(11,581,070)	(17,529,076)	-
Total interest rate sensitivity gap		88,550,888	33,630,876	8,102,443	9,800,237	27,924,625	(168,009,069)
Cumulative interest rate sensitivity		88,550,888	122,181,764	130,284,207	140,084,444	168,009,069	-

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(c) Market risk *(continued)*

The Group's interest rate gap and sensitivity position based on contractual cash flow arrangements at 31 December 2018 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
Assets							
Cash and balances with central banks	182,908,727	145,024,919	8,957,514	-	-	-	28,926,294
Investments at fair value through profit or loss	14,620,910	7,792,279	2,282,820	1,608,098	383,758	503,270	2,050,685
Due from banks and financial institutions	19,176,092	8,597,754	-	-	-	-	10,578,338
Reverse repurchase agreements	19,033,451	7,444,973	9,042,380	342,303	2,203,795	-	-
Derivative financial instruments	13,084,192	13,084,192	-	-	-	-	-
Loans and advances	352,966,420	270,093,919	56,660,483	11,382,438	3,813,934	11,015,646	-
Non-trading investments	90,433,574	7,437,555	6,091,043	24,439,299	12,380,920	39,278,553	806,204
Investment properties	7,388,493	-	-	-	-	-	7,388,493
Property and equipment	19,699,711	-	-	-	-	-	19,699,711
Intangibles	3,991,215	-	-	-	-	-	3,991,215
Other assets	20,583,602	10,689,569	2,514,976	432,497	351,565	1,260,218	5,334,777
	743,886,387	470,165,160	85,549,216	38,204,635	19,133,972	52,057,687	78,775,717
Liabilities and equity							
Due to banks and financial institutions	40,266,535	29,247,739	2,371,155	210,965	-	-	8,436,676
Repurchase agreements	34,769,685	31,628,631	1,304,559	1,836,495	-	-	-
Commercial Paper	18,144,105	17,254,973	889,132	-	-	-	-
Derivative financial instruments	15,219,464	15,219,464	-	-	-	-	-
Customer accounts and other deposits	465,237,066	313,071,546	34,859,077	9,396,000	1,115,065	164,204	106,631,174
Term borrowings	42,268,173	10,102,042	4,178,931	8,479,537	7,108,465	12,399,198	-
Other liabilities	25,606,380	10,561,803	2,200,267	204,582	129,606	841,612	11,668,510
Subordinated notes	401,979	-	-	-	-	401,979	-
Equity	101,973,000	-	-	-	-	-	101,973,000
	743,886,387	427,086,198	45,803,121	20,127,579	8,353,136	13,806,993	228,709,360
On statement of financial position gap		43,078,962	39,746,095	18,077,056	10,780,836	38,250,694	(149,933,643)
Off statement of financial position gap		33,378,072	550,348	(3,974,801)	(7,886,524)	(22,067,095)	-
Total interest rate sensitivity gap		76,457,034	40,296,443	14,102,255	2,894,312	16,183,599	(149,933,643)
Cumulative interest rate sensitivity		76,457,034	116,753,477	130,855,732	133,750,044	149,933,643	-

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(c) Market risk *(continued)*

Foreign exchange risk

Foreign exchange 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 UAE Dirham. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net spot position (short)/long AED'000	**Forward position (short)/long AED'000**	**Total 2019 (short)/long AED'000**	Total 2018 (short)/long AED'000
Currency				
US Dollar	**(50,151,996)**	**82,463,912**	**32,311,916**	15,130,919
UK Sterling Pound	**5,493,681**	**(5,213,708)**	**279,973**	98,062
Euro	**70,140,725**	**(69,726,056)**	**414,669**	579,735
Kuwaiti Dinar	**1,023,458**	**(3,410,922)**	**(2,387,464)**	(1,200,989)
Saudi Riyal	**7,070,935**	**(14,716,788)**	**(7,645,853)**	(611,589)
Japanese Yen	**5,280,776**	**(4,659,905)**	**620,871**	512,919
Swiss Franc	**(3,584,727)**	**3,675,666**	**90,939**	51,394
Bahraini Dinar	**2,093,754**	**(3,245,230)**	**(1,151,476)**	(783,968)
Egyptian Pound	**1,409,667**	**(1,553,399)**	**(143,732)**	252,866
Jordanian Dinar	**6,820**	**55,454**	**62,274**	266,597
Indian Rupees	**1,130,249**	**(78,700)**	**1,051,549**	718,524
Malaysian Ringgit	**(853,051)**	**898,291**	**45,240**	(261,117)
Libyan Dinar	**300,239**	**-**	**300,239**	263,663
Others	**2,245,030**	**(1,573,276)**	**671,754**	110,139

As AED, SAR and BHD are pegged against US Dollar, the Group's risk exposure to these currencies is limited to that extent. Exposure to other foreign currencies is insignificant.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2019 and 2018 on its monetary assets, liabilities and net derivatives forward position. The analysis estimates the effect of a reasonably possible movement of AED against other currencies, with all other variables held constant on the consolidated income statement.

Currency	EUR	GBP	JPY	INR
Assumed change in exchange rates	1%	1%	1%	1%
Impact on net income in exchange rate:				
2019 (AED'000)	**±4,147**	**± 2,800**	**± 6,209**	**± 10,516**
2018 (AED'000)	± 5,797	± 981	± 5,129	± 7,185

At 31 December 2019 and 2018, the effect of the assumed changes in exchange rates on equity is insignificant.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(c) Market risk *(continued)*

Equity price risk

FAB is exposed to equity price risk on equity investments, either through holding of equities of another entity or through equity derivatives such as forward contracts, options or swaps. The fair value of these instruments will fluctuate due changes in the market price of the underlying equity instruments. The Group manages this risk through setting Equity Delta, Vega and Gamma limits. The Group also enforces diversification of investments in terms of geographical distribution and industry concentration.

The following table estimates the sensitivity to a possible change in equity markets on the Group's income statement. The sensitivity of the income statement is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through the income statement.

	Assumed level of change %	**Impact on net income 2019 AED'000**	Impact on net income 2018 AED'000
Investments at fair value through profit or loss			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	**230**	1,172
Dubai Financial Market Index	5%	**50,743**	41,508
Net asset value of managed funds	5%	**74,329**	91,366
Other equity exchanges	5%	**10,394**	13,009
		135,696	147,055

The effect on equity as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2019 and 2018, due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Assumed level of change %	**Impact on net Income 2019 AED'000**	Impact on net Income 2018 AED'000
Non-trading investments (excluding investment in associates and joint ventures)			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	**9,772**	9,719
Dubai Financial Market Index	5%	**1,692**	618
Other equity exchanges	5%	**17,215**	8,351
Unquoted	5%	**1,124**	1,126
		29,803	19,814

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(d) Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed processes, people and systems or from external events.

Operational risks arise across all businesses in the Group. The primary responsibility to ensure that risks are managed and monitored resides with the businesses within the Group. Group's businesses are supported by Embedded risk resources and Group Operational Risk Management as 'second line of defense' to ensure robust risk management.

Further, there are reviews conducted by Group Internal Audit as the 'third line of defense'. The results of internal audit reviews are discussed with the management of the respective divisions and summaries are submitted to the Board Audit Committee.

The Group has an established Operational Risk framework consisting of policies and procedures to identify, assess, monitor, control, report and to manage risks and to notify, identify and rectify incidents. The Operational Risk framework also provides the interrelation with other risk categories. Where appropriate, risk is mitigated by way of insurance.

Typically, Operational Risk events are classified as:
- Internal fraud: Risk of unauthorized activity and fraud perpetrated by employees
- External fraud: Risk of fraud or breach of system security by an external party
- Employee practices and workplace safety: Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the Group
- Damage to physical assets: Risk of impact to the Group due to natural disasters
- Clients, Products and Business Practices: Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.
- Business Disruption and System failures: Risk of not planning and testing business continuity and disaster recovery for systems
- Execution delivery and process management: Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

The Board has oversight responsibilities for operational risk management across the Group. These responsibilities are delegated and exercised through the Group Operational Risk Committee, which is the senior management forum responsible for the oversight of Operational Risk.

Key responsibilities of Operational Risk Committee with regards to Operational risk include to ensure:
- Approval of the Group Operational Risk Management Framework and oversight over its implementation
- Approve the strategy and direction for Operational Risk across the Group.
- Establish an effective Governance structure across the Group

(e) Capital management

CBUAE regulations govern regulatory capital requirements for the Group; in addition the overseas branches and subsidiaries may be directly supervised by their local regulators. The capital management process for the Group is linked to the overall business strategy to ensure that capital is adequate to the level of inherent risk in the business and within the firm's capital risk appetite The Group conducts capital planning in conjunction with the financial budgeting exercise.

The Board and top management define the long term strategic direction for the Group. This provides the framework for the development of a bottom up plan based on the projections from individual business units. The bottom up plan is an input to the annual budgeting process and is conducted at a business unit and country level. These are consolidated for each business division and finally, for the entire Group. Business units, within each division, develop forecasted balance sheet and income statements for the next year, by considering the following key parameters:

5 Financial risk management *(continued)*

(e) Capital management *(continued)*

- the short term (one year) goals
- risk appetite and strategy
- target growth rates
- target returns

The Group's capital management policies aim to ensure that it has sufficient capital to cover the risks associated with its activities and the allocation of capital across the Group The assessment of the various risks across the Group and their likely impact is carried out in conjunction with the ICAAP undertaken annually. As part of the ICAAP process, Group Risk function identifies the various risks the Group is exposed to as part of its day-to-day operations. Next, the Group assesses these risks against the existing policies and procedures, frameworks and methodologies, contingency plans and other processes to measure, manage and mitigate the impact of such risks. Finally the Group determines the capital requirements for the material risk exposures.

The key objectives of the Group's capital management process are:
- Maintain sufficient capital to meet minimum capital requirement set by CBUAE.
- Maintain sufficient capital to support Group's Risk Appetite and strategic objectives as per long-term strategic plan.
- Maintain adequate capital to withstand stress scenarios including increased capital requirements determined through ICAAP.
- To support the Group's credit rating.

The Group conducts regular stress test exercises in which the Balance Sheet and Profit or Loss statements are determined for base case and stress scenarios. The risk factors are impacted by the assumptions made for the base and stress scenarios and the corresponding impact on the capital adequacy is determined. The Group uses macroeconomic stress tests in order to project capital need and capital levels under various unfavourable scenarios. The stress testing is perceived as an important tool in internal capital planning. The stress test result during 2019 shows that the Group has adequate capital even under adverse scenarios.

During the year, CBUAE finalized BASEL III Capital adequacy standards and guidance barring the standards for Credit Risk and ICAAP. CBUAE has also introduced additional requirements with respect to leverage ratio which Domestic-Systemically Important Banks (D-SIBs) must maintain at least 3.5%. CBUAE also release a revised set of disclosures and reporting frequencies for Pillar III. These standards shall be applicable from June 2020 onwards.

As per the CBUAE standards regarding the capital definition, the expected / proposed dividends are to be deducted from CET1. Consequently, the Capital Adequacy ratio as computed below takes into account the impact of proposed dividend.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(e) Capital management *(continued)*

	2019 AED'000	2018 AED'000
Tier 1 capital		
Ordinary share capital	**10,920,000**	10,897,545
Share premium	**53,434,461**	53,188,043
Retained earnings	**18,469,164**	16,678,196
Statutory and special reserve	**10,629,011**	9,192,759
General reserve and share option scheme	**478,081**	495,106
Fair value reserve	**612,744**	(598,021)
Non-controlling Interests	**330,417**	361,722
Foreign currency translation reserve	**(354,657)**	(310,931)
Less: Proposed dividend	**(8,080,800)**	(8,064,183)
Eligible Tier 1 capital (a)	**86,438,421**	81,840,236
Deductions:		
Treasury shares	**(18,864)**	(25,530)
Deferred tax assets	**(40,336)**	(72,635)
Goodwill and Intangible assets	**(20,621,922)**	(20,606,448)
Other deductions	**(141,752)**	(197,465)
Total deductions	**(20,822,874)**	(20,902,078)
	65,615,547	60,938,158
Additional Tier 1		
Tier 1 capital notes	**10,754,750**	10,754,750
	76,370,297	71,692,908
Tier 2 capital		
Qualifying subordinated liabilities	**305,044**	361,782
Allowance for collective impairment	**5,292,741**	5,340,017
	5,597,785	5,701,799
Total regulatory capital base	**81,968,082**	77,394,707
Risk weighted assets:		
Credit risk	**423,419,311**	427,201,365
Market risk	**25,737,601**	29,475,312
Operational risk	**35,913,142**	35,696,011
Risk weighted assets	**485,070,054**	492,372,688
Ratios with transition impact:		
CET 1 ratio	**13.5%**	12.4%
Tier 1 capital ratio	**15.7%**	14.6%
Capital adequacy ratio	**16.9%**	15.7%

The Group and its overseas branches and subsidiaries have complied with all externally imposed capital requirements for all periods presented.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(f) Country risk

Country risk is the likelihood of economic, social, and political events in a foreign country negatively influencing the willingness or ability of state owned and/or privately owned customers in that country to pay their debts on time.

The Group undertakes a detailed qualitative analysis pertaining to country risk as a part of the business decision process. These factors include economic, social and political stability in each country, the monetary policy, the foreign exchange control measure, the transparency of information, the financial and market structure, banking regulations and supervision, the legal system, and the accounting standards among others. Country risks are monitored and controlled using country limits set by the Group; these limits are in accordance with overall business strategy, capital adequacy and provisions for potential risks, risk rating of each country, acceptable level of risk, and business opportunities in each country.

(g) Strategic risk

Strategic risk refers to the risk of current or prospective impact on the Group's earnings, capital, reputation or standing arising from changes in the environment the Group operates in and from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to industry, economic or technological changes. It is a function of compatibility of Group's strategic goals, strategies developed to achieve those goals, resources deployed to meet those goals and the quality of implementation.

The Group uses several factors to identify and assess impact of strategic risk on its books, including level of integration of risk management policies and practices in the strategic planning process, aggressiveness of strategic goals and compatibility with developed business strategies, capital support for the strategic initiatives to take care of earnings volatility, effectiveness of communication and consistency of application of strategic goals, objectives, corporate culture, and behaviour throughout the Group.

Strategic risks are monitored and controlled as part of the strategic planning process wherein the Group reviews the progress on strategic initiatives vis-à-vis the plan and considers whether the progress is in line with the plan and the external business environment. The strategic plan is periodically reviewed and updated subject to an approval process which is also a part of the strategic planning process.

(h) Compliance risk

Compliance risk refers to the risk to earnings or capital or reputation or continued business existence arising from violations of or non-conformance with laws, rules, regulations, prescribed practices, or ethical standards.

The Group, on a continuous basis, identifies and assesses such risks inherent in all new and existing "material" products, activities, processes and systems. The assessment includes risks assessment on non-conformance with laws, rules, regulations, prescribed practices, or ethical standards. The Group Compliance function has a group-wide compliance unit that develops internal controls to manage such risks and it is supported by the Risk Management, Internal Audit and Legal functions.

In order to monitor compliance and anti-money laundering risks, the Group has set in place the due diligence processes, reviews of policies and procedures across the Group, implementation of an integrated compliance and AML system which manages name clearance, transaction monitoring and payment monitoring activities, assessment through compliance check-lists etc.

Compliance risk is largely mitigated by way of focused policies and procedures, extensive checklist based and on-spot due diligence and regular training sessions.

Notes to the consolidated financial statements *(continued)*

5 Financial risk management *(continued)*

(i) Reputational risk

Reputational risk is the risk to earnings or capital arising from negative public opinion. This can be due to external or internal events.

The Group identifies and assesses reputational risk by clearly defining types of risks to be captured, establishing key sources of reputational risk it may be exposed to, based on individual circumstances, describing the risks identified in terms of the nature of risk and the potential consequences that the risks may bring to its reputation. The Group also refers to other relevant information for risk identification purposes. Such information may be sourced from media reports, stakeholder analysis reports, internal audit and compliance reports, management exception reports or other early warning indicators.

For reputational risks, apart from the regular monitoring of external and internal events that can result in possible reputational risks, the Group also has processes to track risks that may affect its reputation. These processes allow the BOD and senior management to take prompt corrective actions to address any anticipated reputational event in advance.

In order to manage reputational risks, the Group has set in place a mechanism that entails drawing up action plans to identify reputational risk events and facilitate subsequent monitoring of the progress made; for those risks that may be very difficult or too costly to eliminate entirely the mechanism requires development of contingency plans as response actions.

(j) Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is significant uncertainty over the timing and the methods of transition across the jurisdictions that the Group operates in.

The Group anticipates that IBOR reform will have operational, risk management and accounting impacts. All business lines and most FAB international locations will be affected. Largest areas affected are Corporate Banking, Global Markets and Finance functions. The exposure to IBOR are predominantly to USD and GBP LIBOR with limited exposure to other IBOR's including EUR, CHF, JPY IBOR.

The Group established in early 2019 a cross-functional IBOR Committee to centrally manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which loans advanced and liabilities reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

6 Use of estimates and judgements

In the process of applying the Group's accounting policies, IFRS require the management to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent and would result in relevant and reliable information. The management, based on guidance in IFRS and the IASB's Framework for the Preparation and Presentation of Financial Statements has made these estimates and judgements. Listed below are those estimates and judgement which could have the most significant effect on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty

(a) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

6 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

(b) Impairment charge on financial assets

Impairment losses are evaluated as described in accounting policy 3(c)(vii).

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

The Group's internal credit grading model, which assigns PDs to the individual grades

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It is the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

(c) Impairment charge on property and equipment

Impairment losses are evaluated as described in accounting policy note 3(l)(ivii).

In determining the net realisable value, the Group uses the selling prices determined by external independent valuer companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The selling prices are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

(d) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(e) Share option scheme

The fair value of the share option scheme is determined using the Black-Scholes model. The model inputs comprise of share price, exercise price, share price volatility, contractual life of the option, dividend yield and risk-free interest rate.

(f) Valuation of financial instruments

The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management. These are discussed in detail in note 7.

Notes to the consolidated financial statements *(continued)*

6 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

(g) Defined benefit plan

The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for obligations include the discount rate. Any changes in these assumptions would impact the carrying amount of the defined benefit obligation.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the future obligations. In determining the appropriate discount rate, the Group considers interest rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have the terms to maturity approximating the terms of related benefit obligation.

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information on these assumptions is disclosed in note 24.

Critical accounting judgements in applying the Group's accounting policies include:

(h) Financial asset and liability classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances. The classification criteria is mentioned in policy 3(c) (ii).

(i) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging relationship.

(j) Determination of fair value hierarchy of financial instruments

The Group's determination of fair value hierarchy of financial instruments is discussed in note 7.

(k) Structured entities

For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager, and the Group's aggregate economic interest in each fund is not material. As a result, the Group has concluded that it acts as an agent for the investors in these funds, and therefore has not consolidated these funds.

(l) Operating segments

In preparation of the segment information disclosure, management has made certain assumptions to arrive at the segment reporting. These assumptions would be reassessed by the management on a periodic basis. Operating segments are detailed in note 41.

Notes to the consolidated financial statements *(continued)*

7 Financial assets and liabilities

(a) Valuation framework

The Group has an established control framework for the measurement of fair values. Several control functions support this framework (Valuation Control and Product Control within Finance and Market Risk Analytics within Risk functions) that are independent of Front Office Management. Specific controls include:

- Independent verification of market data used in the valuation process and valuation adjustments when significant deviations are observed;
- Review of significant unobservable and stale inputs and significant changes to the fair value measurement of Level 3 instruments;
- Measurement of exit valuation ('Bid Offer');
- Validation and approval process for new models and frequent review of existing models or when changes are performed;
- Quarterly calibration and back-testing of models against observed market transactions;
- Model adjustments when inputs are overly simplified or the model has limitations deriving the fair value of a position;
- Analysis and investigation of significant daily valuation movements.

When third party information, such as broker quotes or pricing services is used to measure fair value, Valuation Control assesses and documents the evidence obtained from the third parties to support the conclusion that the valuations meet the requirements of IFRS Standards. This includes:

- Verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- When prices for similar instruments are used to measure fair value, understanding how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- If a number of quotes for the same financial instrument have been obtained, then understanding how fair value has been determined using those quotes.

Significant valuation issues are reported to the Group Valuation and Audit Committees.

(b) Valuation models

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

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

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

Notes to the consolidated financial statements *(continued)*

7 Financial assets and liabilities *(continued)*

(b) Valuation models *(continued)*

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

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

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

OTC structured derivatives

As part of its trading activities, the Group enters into OTC structured derivatives – primarily options indexed to credit spreads, equity prices, foreign exchange rates and interest rates – with customers and other banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities and expected correlations between different underlyings.

Measurement on the basis of net exposures to risks

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. These adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, it takes into account any existing arrangements that mitigate the credit risk exposure – e.g. master netting agreements with the counterparty.

Notes to the consolidated financial statements *(continued)*

7 Financial assets and liabilities *(continued)*

(b) Valuation models *(continued)*

Credit and Debit Valuation Adjustments ("CVA" and "DVA")

CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and own credit quality respectively. These adjustments are calculated for both uncollateralised and collateralised derivatives across all asset classes. CVA and DVA are calculated using estimates of expected positive and negative exposures respectively, probability of default and recovery rates, at a counterparty level. Counterparties include (but are not limited to) financial institutions, corporates, sovereigns and sovereign agencies and supranationals. Expected exposure is generally estimated through the simulation of underlying risk factors through Monte Carlo simulation techniques.

Probability of default and recovery rate information is generally sourced from the CDS markets. Where this information is not available, or considered unreliable, alternative approaches are taken based on mapping the counterparty to a sector curve based on the rating, the region and the industry sector. Net adjustment for CVA and DVA remained constant at AED 68.8 million (2018: AED 48.3 million) during the year.

Model-related adjustments

Model related adjustments are applied when either model inputs are overly simplified or the model has limitations deriving the fair value of a position. These adjustments are required to correct existing model weaknesses or deficiencies that were highlighted during the model review process.

Notes to the consolidated financial statements *(continued)*

7 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2019:

	Designated at fair value through profit or loss AED'000	Fair value through profit or loss AED'000	FVOCI – with recycle to profit or loss AED'000	FVOCI – without recycle to profit or loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets						
Cash and balances with central banks	-	-	-	-	169,702,008	169,702,008
Investments at fair value through profit or loss	-	20,099,181	-	-	-	20,099,181
Due from banks and financial institutions	-	-	-	-	17,026,502	17,026,502
Reverse repurchase agreements	-	-	-	-	24,678,375	24,678,375
Derivative financial instruments	853,247	15,064,074	-	-	-	15,917,321
Loans and advances	-	-	-	-	407,903,028	407,903,028
Non-trading investments	-	-	108,597,850	596,086	5,387,087	114,581,023
Other assets	-	-	-	-	19,693,488	19,693,488
	853,247	35,163,255	108,597,850	596,086	644,390,488	789,600,926
Financial Liabilities						
Due to banks and financial institutions	-	-	-	-	36,007,875	36,007,875
Repurchase agreements	-	-	-	-	38,821,848	38,821,848
Commercial Paper	-	-	-	-	21,236,955	21,236,955
Derivative financial instruments	3,640,341	15,588,200	-	-	-	19,228,541
Customer accounts and other deposits	-	-	-	-	519,161,857	519,161,857
Term borrowings	399,025	-	-	-	55,352,794	55,751,819
Other liabilities[1]	-	325,634	-	-	21,687,480	22,013,114
Subordinated notes	-	-	-	-	381,305	381,305
	4,039,366	15,913,834	-	-	692,650,114	712,603,314

[1] *Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.*

Notes to the consolidated financial statements *(continued)*

7 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments *(continued)*

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2018:

	Designated at fair value through profit or loss AED'000	Fair value through profit or loss AED'000	FVOCI – with recycle to profit or loss AED'000	FVOCI – without recycle to profit or loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets						
Cash and balances with central banks	-	-	-	-	182,908,727	182,908,727
Investments at fair value through profit or loss	-	14,620,910	-	-	-	14,620,910
Due from banks and financial institutions	-	-	-	-	19,176,092	19,176,092
Reverse repurchase agreements	-	-	-	-	19,033,451	19,033,451
Derivative financial instruments	1,825,955	11,258,237	-	-	-	13,084,192
Loans and advances	-	-	-	-	352,966,420	352,966,420
Non-trading investments	-	-	84,341,873	396,265	5,630,295	90,368,433
Other assets	-	-	-	-	20,380,864	20,380,864
	1,825,955	25,879,147	84,341,873	396,265	600,095,849	712,539,089
Financial Liabilities						
Due to banks and financial institutions	-	-	-	-	40,266,535	40,266,535
Repurchase agreements	-	-	-	-	34,769,685	34,769,685
Commercial Paper	-	-	-	-	18,144,105	18,144,105
Derivative financial instruments	5,297,423	9,922,041	-	-	-	15,219,464
Customer accounts and other deposits	-	-	-	-	465,237,066	465,237,066
Term borrowings	352,522	-	-	-	41,915,651	42,268,173
Other liabilities[1]	-	215,601	-	-	24,372,956	24,588,557
Subordinated notes	-	-	-	-	401,979	401,979
	5,649,945	10,137,642	-	-	625,107,977	640,895,564

[1] *Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.*

Notes to the consolidated financial statements *(continued)*

7 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments *(continued)*

Financial instruments measured at fair value - hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
As at 31 December 2019				
Investment at fair value through profit or loss	**15,150,281**	**3,468,678**	**1,480,222**	**20,099,181**
FVOCI - with recycle to profit or loss	**103,832,350**	**4,766,520**	**-**	**108,598,870**
FVOCI - without recycle to profit or loss	**573,601**	**-**	**22,485**	**596,086**
Derivative financial instruments (Assets)	**5,393**	**15,911,928**	**-**	**15,917,321**
	119,561,625	**24,147,126**	**1,502,707**	**145,211,458**
Term borrowings	**-**	**399,025**	**-**	**399,025**
Derivative financial instruments (Liabilities)	**65,518**	**19,163,023**	**-**	**19,228,541**
	65,518	**19,562,048**	**-**	**19,627,566**
As at 31 December 2018				
Investment at fair value through profit or loss	11,188,493	1,608,998	1,823,419	14,620,910
FVOCI - with recycle to profit or loss	80,714,588	3,630,021	-	84,344,609
FVOCI - without recycle to profit or loss	373,752	-	22,513	396,265
Derivative financial instruments (Assets)	47,141	13,037,051	-	13,084,192
	92,323,974	18,276,070	1,845,932	112,445,976
Term borrowings	-	352,522	-	352,522
Derivative financial instruments (Liabilities)	10,775	15,208,689	-	15,219,464
	10,775	15,561,211	-	15,571,986

There were no transfers between the fair value hierarchies for any financial asset or liability except for two securities in fair value through OCI classification which moved from level 2 to level 1 amounting to AED 68.4 million. In regards to financial instruments at fair value through profit or loss, one security was moved from level 1 to level 2 amounting to AED 34.9 million and two securities were moved from level 2 to level 1 amounting to AED 13.9 million.

Notes to the consolidated financial statements *(continued)*

7 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments *(continued)*

The following table shows a reconciliation of instruments measured at fair value and classified as Level 3:

	2019	2018
	AED'000	AED'000
Balance as at 1 January	**1,845,932**	1,875,367
Additions	**41,251**	113,431
Settlements and other adjustments	**(384,476)**	(142,866)
Balance as at 31 December	**1,502,707**	1,845,932

The Level 3 financial instruments mainly comprise of private equity investments, and their valuations are based on the last net asset published by the fund manager. The effect of changes in its valuation is covered as part of equity price risk included in note 5(c).

8 Cash and balances with central banks

	2019	2018
	AED'000	AED'000
Cash on hand	**1,991,508**	1,696,420
Central Bank of the UAE		
cash reserve deposits	**29,796,172**	22,496,362
certificates of deposits	**21,989,135**	17,995,385
other balances	**883,662**	4,926,819
Balances with other central banks	**115,194,698**	136,050,534
	169,855,175	183,165,520
Less: expected credit losses	**(153,167)**	(256,793)
	169,702,008	182,908,727

Cash reserve deposits are not available for the day to day operations of the Group.

9 Investments at fair value through profit or loss

	2019	2018
	AED'000	AED'000
Investments in managed funds	**6,380**	3,917
Investment in private equity	**1,591,074**	1,823,408
Investments in equities	**1,116,477**	1,113,625
Debt securities	**17,385,250**	11,679,960
	20,099,181	14,620,910

Notes to the consolidated financial statements *(continued)*

10 Due from banks and financial institutions

	2019 AED'000	2018 AED'000
Current, call and notice deposits	**8,098,662**	10,118,939
Margin deposits	**4,597,478**	5,635,525
Fixed deposits	**4,378,331**	3,471,784
	17,074,471	19,226,248
Less: expected credit losses	**(47,969)**	(50,156)
	17,026,502	19,176,092

11 Reverse repurchase agreements

The Group enters into reverse repurchase agreements in the normal course of business in which the third party transfers financial assets to the Group for short term financing. The carrying amount of financial assets at the reporting date amounted to AED 24,678 million *(2018: AED 19,033 million).*

Expected credit allowance of AED 414 thousand has been recognised against reverse repurchase agreements during the year *(2018: AED 15,356 thousand)*.

At 31 December 2019, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge in the absence of default was AED 26,675 million *(2018: AED 19,378 million).*

At 31 December 2019, the fair value of financial assets accepted as collateral that have been sold or re-pledged was AED 11,729 million *(2018: AED 11,903 million)*. The Group is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

12 Loans and advances

	2019 AED'000	2018 AED'000
Gross loans and advances	**421,730,328**	366,817,683
Less: interest suspended	**(2,799,157)**	(1,968,015)
Less: expected credit loss	**(11,028,143)**	(11,883,248)
Net loans and advances	**407,903,028**	352,966,420

Notes to the consolidated financial statements *(continued)*

12 Loans and advances *(continued)*

	2019 AED'000	2018 AED'000
By counterparty:		
Government sector	**66,387,415**	17,362,994
Public sector	**64,816,580**	61,790,844
Banking sector	**24,681,349**	28,472,001
Corporate / private sector	**193,210,555**	186,352,910
Personal / retail sector	**72,634,429**	72,838,934
Gross loans and advances	**421,730,328**	366,817,683

	2019 AED'000	2018 AED'000
By product:		
Overdrafts	**24,652,642**	22,237,129
Term loans	**324,545,497**	278,329,346
Trade related loans	**33,778,265**	27,927,281
Personal loans	**31,493,689**	31,261,531
Credit cards	**6,019,027**	6,137,491
Vehicle financing loans	**1,241,208**	924,905
Gross loans and advances	**421,730,328**	366,817,683

The Group provides lending against investment in equity securities and funds. The Group is authorised to liquidate these instruments if their coverage falls below the certain agreed threshold. The carrying value of such loans is AED 15,920 million *(2018: AED 8,276 million)* and the fair value of instruments held as collateral against such loans is AED 17,390 million *(2018: AED 13,200 million)*. During the year, the Group has liquidated insignificant amount of collateral due to fall in the coverage ratio.

Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

	2019 AED'000	2018 AED'000
Ijara	**9,304,260**	8,172,431
Murabaha	**21,766,334**	23,174,504
Mudaraba	**69,114**	59,046
Others	**261,374**	318,422
Total Islamic financing contracts	**31,401,082**	31,724,403
Less: expected credit loss	**(785,581)**	(704,387)
Less: suspended profit	**(130,991)**	(27,811)
	30,484,510	30,992,205

Notes to the consolidated financial statements *(continued)*

13 Non-trading Investments

	2019 AED'000	2018 AED'000
Fair value through other comprehensive income:		
- with recycle to profit or loss (Debt Investments)	**108,598,870**	84,344,609
- without recycle to profit or loss (Equity Investments)	**596,086**	396,265
Amortised cost	**5,387,087**	5,630,295
Investment in associates and joint venture	**63,399**	65,141
	114,645,442	90,436,310
Less: expected credit losses	**(1,020)**	(2,736)
	114,644,422	90,433,574

An analysis of non-trading investments by type at the reporting date is shown below:

	2019 AED'000			2018 AED'000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Equity investments	**523,401**	**136,084**	**659,485**	373,752	87,654	461,406
Debt investments	**113,065,018**	**920,939**	**113,985,957**	89,060,242	914,662	89,974,904
	113,588,419	**1,057,023**	**114,645,442**	89,433,994	1,002,316	90,436,310
Less: expected credit losses	**(1,002)**	**(18)**	**(1,020)**	(2,411)	(325)	(2,736)
	113,587,417	**1,057,005**	**114,644,422**	89,431,583	1,001,991	90,433,574

Debt instruments under repurchase agreements included in non-trading investments at 31 December 2019 amounted to AED 28,428 million *(31 December 2018: AED 22,971 million).*

The non-trading investments include the following investments in associates of the Group:

	Percentage of holding	
	2019	2018
Midmak Properties LLC	**16%**	16%
Emirates Digital Wallet LLC	**23%**	23%
Mercury Payment Services LLC	**30%**	30%

Midmak Properties LLC ("Midmak") is a limited liability company incorporated in the Emirate of Abu Dhabi. Midmak is involved in real estate activities. Although the Group owns 16% of the outstanding shares of Midmak, the investment has been classified as an associate as the Group exercises significant influence due to representation of the Board of Directors.

Emirates Digital Wallet LLC, established in 2017, is jointly owned by 16 of the leading UAE national banks, supported by the UAE Central Bank.

Mercury Payment Services LLC is a limited liability company incorporated in the Emirate of Abu Dhabi to carry on business of investments and payment service schemes.

Notes to the consolidated financial statements *(continued)*

14 Investment Properties

	2019 AED'000	2018 AED'000
As at 1 January	**7,388,493**	6,927,692
Additions / transfer from PPE	**583,789**	576,004
Disposals / transfer to PPE	**(8,729)**	(19,439)
Fair value adjustment	**(6,699)**	(95,764)
As at 31 December	**7,956,854**	7,388,493

Amounts recognised in the consolidated statement of income in respect of net rental income of investment properties are as follows:

	2019 AED'000	2018 AED'000
Rental income derived from investment properties	**92,264**	52,328
Operating expenses	**(45,154)**	(33,233)
Net rental income from investment properties	**47,110**	19,095

Investment properties are stated at fair value which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under prevailing market conditions at the measurement date.

The Group's investment properties consist of land, buildings and properties under development in Abu Dhabi and Dubai. Management determined that these investment properties consist of two classes of commercial and retail assets, based on the nature, characteristics and risks of each property.

As at 31 December 2019 and 2018, fair value of the properties is based on the valuations performed by third party valuers and all are level 3 under fair value hierarchy. The valuers are accredited with recognised and relevant professional qualifications and with recent experience in the location and category of investment properties being valued. The fair values have been determined based on varying valuation models depending on the intended use of the investment properties; in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards.

Description of valuation techniques used and key inputs to valuation on investment properties as at 31 December 2019 and 2018:

	Valuation technique	***Significant unobservable inputs***
Buildings	Comparable and Residual Method Sales Comparison Method	Comparable transactions Current market price of similar assets
Land	Comparable and Residual Method	Cost of construction Developer's profit Financing cost
Properties under development	Discounted cash flow method	Discount rate Cash inflows Cash outflows

Notes to the consolidated financial statements *(continued)*

15 Property and equipment

	Land, buildings and alterations AED'000	Computer systems and equipment AED'000	Furniture, equipment, safes and vehicles AED'000	Capital work -in-progress AED'000	Total AED'000
Cost					
As at 1 January 2018	2,954,615	1,460,521	485,872	500,323	5,401,331
Additions	395,413	36,336	35,226	870,895	1,337,870
Allocations from CWIP	248,985	747,769	1,752	(998,506)	-
Disposals, transfers and write offs[1]	(443,864)	(251,798)	(129,938)	(75,950)	(901,550)
At 31 December 2018	3,155,149	1,992,828	392,912	296,762	5,837,651
Additions	**280,682**	**171,849**	**119,463**	**1,032,465**	**1,604,459**
Allocations from CWIP	**66,428**	**347,027**	**11,504**	**(424,959)**	**-**
Disposals, transfers and write offs[1]	**(639,471)**	**(4,972)**	**(8,951)**	**(9)**	**(653,403)**
At 31 December 2019	**2,862,788**	**2,506,732**	**514,928**	**904,259**	**6,788,707**
Accumulated depreciation and impairment losses					
As at 1 January 2018	646,542	869,769	349,519	-	1,865,830
Charge for the year	81,447	125,073	29,066	-	235,586
Disposals, transfers and write offs[1]	(20,239)	(185,347)	(49,394)	-	(254,980)
At 31 December 2018	707,750	809,495	329,191	-	1,846,436
Charge for the year	**134,462**	**280,136**	**36,714**	**-**	**451,312**
Disposals, transfers and write offs[1]	**(117,021)**	**2,367**	**(13,373)**	**-**	**(128,027)**
At 31 December 2019	**725,191**	**1,091,998**	**352,532**	**-**	**2,169,721**
Carrying amounts					
At 31 December 2018	2,447,399	1,183,333	63,721	296,762	3,991,215
At 31 December 2019	2,137,597	1,414,734	162,396	904,259	4,618,986

[1] *adjusted for foreign exchange translation impact*

Notes to the consolidated financial statements *(continued)*

16 Intangibles

	Goodwill AED'000	Customer relationship AED'000	Core deposit AED'000	License AED'000	Brand AED'000	Total AED'000
Cost						
At 1 January 2018	17,317,445	1,813,517	976,038	-	22,000	20,129,000
Business Combination transaction	52,804	(38,801)	(382,703)	368,700	-	-
At 31 December 2018	17,370,249	1,774,716	593,335	368,700	22,000	20,129,000
Addition during the year	-	-	-	-	-	-
At 31 December 2019	**17,370,249**	**1,774,716**	**593,335**	**368,700**	**22,000**	**20,129,000**
Accumulated depreciation and impairment losses						
At 1 January 2018	-	181,285	41,758	-	4,583	227,626
Charge for the year	-	151,761	48,802	-	1,100	201,663
At 31 December 2018	-	333,046	90,560	-	5,683	429,289
Charge for the year	**-**	**149,870**	**49,353**	**-**	**2,401**	**201,624**
At 31 December 2019	**-**	**482,916**	**139,913**	**-**	**8,084**	**630,913**
Carrying amounts						
At 31 December 2018	17,370,249	1,441,670	502,775	368,700	16,317	19,699,711
At 31 December 2019	**17,370,249**	**1,291,800**	**453,422**	**368,700**	**13,916**	**19,498,087**

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGU's and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition.

The recoverable amount for the CGUs have been calculated based on their value in use , determined by discounting the future cash flows expected to be generated from the continuing use of the CGUs , assets and their ultimate disposal.

No impairment losses were recognized during the year ended 31 December 2019 (2018: nil) because the recoverable amounts of the CGU's were determined to be higher than their carrying amounts.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions would not cause the recoverable amount of above CGUs to decline below the carrying amount.

Notes to the consolidated financial statements *(continued)*

17 Other assets

	2019 AED'000	2018 AED'000
Interest receivable	**9,866,628**	9,169,190
Acceptances	**7,529,457**	6,899,762
Sundry debtors and other receivables	**2,550,441**	4,546,623
Deferred tax asset	**40,336**	71,916
	19,986,862	20,687,491
Less: expected credit losses	**(63,611)**	(103,889)
	19,923,251	20,583,602

The Group does not perceive any significant credit risk on interest receivable and acceptances.

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

18 Due to banks and financial institutions

	2019 AED'000	2018 AED'000
Banks and financial institutions		
Current, call and notice deposits	**2,270,422**	8,158,400
Margin	**1,917,342**	897,243
Fixed deposits	**12,758,412**	16,177,477
	16,946,176	25,233,120
Central banks		
Current and call deposits	**144,066**	50,759
Fixed and certificate of deposits	**18,917,633**	14,982,656
	19,061,699	15,033,415
	36,007,875	40,266,535

Due to banks and financial institutions are denominated in various currencies and carry a rate of interest in the range of -0.57% to 4.44% *(2018: -0.50% to 16.85%).*

19 Repurchase agreements

The Group enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties.

The carrying value that is also the fair value of financial assets collateralised at the reporting date amounted to AED 28,763 million *(2018: AED 23,707 million)* and their associated financial liabilities amounted to AED 38,822 million *(2018: AED 34,770 million).* The net difference between the fair value of the financial assets collateralised and the carrying value of the repurchase agreement is a shortage AED 10,059 million *(2018: shortage AED 11,063 million).* The shortage is covered by re-pledging financial assets received as collateral against reverse repurchase agreements or through security borrowing arrangement from custodian.

Notes to the consolidated financial statements *(continued)*

20 Commercial Paper

The Bank has established two Euro Commercial Paper Programmes with programme limits totaling up to USD 10.5 billion in aggregate. The Bank has a "US Dollar commercial paper programme" with a programme limit of USD 5 billion.

The notes outstanding as at the end of the reporting date amounted to AED 21,237 million *(2018: AED 18,144 million)* and have maturity period of less than 12 months.

The Group has not had any defaults of principal, interests, or other breaches with respect to its Commercial Paper during 2019.

21 Customer accounts and other deposits

	2019 AED'000	2018 AED'000
By account:		
Current accounts	**163,661,767**	150,416,721
Savings accounts	**10,338,002**	10,125,980
Margin accounts	**2,921,202**	2,822,821
Notice and time deposits	**311,441,597**	271,291,828
	488,362,568	434,657,350
Certificates of deposit	**30,799,289**	30,579,716
	519,161,857	465,237,066

	2019 AED'000	2018 AED'000
By counterparty:		
Government sector	**152,374,406**	141,661,679
Public sector	**88,803,076**	73,231,345
Corporate / private sector	**166,584,489**	149,329,566
Personal / retail sector	**80,600,597**	70,434,760
	488,362,568	434,657,350
Certificates of deposit	**30,799,289**	30,579,716
	519,161,857	465,237,066

	2019 AED'000	2018 AED'000
By location:		
UAE	**394,392,055**	333,024,490
Europe	**31,836,181**	35,862,559
Arab countries	**34,296,726**	27,451,582
Americas	**16,872,179**	31,768,355
Asia	**9,531,168**	5,411,063
Others	**1,434,259**	1,139,301
	488,362,568	434,657,350
Certificates of deposit	**30,799,289**	30,579,716
	519,161,857	465,237,066

Notes to the consolidated financial statements *(continued)*

21 Customer accounts and other deposits *(continued)*

Islamic customers' deposits

Included in the above Customer accounts and other deposits are the following Islamic term deposits:

	2019 AED'000	2018 AED'000
Wakala deposits	**1,754,317**	1,213,380
Mudaraba deposits	**136,227**	523,985
	1,890,544	1,737,365

22 Term borrowings

	2019 AED'000	2018 AED'000
At amortised cost	**55,352,794**	41,915,651
At fair value through profit or loss	**399,025**	352,522
	55,751,819	42,268,173

Convertible notes included USD 500 million notes that matured in March 2018 and carried a fixed coupon that was paid semi-annually in arrears. The value of the conversion option at inception was AED 108,265 thousand and as such was classified as a part of equity under convertible note – equity component reserve. Upon the maturity and as none of the option was exercised, the same has been transferred to General Reserve.

During the year, the Group has issued various fixed and floating rate notes. The nominal values of the notes issued during the year are stated below:

	2019 AED'000	2018 AED'000
As at 1 January	**42,268,173**	42,145,718
New issuances	**23,906,212**	9,076,645
Redemptions	**(13,529,379)**	(7,735,417)
Fair valuation, exchange and other adjustments	**3,106,813**	(1,218,773)
As at 31 December	**55,751,819**	42,268,173

Notes to the consolidated financial statements *(continued)*

22 Term Borrowings *(continued)*

		2019						2018					
Currency	**Interest**	**Up to 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 3 years AED'000**	**3 to 5 years AED'000**	**Over 5 Years AED'000**	**Total AED'000**	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 Years AED'000	Total AED'000
AED	Fixed rate of 4.00% to 4.20% p.a.	**-**	**-**	**-**	**3,689**	**92,988**	**96,677**	-	-	-	-	-	-
AED	3 month EIBOR + 2.59% p.a.	**-**	**-**	**-**	**-**	**-**	**-**	-	49,991	-	-	-	49,991
AUD	Fixed rate of 3.17% to 3.37% p.a.	**-**	**77,803**	**78,468**	**-**	**-**	**156,271**	1,039,197	649,250	155,245	-	-	1,843,692
AUD	3 month AUD BBSW + 110 bps p.a.	**-**	**-**	**64,403**	**-**	**77,557**	**141,960**	-	51,792	-	64,504	-	116,296
CHF	Fixed rate of 0.16% to 0.41% p.a.	**-**	**-**	**762,375**	**2,089,794**	**1,118,045**	**3,970,214**	-	-	-	1,485,350	549,312	2,034,662
CNH	Fixed rate of 4.00% to 4.80% p.a.	**105,760**	**58,750**	**1,459,407**	**1,406,112**	**-**	**3,030,029**	69,571	310,856	1,626,254	36,861	-	2,043,542
EUR	Fixed rate of 0.52% to 3.00% p.a.	**-**	**103,202**	**-**	**101,366**	**629,286**	**833,854**	-	-	105,495	-	547,502	652,997
EUR	3 month EURIBOR + 0.33% p.a.	**-**	**246,699**	**-**	**-**	**-**	**246,699**	-	-	250,582	-	-	250,582
GBP	Fixed rate of 1.66% to 2.21% p.a.	**-**	**-**	**121,897**	**-**	**233,411**	**355,308**	-	-	117,265	-	-	117,265
GBP	3 month GBP LIBOR + till 0.80% p.a.	**-**	**1,647,446**	**121,012**	**-**	**-**	**1,768,458**	-	-	-	-	-	-
HKD	Fixed rate of 2.37% to 4.18% p.a.	**75,378**	**169,701**	**599,435**	**482,837**	**231,203**	**1,558,554**	-	151,052	243,099	707,220	182,810	1,284,181
JPY	Fixed rate of 2.60% p.a.	**-**	**-**	**-**	**-**	**357,315**	**357,315**	-	333,661	-	-	356,906	690,567
MXN	Fixed rate of 0.50% p.a.	**-**	**-**	**-**	**-**	**3,010**	**3,010**	-	-	-	-	1,425	1,425
MYR	Fixed rate of 4.90% p.a.	**-**	**450,428**	**-**	**-**	**-**	**450,428**	-	-	432,417	-	-	432,417
USD	Fixed rate of till 5.10% p.a.	**5,870,694**	**72,519**	**2,354,991**	**7,770,416**	**14,434,213**	**30,502,833**	1,836,365	2,709,970	5,744,730	5,061,974	9,608,102	24,961,141
USD	3 month LIBOR + till 2.10% p.a.	**346,410**	**1,368,711**	**4,628,328**	**5,753,110**	**183,650**	**12,280,209**	-	6,096,085	1,570,216	123,114	-	7,789,415
		6,398,242	**4,195,259**	**10,190,316**	**17,607,324**	**17,360,678**	**55,751,819**	2,945,133	10,352,657	10,245,303	7,479,023	11,246,057	42,268,173

Notes to the consolidated financial statements *(continued)*

22 Term borrowings *(continued)*

During the year, the Group has issued various fixed and floating rate notes. The Group hedges its currency and interest rate exposure on these notes. The nominal values of the notes issued during the year are stated below:

	2019 AED'000	2018 AED'000
Fixed rate		
AED	**96,677**	-
CHF	**1,896,474**	744,638
CNH	**1,409,954**	1,455,069
EUR	**213,306**	-
USD	**10,972,190**	5,176,396
GBP	**232,633**	117,564
HKD	**400,003**	187,593
Floating rate		
AUD	**77,331**	-
USD	**10,627,704**	1,384,631
EUR	**1,768,981**	-
	27,695,253	9,065,891

The Group has hedged the interest rate and foreign currency exposure on term borrowings. The nominal value hedged are AED 45.71 billion *(2018: AED 33.52 billion)* and the risks being hedged have a net positive fair value of AED 499.27 million *(2018: net negative fair value of AED 1,264 million).* The Group has not had any defaults of principal, interests, or other breaches with respect to its term borrowings during 2019 and 2018.

23 Subordinated notes

	2019 AED'000	2018 AED'000
10 December 2012 issue *(4.75 percent fixed rate maturing on 9 December 2027)*	**381,305**	401,979

The Group has hedged the interest rate and foreign currency exposure on the subordinated notes. The Group has not had any defaults of principal, interests, or other breaches with respect to its subordinated notes during the year ended 31 December 2019.

24 Other liabilities

	2019 AED'000	2018 AED'000
Interest payable	**8,631,724**	8,329,375
Acceptances - net of discounting *(note 17)*	**5,039,143**	5,668,690
Provision employees' end of service benefits	**469,894**	472,607
Accounts payable, sundry creditors and other liabilities	**9,005,759**	10,943,162
Overseas income tax	**194,259**	192,546
	23,340,779	25,606,380

Notes to the consolidated financial statements *(continued)*

24 Other liabilities *(continued)*

Employees end of service benefits

Defined benefit obligations
The Group provides for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at December 31, 2019 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The following key assumptions (weighted average rates) were used to value the liabilities:

	2019	**2018**
Discount rate	**3.13 % per annum**	**3.53 % per annum**
Salary increase rate	**2.30 % per annum**	**1.77 % per annum**

Demographic assumptions for mortality, withdrawal and retirement were used in valuing the liabilities and benefits under the plan. Because of the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used.

A shift in the in the discount rate assumption by +/- 50 basis points would impact the liability by AED 10,313 thousand and AED 10,862 thousand respectively. Similarly, a shift in the salary increment assumption by +/- 50 basis points would impact the liability by AED 10,895 thousand and AED 10,441 thousand respectively.

The movement in the employees' end of service obligation was as follows:

	2019 AED'000	2018 AED'000
Balance at 1 January	**472,607**	512,346
Net charge during the year	**68,354**	66,285
Remeasurement gains/losses in OCI	**21,980**	21,901
Paid during the year and other adjustments	**(93,047)**	(127,925)
Balance at 31 December	**469,894**	472,607

Defined contribution plan
The Group pays contributions for its eligible employees which are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 91,718 thousand *(2018: AED 69,955 thousand)*. As at the reporting date, pension payable of AED 12,662 thousand (*2018: AED 10,795 thousand*) has been classified under other liabilities.

Overseas income tax

The Group has provided for overseas income tax in accordance with management's estimate of the total amount payable based on tax rates enacted or substantially enacted as at the reporting date. Where appropriate the Group has made payments of tax on account in respect of these estimated liabilities.

The overseas income tax charge for the year is calculated based upon the adjusted net profit for the year. The movement in the provision was as follows:

	2019 AED'000	2018 AED'000
Balance at 1 January	**192,546**	160,884
Charge for the year	**314,463**	325,004
Overseas income tax paid, net of recoveries	**(312,750)**	(293,342)
At 31 December	**194,259**	192,546

Notes to the consolidated financial statements *(continued)*

25 Capital and reserves

Share Capital

	2019 AED'000	2018 AED'000
Ordinary shares of AED 1 each	**10,920,000**	10,897,545
Treasury shares of AED 1 each	**18,864**	25,530

At the Annual General Meeting (AGM) held on 25 February 2019, the shareholders of the Bank approved a cash dividend of AED 0.74 per ordinary shares amounting to AED 8,064 million (2017: AED 0.70 per ordinary share amounting to AED 7,628 million). Further, the AGM also approved to increase the authorized and paid up share capital from 10,898 million to 10,920 million. The new shares were issued to the Bank's subsidiary (NBAD Employee Share Option Limited) in connection with share option scheme.

Statutory and special reserves

In accordance with the Bank's Articles of Association and the requirements of the Union Law No. (10) of 1980, a minimum of 10% of the annual net profit should be transferred to both statutory and special reserve until each of these reserves equal to 50% of the paid-up share capital. The Statutory and special reserve are not available for distribution to the shareholders.

Dividends

The following dividends were paid by the Group during the year ended 31 December:

	2019 AED'000	2018 AED'000
Dividend on ordinary shares paid during the year	**7,843,642**	7,578,784

Other reserves

Other reserves include the following:

	Fair value reserve AED'000	*General reserve* AED'000	*Foreign currency translation reserve* AED'000	*Revaluation reserve* AED'000	*IFRS 9 reserve - specific* AED'000	*IFRS 9 reserve – collective* AED'000	*Total* AED'000
As at 1 January 2018	625,210	120,000	(63,075)	280,601	-	-	962,736
Impact of adopting IFRS 9 at 1 January 2018	(184,078)	-	-	-	-	-	(184,078)
	441,132	120,000	(63,075)	280,601	-	-	778,658
Other comprehensive income for the period	(1,039,153)	-	(247,856)	-	-	-	(1,287,009)
Transfer during the year	-	108,265	-	-	-	-	108,265
IFRS 9 reserve movement	-	-	-	-	297,621	64,988	362,609
As at 31 December 2018	(598,021)	228,265	(310,931)	280,601	297,621	64,988	(37,477)

Notes to the consolidated financial statements *(continued)*

25 Capital and reserves *(continued)*

Other reserves *(continued)*

	Fair value reserve AED'000	*General reserve* AED'000	*Foreign currency translation reserve* AED'000	*Revaluation reserve* AED'000	*IFRS 9 reserve – specific* AED'000	*IFRS 9 reserve – collective* AED'000	*Total* AED'000
As at 1 January 2019	**(598,021)**	**228,265**	**(310,931)**	**280,601**	**297,621**	**64,988**	**(37,477)**
Other comprehensive income for the period	**1,968,488**	**-**	**(43,726)**	**-**	**-**	**-**	**1,924,762**
Transfer during the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**
IFRS 9 reserve movement	**-**	**-**	**-**	**-**	**18,287**	**577,634**	**595,921**
Realised gain on sale of FVOCI investment	**(9,174)**	**-**	**-**	**-**	**-**	**-**	**(9,174)**
As at 31 December 2019	**1,361,293**	**228,265**	**(354,657)**	**280,601**	**315,908**	**642,622**	**2,474,032**

(i) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of non-trading investments, until the investment is derecognised or impaired, and cash flow hedge reserve.

	Revaluation reserve – instruments at FVOCI AED'000	*Hedging reserve – cash flow hedge* AED'000	*Total* AED'000
As at 1 January 2018	677,495	(52,285)	625,210
Impact of adopting IFRS 9 at 1 January 2018	(184,078)	-	(184,078)
	493,417	(52,285)	441,132
Net fair value changes	(1,137,667)	(32,869)	(1,170,536)
Net cumulative realised gains recognised in the consolidated statement of profit or loss during the year	136,412	-	136,412
Impact of ECL	(5,029)	-	(5,029)
As at 31 December 2018	(512,867)	(85,154)	(598,021)
As at 1 January 2019	**(512,867)**	**(85,154)**	**(598,021)**
Net fair value changes	**2,633,928**	**70,090**	**2,704,018**
Net cumulative realised gains recognised in the consolidated statement of profit or loss during the year	**(861,904)**	**-**	**(861,904)**
Impact of ECL	**117,200**		**117,200**
As at 31 December 2019	**1,376,357**	**(15,064)**	**1,361,293**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions. During the year, there has been no significant transfer from cash flow hedge reserve to profit or loss.

25 Capital and reserves *(continued)*

Other reserves *(continued)*

(ii) General reserve

The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors.

(iii) Revaluation reserve

The revaluation reserve of AED 280,601 thousand *(2018: AED 280,601 thousand)* is related to land included under property and equipment.

(iv) Foreign currency translation reserve

Foreign currency translation reserve represents the exchange differences arising from translation of the net investment in foreign operations. During the year, there has been no significant transfer from foreign currency translation reserve to profit or loss.

(v) IFRS 9 reserve

In accordance with CBUAE circular, during any period if provision under CBUAE guidance exceed provision calculated under IFRS 9, such excess is required to be apportioned from retained earnings to IFRS 9 reserve and this reserve shall not be adjusted for future excess provision. The details of the same as below:

	2019 AED'000	2018 AED'000
Impairment reserve – Specific as at 31 December		
Specific provisions under Circular 28/2010 of CBUAE	**6,341,246**	6,723,798
Less: Stage 3 provisions under IFRS 9	**(6,348,700)**	(6,426,177)
Specific provision transferred to the impairment reserve	**-**	297,621
Balance carried forward from previous period	**315,908**	-
Closing balance	**315,908**	297,621

	2019 AED'000	2018 AED'000
Impairment reserve – Collective as at 31 December		
Collective provisions under Circular 28/2010 of CBUAE	**6,351,290**	6,408,021
Less: Stage 1 and Stage 2 provisions under IFRS 9	**(5,708,668)**	(6,343,033)
Collective provision transferred to the impairment reserve	**642,622**	64,988

Notes to the consolidated financial statements *(continued)*

26 Tier 1 capital notes

		2019 AED'000	2018 AED'000
Government of Abu Dhabi Notes (6 month EIBOR plus 2.3 percent per annum)	AED	**8,000,000**	8,000,000
USD 750 million Notes (5.25 percent fixed rate until 2020, thereafter 5 year mid swap rate plus 3.35 percent per annum)	USD	**2,754,750**	2,754,750
		10,754,750	10,754,750

Tier 1 capital notes are perpetual, subordinated, unsecured and carry coupons to be paid semi-annually in arrears. The Bank may elect not to pay a coupon at its own discretion. The note holder 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. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Group ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

During the year, coupon payment election was made by the Bank in the amount of AED 571,855 thousand *(31 December 2018: AED 495,047 thousand).*

27 Share option scheme

NBAD had introduced in 2008 a share based payment scheme (the "Scheme") for selected employees which would vest over three years and can be exercised within the next three years after the vesting period. The key vesting condition is that the option holder is in continued employment with the Group until the end of the vesting period. The options lapse six years after their date of grant irrespective of whether they are exercised or not.

The Group established a subsidiary to issue shares when the vested option is exercised by the employee. These shares are treated as treasury shares until exercised by the option holders.

As part of the merger, the Group has continued the scheme with the same terms and conditions. Employees exercising under the NBAD share option scheme shall be granted shares of the new entity.

During the year, 29,121 thousand options *(31 December 2018: 16,903 thousand)* had been exercised by the option holders resulting in an increase in the total share capital by AED 29,121 thousand *(31 December 2018: AED 16,903 thousand) and* share premium by AED 246,418 thousand *(31 December 2018: AED 161,399 thousand)*.

28 Interest income

	2019 AED'000	2018 AED'000
Interest from:		
Central banks	**976,641**	968,840
Banks and financial institutions	**1,427,702**	1,040,394
Reverse repurchase agreements	**700,208**	388,117
Investments at fair value through profit or loss	**343,327**	385,429
Non-trading investments	**3,194,015**	2,314,943
Loans and advances	**17,727,054**	16,742,891
	24,368,947	21,840,614

Notes to the consolidated financial statements *(continued)*

29 Interest expense

	2019 AED'000	2018 AED'000
Interest to:		
Banks and financial institutions	**1,525,185**	800,414
Repurchase agreements	**1,171,377**	706,723
Commercial paper	**481,252**	432,428
Customer accounts and other deposits	**6,669,362**	5,307,623
Term borrowings	**1,725,839**	1,542,847
Subordinated notes	**21,130**	20,410
	11,594,145	8,810,445

30 Net fee and commission income

	2019 AED'000	2018 AED'000
Fee and commission income		
Trade finance	**907,730**	1,053,033
Collection services	**17,930**	33,569
Brokerage income	**25,743**	25,535
Asset management and investment services	**56,325**	141,906
Investments, derivatives and risk participation	**6,794**	7,090
Retail and corporate lending	**1,502,355**	1,333,257
Cards and e-services	**1,764,010**	1,885,819
Accounts related services	**54,379**	60,165
Commission on transfers	**107,084**	115,273
Others	**288,338**	224,341
Total fee and commission income	**4,730,688**	4,879,988
Fee and commission expense		
Brokerage commission	**54,002**	42,530
Credit card charges	**1,076,309**	1,086,900
Retail and corporate lending	**378,837**	306,290
Others	**52,111**	51,896
Total fee and commission expense	**1,561,259**	1,487,616
Net fee and commission income	**3,169,429**	3,392,372

Notes to the consolidated financial statements *(continued)*

31 Net foreign exchange gain

	2019 AED'000	2018 AED'000
Trading and retranslation gain on foreign exchange and related derivatives[1,2]	**1,950,259**	1,456,886
Dealings with customers[3]	**650,719**	585,594
	2,600,978	2,042,480

[1] Due to effective hedging strategies, the offsetting impact of hedging instruments is reflected in the net gains from sale of non-trading investments *(note 32)*.
[2]Includes negative interest income of AED 366.49 million *(2018: AED 285.44 million)* arising from placement with ECB.
[3]The comparatives have been restated to include customer facing portfolios which were in the prior periods included within Trading and retranslation gain on foreign exchange and related derivatives.

32 Net gain on investments and derivatives

	2019 AED'000	2018 AED'000
Net realised and unrealised gain on investments at fair value through profit or loss and derivatives	**611,253**	891,021
Net gain / (loss) from sale of non-trading investments	**861,902**	(136,412)
Dividend income	**33,122**	71,616
	1,506,277	826,225

33 Other Operating Income

	2019 AED'000	2018 AED'000
Investment property (loss) / income	**(6,068)**	(90,946)
Leasing related income	**126,772**	107,157
Other income[1]	**76,867**	138,285
	197,571	154,496

Includes gain on sale of property and equipment amounting to AED 28.9 million *(2018: AED 111.4 million)*

Notes to the consolidated financial statements *(continued)*

34 General, administration and other operating expenses

	2019 AED'000	2018 AED'000
Staff costs	**3,205,375**	3,156,395
Other general and administration expenses	**1,560,519**	1,668,221
Depreciation *(note15)*	**451,312**	235,586
Intangible amortisation *(note 16)*	**201,624**	201,663
Sponsorships and donations	**80,161**	66,690
	5,498,991	5,328,555

35 Net impairment charge

	2019 AED'000	2018 AED'000
Impairment charge / (reversal) on		
loans and advances	**1,742,433**	2,107,219
other financial assets	**(38,267)**	33,147
unfunded exposure	**181,570**	(326,543)
other non-financial instruments	**1,353**	-
Recoveries	**(344,835)**	(303,770)
Write-off of impaired financial assets	**300,726**	215,741
	1,842,980	1,725,794

36 Overseas income tax expense

In addition to adjustments relating to deferred taxation, the charge for the year is calculated based upon the adjusted net profit for the year at rates of tax applicable in respective overseas locations.

The charge to the consolidated statement of profit or loss for the year was as follows:

	2019 AED'000	2018 AED'000
Charge for the year	**314,463**	325,004

37 Cash and cash equivalents

	2019 AED'000	2018 AED'000
Cash and balances with Central Banks	**169,855,176**	183,165,520
Due from banks and financial institutions	**17,074,471**	19,226,248
	186,929,647	202,391,768
Less: Balances with Central Banks maturing after three months of placement	**(21,493,508)**	(18,726,908)
Less: Due from banks and financial institutions maturing after three months of placement	**(14,091,205)**	(7,987,484)
	151,344,934	175,677,376

38 Leases

The Group leases a number of branch and office premises. The leases typically run for a period of 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Group is a lessee is presented below:

Leases as lessee

Right-of-use assets

The movement during the period of right-of-use is as follows:

	31 Dec 2019 AED '000
Balance as at 1 January	130,152
Net increase during the year	144,715
Depreciation and other adjustments	(57,686)
Balance as at 31 December	217,181

Lease liabilities

	31 Dec 2019 AED '000
Maturity analysis – contractual undiscounted cash flows	
Less than one year	70,455
One to five years	161,209
More than five years	26,011
Total undiscounted lease liabilities at 31 December	257,675

Amounts recognised in profit or loss

	AED '000
2019 – Leases under IFRS 16	
Interest on lease liabilities	6,005
Depreciation charge for the year	51,789
Expenses relating to short-term leases and low-value assets	73,249
2018 – Operating leases under IAS 17	
Lease expense	120,873

Notes to the consolidated financial statements *(continued)*

39 Commitments and contingencies

The Group, in the ordinary course of business, enters into various types of transactions that involve undertaking certain commitments such as letters of credit, guarantees and undrawn loan commitments.

There were no other significant changes in contingent liabilities and commitments during the year other than those arising out of normal course of business.

	2019 AED'000	2018 AED'000
Letter of credit	**63,227,522**	59,955,337
Letters of guarantees	**102,673,707**	104,894,326
Financial guarantees	**2,020,873**	285,311
Trade contingencies	**167,922,102**	165,134,974

	2019 AED'000	2018 AED'000
Undrawn commitment to extend credit	**39,442,026**	45,659,602
Commitments for future capital expenditure	**841,722**	991,968
Commitments for future private equity investments	**794,001**	772,322
	41,077,749	47,423,892
Total commitments and contingencies	**208,999,851**	212,558,866

Credit risk characteristics of these unfunded facilities closely resemble the funded facilities as described in note 5 are neither past due nor impaired.

Letters of credit and guarantee ("Trade contingencies") commit the Group to make payments on behalf of customers' contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to extend loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Financial guarantee contracts includes credit default agreements entered with banks and financial institutions amounting to AED 73.46 million *(2018: AED 73.46 million)* which are primarily denominated in US Dollars.

Financial guarantee contracts mainly pertain to the banks and financial institutions.

Notes to the consolidated financial statements *(continued)*

39 Commitments and contingencies *(continued)*

Concentration by location:

	Undrawn loan Commitments		Trade contingencies	
	2019	2018	**2019**	2018
	AED'000	AED'000	**AED'000**	AED'000
UAE	**24,763,624**	24,865,542	**116,513,529**	118,693,398
Europe	**5,753,526**	7,422,210	**19,210,556**	19,593,289
Arab countries	**3,092,043**	4,202,963	**7,491,914**	6,967,012
Americas	**3,057,299**	3,035,469	**12,099,805**	11,956,195
Asia	**2,396,190**	3,659,085	**9,885,439**	7,755,276
Others	**379,344**	2,474,333	**2,720,859**	169,804
	39,442,026	45,659,602	**167,922,102**	165,134,974

40 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risks. Derivative financial instruments include forwards, futures, swaps and options. These transactions are primarily entered with banks and financial institutions.

Forwards and futures

Currency forwards represent commitments to purchase foreign and/or domestic currencies, including non-deliverable spot transactions (i.e. the transaction is net settled). Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk for futures contracts is negligible, as they are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Swaps

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of risk. Options may be either exchange-traded or negotiated between the Group and a customer over the counter (OTC).

Notes to the consolidated financial statements *(continued)*

40 Derivative financial instruments *(continued)*

Options *(continued)*

Derivatives are measured at fair value by reference to published price quotations in an active market. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models like counterparty prices or valuation techniques such as discounted cash flows, market prices, yield curves and other reference market data.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to their fair values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

Notes to the consolidated financial statements *(continued)*

40 Derivative financial instruments *(continued)*

31 December 2019	Positive market value	Negative market value	Notional amount	Notional amounts by term to maturity: Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
***Held for trading**:*								
Interest rate derivatives								
Swaps	11,824,387	13,050,401	1,354,394,679	210,476,933	251,548,568	417,580,845	191,507,168	283,281,165
Forwards & Futures	11,672	14,460	63,092,794	20,388,639	40,495,083	1,364,282	293,840	550,950
Options & Swaptions	97,029	160,003	132,010,216	83,466,280	40,681,071	6,981,536	183,650	697,679
Foreign exchange derivatives								
Forwards	1,775,128	1,947,857	339,425,825	164,537,645	119,486,036	47,338,549	7,688,952	374,643
Options	178,057	111,871	64,758,853	18,826,365	39,234,421	6,689,379	8,688	-
Other derivatives contracts	1,177,801	303,608	11,638,589	5,326,346	1,783,324	2,513,361	1,923,733	91,825
	15,064,074	15,588,200	1,965,320,956	503,022,208	493,228,503	482,467,952	201,606,031	284,996,262
Held as fair value hedges:								
Interest rate derivatives								
Swaps	826,068	3,453,143	150,671,464	28,607,570	12,559,318	20,755,142	30,678,692	58,070,742
Swaptions	-	-	-	-	-	-	-	-
	826,068	3,453,143	150,671,464	28,607,570	12,559,318	20,755,142	30,678,692	58,070,742
Held as cash flow hedges								
Interest rate derivatives								
Swaps	-	3,506	4,643,918	907,287	2,754,750	981,881	-	-
Foreign exchange derivatives								
Forwards	27,179	183,692	21,254,879	21,254,879	-	-	-	-
	27,179	187,198	25,898,797	22,162,166	2,754,750	981,881	-	-
Total	15,917,321	19,228,541	2,141,891,217	553,791,944	508,542,571	504,204,975	232,284,723	343,067,004

40 Derivative financial instruments *(continued)*

31 December 2018				Notional amounts by term to maturity				
	Positive market value	**Negative market value**	**Notional amount**	**Less than three months**	**From three months to one year**	**From one year to three years**	**From three years to five years**	**Over five years**
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for trading:								
Interest rate derivatives								
Swaps	8,152,999	7,598,766	1,099,051,876	114,781,773	287,845,196	303,348,196	211,848,433	181,228,278
Forwards & Futures	5,165	3,724	57,016,206	11,031,032	6,199,712	39,785,462	-	-
Options & Swaptions	83,215	117,837	64,186,503	1,517,329	52,873,360	8,028,574	1,010,075	757,165
Foreign exchange derivatives								
Forwards	1,652,063	1,676,905	377,427,044	231,424,514	116,532,513	26,411,029	3,058,971	17
Options	327,635	284,415	95,215,819	42,284,251	46,249,596	6,182,935	499,037	-
Other derivatives contracts	1,037,160	240,395	8,980,883	3,856,034	2,046,555	386,641	2,691,653	-
	11,258,237	9,922,042	1,701,878,331	404,894,933	511,746,932	384,142,837	219,108,169	181,985,460
Held as fair value hedges:								
Interest rate derivatives								
Swaps	1,242,665	4,208,904	106,264,029	1,642,409	7,880,884	22,661,174	20,900,395	53,179,167
Swaptions	583,148	461,592	108,956,518	599,041	12,677,590	22,471,213	20,232,359	52,976,315
	1,825,813	4,670,496	215,220,547	2,241,450	20,558,474	45,132,387	41,132,754	106,155,482
Held as cash flow hedges								
Interest rate derivatives								
Swaps	123	503,660	4,800,940	-	178,697	4,622,243	-	-
Foreign exchange derivatives								
Forwards	19	123,266	20,042,459	20,042,459	-	-	-	-
Total	142	626,926	24,843,399	20,042,459	178,697	4,622,243	-	-
	13,084,192	15,219,464	1,941,942,277	427,178,842	532,484,103	433,897,467	260,240,923	288,140,942

Notes to the consolidated financial statements *(continued)*

40 Derivative financial instruments *(continued)*

The positive / negative fair value in respect of derivatives represents the gain/loss respectively, arising on fair valuation of the trading and hedging instrument. These amounts are not indicative of any current or future losses, as a similar positive / negative amount has been adjusted to the carrying value of the hedged loans and advances, non-trading investments, term borrowings and subordinated notes.

As at December 31, 2019, the Group received cash collateral of AED 3,010.9 million *(2018: AED 1,136.5 million)* against positive fair value of derivative assets from certain counterparties. Correspondingly, the Group placed cash collateral of AED 12,915.5 million *(2018: AED 6,124.4 million)* against the negative fair value of derivative liabilities.

Derivative related credit risk

This is limited to the positive fair value of instruments that are favourable to the Group. These transactions are primarily entered with banks and financial institutions.

Derivatives held for trading

The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and credit risks or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices. The instruments used mainly include interest rate and currency swaps and forward contracts. The fair values of those derivatives are shown in the table above.

Derivatives held as fair value hedge

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management strategy by taking offsetting positions in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses interest rate swaps to hedge against the changes in fair value arising from specifically identified interest bearing assets such as loans and advances, non-trading investments, term borrowings and subordinate notes. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

Derivatives held as cash flow hedge

The Group uses forward contracts to hedge the foreign currency risk arising from its financial instruments. The Group has substantially matched the critical terms of the derivatives to have an effective hedge relationship.

Notes to the consolidated financial statements *(continued)*

41 Segmental information

The operating structure consists of four key Business segments across Geographic segments that are driving the business strategy, customer value propositions, products and channel development and customer relationships in addition to supporting the delivery of the Group's financial performance.

Business segments

Corporate and Investment Banking ("CIB")
Covers corporate and institutional clients through dedicated client segments (Corporate Banking, Institutional Banking, Commercial Banking, Privileged Clients Groups and Financial Institutions). CIB offers Credit facilities, Global Transaction Services, Corporate Finance, Islamic Finance and Global Markets products to both UAE and international clients.

Personal Banking Group ("PBG")
The business targets retail, affluent, high net-worth customers, Islamic consumer finance and SME customer segments. The products' ranges offered include every day banking products such as current accounts, deposits, credit cards, loans, sophisticated investment solutions, business banking products and services. The business furnishes variety of distribution and sales channels, including mobile and internet banking, branches, direct sales agents and through its banking subsidiaries namely Dubai First, Aseel and First Abu Dhabi Islamic Finance.

Subsidiaries
The business includes a diversified business model supported by complementary offerings provided across real estate, property management, brokerage and conventional banking. This business covers subsidiaries partially or fully owned by the Group, namely FAB Properties, ADNP, Mismak, FAB Securities and First Gulf Libyan Bank.

Head office
The Group provides centralized human resources, information technology, operations, finance, strategy, investor relations, risk management, credit management, corporate communications, legal and compliance, internal audit, procurement, treasury operations, integration management office and administrative support to all of its business units.

Geographic segments
The Group is managing its various business segments through a network of branches, subsidiaries and representative offices within the two defined geographic segments which are UAE and International. International business is further sub-divided into two sub-segments which are Europe, Americas, Middle East and Africa ("EAMEA") and Asia Pacific ("APAC").

- **Europe, Americas, Middle East and Africa (EAMEA)**
  FAB network in the EAMEA region is operated through its presence in United States of America, Brazil, United Kingdom, France, Switzerland, Oman, Bahrain, Qatar, Egypt, Sudan, Kuwait, Lebanon, Jordan, and Kingdom of Saudi Arabia.

- **Asia Pacific (APAC)**
  FAB's business in the Asia region is run through its presence in Singapore, Hong Kong, Korea, China, Malaysia and India.

Notes to the consolidated financial statements *(continued)*

41 Segmental information *(continued)*

	Business Segment					Geographic Segment			
	Corporate and Investment Banking AED'000	Personal Banking Group AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Europe, Americas, Middle East and Africa AED'000	Asia - Pacific AED'000	Total AED'000
For the year ended 31 December 2019									
Net Interest income	5,637,831	5,949,652	(85,188)	1,272,507	12,774,802	10,977,297	1,439,987	357,518	12,774,802
Net non-interest income	5,595,406	1,608,759	212,860	57,230	7,474,255	6,375,301	771,823	327,131	7,474,255
Operating income	11,233,237	7,558,411	127,672	1,329,737	20,249,057	17,352,598	2,211,810	684,649	20,249,057
General administration and other operating expenses	2,097,235	2,949,232	142,946	309,578	5,498,991	4,384,989	890,082	223,920	5,498,991
Net impairment charge	991,180	961,520	(122,347)	12,627	1,842,980	1,631,108	113,909	97,963	1,842,980
Profit before taxation	8,144,822	3,647,659	107,073	1,007,532	12,907,086	11,336,501	1,207,819	362,766	12,907,086
Overseas taxation	218,647	72,216	6,990	16,610	314,463	2,811	227,890	83,762	314,463
Net profit for the year	7,926,175	3,575,443	100,083	990,922	12,592,623	11,333,690	979,929	279,004	12,592,623
As at 31 December 2019									
Segment total assets	761,351,000	108,645,370	12,625,249	119,745,452	1,002,367,071	672,176,128	199,259,956	45,531,216	916,967,300
Inter segment balances					(180,399,056)				(94,999,285)
Total assets					821,968,015				821,968,015
Segment total liabilities	550,148,233	97,570,693	9,906,056	236,705,053	894,330,035	579,331,310	188,059,669	41,539,285	808,930,264
Inter segment balances					(180,399,056)				(94,999,285)
Total liabilities					713,930,979				713,930,979

Notes to the consolidated financial statements *(continued)*

41 Segmental information *(continued)*

	Business Segment					Geographic Segment			
	Corporate and Investment Banking AED'000	Personal Banking Group AED'000	Subsidiaries AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Europe, Americas, Middle East and Africa AED'000	Asia - Pacific AED'000	Total AED'000
For the year ended 31 December 2018									
Net Interest income	5,771,940	5,759,972	(36,041)	1,534,298	13,030,169	11,280,298	1,471,341	278,530	13,030,169
Net non-interest income	4,340,661	1,758,882	184,869	131,161	6,415,573	5,441,803	677,667	296,103	6,415,573
Operating income	10,112,601	7,518,854	148,828	1,665,459	19,445,742	16,722,101	2,149,008	574,633	19,445,742
General administration and other operating expenses	1,805,077	2,699,401	139,798	684,279	5,328,555	4,379,665	732,693	216,197	5,328,555
Net impairment charge	1,225,162	454,855	(13,704)	59,481	1,725,794	1,807,984	(155,840)	73,650	1,725,794
Profit before taxation	7,082,362	4,364,598	22,734	921,699	12,391,393	10,534,452	1,572,155	284,786	12,391,393
Overseas taxation	188,097	94,001	33,163	9,743	325,004	1,313	297,208	26,483	325,004
Net profit for the year	6,894,265	4,270,597	(10,429)	911,956	12,066,389	10,533,139	1,274,947	258,303	12,066,389
As at 31 December 2018									
Segment total assets	722,723,140	105,746,740	13,162,063	108,297,619	949,929,562	612,128,044	210,877,111	39,650,488	862,655,643
Inter segment balances					(206,043,175)				(118,769,256)
Total assets					743,886,387				743,886,387
Segment total liabilities	500,599,188	87,702,880	10,117,659	249,536,835	847,956,562	502,817,914	216,308,262	41,556,467	760,682,643
Inter segment balances					(206,043,175)				(118,769,256)
Total liabilities					641,913,387				641,913,387

Notes to the consolidated financial statements *(continued)*

42 Earnings per share

Earnings per share is calculated by dividing the net profit for the year after deduction of Tier 1 capital notes payment by the weighted average number of ordinary shares in issue during the year as set out below:

	2019	2018
Basic earnings per share:		
Net profit for the year (AED'000)	**12,520,203**	12,010,820
Less: payment on Tier 1 capital notes (AED'000)	**(571,855)**	(495,047)
Net profit after payment of Tier 1 capital notes (AED'000)	**11,948,348**	11,515,773
Weighted average number of ordinary shares:		
Number of shares issued / deemed to be outstanding from the beginning of the year ('000)	**10,872,015**	10,855,112
Weighted average number of shares exercised under the share options scheme ('000)	**23,692**	8,399
Weighted average number of ordinary shares ('000)	**10,895,707**	10,863,511
Basic earnings per share (AED)	**1.10**	1.06
Diluted earnings per share:		
Net profit after payment of Tier 1 capital notes (AED'000)	**11,948,348**	11,515,773
Add: Interest on convertible note (AED'000)	-	18,801
Net profit for the year for calculating diluted earnings per share (AED'000)	**11,948,348**	11,534,574
Weighted average number of ordinary shares ('000)	**10,895,707**	10,863,511
Effect of dilutive potential ordinary shares issued ('000)	-	28,606
Weighted average number of dilutive shares under share options scheme ('000)	**3,875**	10,468
Weighted average number of ordinary shares in issue for diluted earnings per share ('000)	**10,899,582**	10,902,585
Diluted earnings per share (AED)	**1.10**	1.06

Notes to the consolidated financial statements *(continued)*

43 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholder, directors and key management personnel of the Group. Key management personnel comprise those executive committee members "EXCO" of the Group who are involved in the strategic planning and decision making of the Group. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

	2019			2018
	Senior management and related entities AED'000	**Major shareholders AED'000**	**Total AED'000**	Total AED'000
Balances with related parties at the reporting date are shown below:				
Financial assets	**5,956,938**	**44,404,300**	**50,361,238**	12,933,731
Financial liabilities	**10,934,652**	**33,870,159**	**44,804,811**	12,596,616
Contingent liabilities	**4,647,873**	**8,329,761**	**12,977,634**	13,077,111

Transactions carried out during the year ended with related parties are shown below:

	2019			2018
Interest income	**222,884**	**1,626,175**	**1,849,058**	416,238
Interest expense	**226,489**	**355,821**	**582,310**	262,880

44 Fiduciary activities

The Group held assets under management in trust or in a fiduciary capacity for its customers at 31 December 2019 amounting to AED 8,487.64 million *(2018: AED 7,667.91 million)*. Furthermore, the Group provides custodian services for some of its customers.

The underlying assets held in a custodial or fiduciary capacity are excluded from these consolidated financial statements of the Group.

45 Special Purpose Entities

The Group has created Special Purpose Entities (SPEs) with defined objectives to carry on fund management and investment activities on behalf of customers. The equity and investments managed by the SPEs are not controlled by the Group and the Group does not obtain benefits from the SPEs' operations, apart from commissions and fee income. In addition, the Group does not provide any guarantees or assume any liabilities of these entities. Consequently, the SPEs' assets, liabilities and results of operations are not included in these consolidated financial statements of the Group. The SPEs are as follows:

Notes to the consolidated financial statements *(continued)*

45 Special Purpose Entities *(continued)*

Legal name	Activities	Country of incorporation	Holding 2019
One share PLC	Investment Company	Republic of Ireland	100%

46 Comparative figures

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