
SHARJAH ISLAMIC BANK PJSC
DIRECTORS' REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

SHARJAH ISLAMIC BANK PJSC

Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of SHARJAH ISLAMIC BANK PJSC (the "Bank") and its subsidiaries, together referred to as (the "Group") for the year ended 31 December 2019.

Financial Highlights

As at 31 December 2019, total assets of the Bank increased by AED 1.6 billion to reach AED 46.4 billion, an increase of 3.7%.

Investments in Islamic financing increased by 4.2% (AED 1.0 billion) to reach AED 25.1 billion and customer deposits increased by 3.3% (AED 875 million) to reach AED 27.3 billion.

Net operating income before distribution to depositors for the Group increased by 19.9%, to reach AED 1.3 billion for 2019 as compared to AED 1.1 billion in 2018.

Impairment provisions – net of recoveries made in the year 2019 amounts to AED 96.7 million, an increase of 163%.

Net profits of AED 545.5 million is recorded for year ended 31 December 2019 compared to AED 510.4 million for the corresponding prior year, an increase of 6.9%.

The Group issued a tier 1 sukuk during the year 2019 amounting \$500 million (AED 1.8 billion), taking the total shareholders' equity to AED 7.5 billion, an increase of 39.7%.

Auditors:-

PricewaterhouseCoopers (PwC) were appointed as auditors of the Group for the year ending 31 December 2019 at the Annual General Meeting held on **[Date]**.

Abdul Rahman Mohammed Nasser Al Owais
Chairman
[Date]

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SHARJAH ISLAMIC BANK PJSC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(Currency: Thousands of U.A.E. Dirhams)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Assets			
Cash and balances with banks and financial institutions	5	2,450,754	2,440,868
Murabaha and wakalah with financial institutions	6	7,948,109	7,217,226
Investments in Islamic financing	7	25,142,892	24,123,760
Investment securities	8	5,827,239	6,220,452
Investment properties	9	2,699,959	2,318,129
Properties held-for-sale	10	579,478	658,460
Other assets	11	817,809	907,905
Property and equipment	12	924,221	858,687
Total assets		46,390,461	44,745,487
Liabilities and shareholders' equity			
Liabilities			
Customers' deposits	13	27,313,057	26,438,275
Due to banks	14	5,128,007	6,548,781
Sukuk payable	15	5,503,139	5,499,603
Other liabilities	16	854,636	809,607
Zakat payable		62,435	61,589
Total liabilities		38,861,274	39,357,855
Shareholders' equity			
Share capital	17	2,934,855	2,934,855
Tier 1 sukuk	18	1,836,500	-
Legal reserve	20	1,467,428	1,429,264
Statutory reserve	20	89,008	89,008
General impairment reserve	20	132,745	66,717
Fair value reserve	20	23,390	(87,537)
Retained earnings		1,045,261	955,325
Total shareholders' equity		7,529,187	5,387,632
Total liabilities and shareholders' equity		46,390,461	44,745,487

These consolidated financial statements were authorised for issue in accordance with a resolution of Directors on [Date] and signed on its behalf by:

Abdul Rahman Mohammed Nasser Al Owais
Chairman

Mohammed Ahmed Abdullah
Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on pages 2 to 7.

SHARJAH ISLAMIC BANK PJSC
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019
(Currency: Thousands of U.A.E. Dirhams)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Income from investments in Islamic financing and sukuk	21	1,749,660	1,589,597
Profit expense on sukuk		(190,527)	(183,539)
Investment, fees, commission and other income	22	259,711	236,031
Income from subsidiaries		70,370	59,844
Total income		1,889,214	1,701,933
General and administrative expenses	23	(585,388)	(614,246)
Net operating income before provisions and distributions to depositors		1,303,826	1,087,687
Provisions - net of recoveries	24	(96,772)	(36,769)
Net operating income before distribution to depositors		1,207,054	1,050,918
Distribution to depositors	25	(661,529)	(540,539)
Profit for the year		545,525	510,379
(Attributable to the shareholders of the Bank)			
Basic and diluted earnings per share (U.A.E. Dirhams)	26	0.19	0.17

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SHARJAH ISLAMIC BANK PJSC
CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(Currency: Thousands of U.A.E. Dirhams)

	2019	2018
Profit for the year (Attributable to the shareholders of the Bank)	545,525	510,379
Other comprehensive income / (loss)		
Items that will be reclassified to profit or loss		
Net change in fair value reserve on sukuk investments classified at FVTOCI	68,769	(35,209)
Items that will not be reclassified to profit or loss		
Net change in fair value reserve on equity investments classified at FVTOCI	3,573	(13,023)
Total comprehensive income for the year (Attributable to the shareholders of the Bank)	617,867	462,147

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SHARJAH ISLAMIC BANK PJSC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(Currency: Thousands of U.A.E. Dirhams)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:			
Profit for the year		545,525	510,379
Adjustments for:			
- Depreciation	12	47,475	41,694
- Amortisation of sukuk issuance cost		3,536	2,140
- Provision charge for the year		100,060	45,172
- Recoveries on subsidiaries receivables		(3,288)	(8,403)
- Gain on disposal of properties held-for-sale		(7,590)	(5,579)
- Revaluation (gain) / loss on investment properties	9	(2,650)	10,196
- Impairment loss on properties held-for-sale	10	2,409	11,901
- Gain on sale of property and equipment		(77)	(209)
- Gain on disposal of investment properties		-	(21,552)
Operating profit before changes in operating assets and liabilities		685,400	585,739
Changes in:			
- Statutory deposit with CBUAE		448	38,207
- Murabaha and wakalah with financial institutions		509,220	(2,235,949)
- Investments in Islamic financing		(1,115,904)	(2,756,767)
- Other assets		90,096	23,762
- Customers' deposits		874,782	4,119,752
- Due to banks		(982,772)	2,959,203
- Zakat payable		(61,581)	(2,305)
- Other liabilities		39,642	(63,027)
Net cash generated from operating activities		39,331	2,668,615
Cash flows from investing activities:			
Acquisition of property and equipment		(113,629)	(41,149)
Disposal of property and equipment		697	278
Acquisition of investment properties		(304,780)	(248,046)
Disposal of investment properties		8,744	109,036
Acquisition of properties held for sale		(104,014)	(114,501)
Disposal of properties held for sale		105,033	17,797
Investment securities, net		465,555	(1,234,547)
Net cash used in investing activities		57,606	(1,511,132)
Cash flows from financing activities:			
Issuance of Tier 1 sukuk		1,826,290	-
Issuance of Sukuk		-	1,832,220
Repayment of Sukuk		-	(1,836,500)
Cash dividend	18	(234,788)	(234,789)
Net cash used in financing activities		1,591,502	(239,069)
Net increase in cash and cash equivalents		1,688,439	918,414
Cash and cash equivalents, beginning of the year	27	3,093,288	2,174,874
Cash and cash equivalents, end of the year	27	4,781,727	3,093,288

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SHARJAH ISLAMIC BANK PJSC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(Currency: Thousands of U.A.E. Dirhams)

ATTRIBUTABLE TO THE SHREHOLDERS OF THE BANK

	Share capital	Tier 1 sukuk	Legal reserve	Statutory reserve	General impairment reserve	Fair value reserve	Retained earnings	Total shareholders' equity
As at 1 January 2018	2,934,855	-	1,377,902	89,008	-	(39,488)	1,157,003	5,519,280
Changes on initial application of IFRS 9	-	-	-	-	-	-	(295,211)	(295,211)
Restated balance at 1 January 2018	2,934,855	-	1,377,902	89,008	-	(39,488)	861,792	5,224,069
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	510,379	510,379
Other comprehensive income								
Net change in fair value reserve	-	-	-	-	-	(48,232)	-	(48,232)
Total comprehensive income for the year	-	-	-	-	-	(48,232)	510,379	462,147
Transactions recorded directly in equity								
Realized loss on equity instruments measured at FVTOCI transferred to retained earnings	-	-	-	-	-	183	(183)	-
Transfer to legal reserves (note 20)	-	-	51,362	-	-	-	(51,362)	-
Dividends declared	-	-	-	-	-	-	(234,789)	(234,789)
Transfer to general impairment reserve (note 20)	-	-	-	-	66,717	-	(66,717)	-
Zakat	-	-	-	-	-	-	(58,545)	(58,545)
Board of directors' fees (note 19)	-	-	-	-	-	-	(5,250)	(5,250)
Total transactions with owners	-	-	51,362	-	66,717	183	(416,846)	(298,584)
As at 31 December 2018	2,934,855	-	1,429,264	89,008	66,717	(87,537)	955,325	5,387,632
As at 1 January 2019	2,934,855	-	1,429,264	89,008	66,717	(87,537)	955,325	5,387,632
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	545,525	545,525
Other comprehensive income								
Net change in fair value reserve	-	-	-	-	-	72,342	-	72,342
Total comprehensive income for the year	-	-	-	-	-	72,342	545,525	617,867
Transactions recorded directly in equity								
Tier 1 sukuk issued	-	1,836,500	-	-	-	-	-	1,836,500
Tier 1 sukuk issuance cost	-	-	-	-	-	-	(10,210)	(10,210)
Realized loss on equity instruments measured at FVTOCI transferred to retained earnings	-	-	-	-	-	38,585	(38,585)	-
Transfer to legal reserves (note 20)	-	-	38,164	-	-	-	(38,164)	-
Dividends declared	-	-	-	-	-	-	(234,788)	(234,788)
Transfer to general impairment reserve (note 20)	-	-	-	-	66,028	-	(66,028)	-
Zakat	-	-	-	-	-	-	(62,427)	(62,427)
Board of directors' fees (note 19)	-	-	-	-	-	-	(5,387)	(5,387)
Total transactions with owners	-	1,836,500	38,164	-	66,028	38,585	(455,589)	1,523,688
As at 31 December 2019	2,934,855	1,836,500	1,467,428	89,008	132,745	23,390	1,045,261	7,529,187

The accompanying notes form an integral part of these consolidated financial statements.
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SHARJAH ISLAMIC BANK PJSC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(Currency: Thousands of U.A.E. Dirhams)

1. Legal status and activities

SHARJAH ISLAMIC BANK PJSC (“the Bank”) was incorporated in 1975 as a public joint stock company by an Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and is listed on the Abu Dhabi stock market.

At the extraordinary shareholders’ meeting held on 18 March 2001 a resolution was passed to transform the Bank’s activities to be in full compliance with the Islamic Shari’a rules and principles. The entire process was completed on 30 June 2002 (“the transformation date”). As a result the Bank transformed its conventional banking products into Islamic banking products during the 6-month period ended 30 June 2002 after negotiation and agreement with its customers.

The Bank is mainly engaged in corporate, retail and investment banking activities in accordance with its articles of incorporation, Islamic Shari’a principles and regulation of the Central Bank of UAE (“the CBUAE”), which are carried out through its 36 branches (2018 : 33 branches) established in United Arab Emirates.

The consolidated financial statements of the Group comprises the Bank and its fully owned subsidiaries incorporated in the United Arab Emirates, Sharjah National Hotels (“SNH”), Sharjah Islamic Financial Services LLC (“SIFS”), ASAS Real Estate (“ASAS”) as well as special purpose vehicles established in the Cayman Islands, SIB Sukuk Company III Limited and SIB Tier 1 Sukuk Company Limited (all together referred to as the “Group”). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari’a compliant shares. ASAS is involved in the business of real estate. SIB Sukuk Company III Limited and SIB Tier 1 Sukuk Company Limited were established for the Bank’s Sukuk program.

The registered address of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

2. Basis of preparation

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting standards (“IFRS”) as issued by International Accounting Standard Board (“IASB”), and comply with the guidance of the CBUAE, Islamic Shari’a principles and applicable requirements of the UAE Federal law No. 2 of 2015.

b. Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following that are measured at fair value:

- i) financial assets at fair value through profit or loss (FVTPL);
- ii) financial assets at fair value through other comprehensive income (FVTOCI); and
- iii) investment properties

c. Functional and presentation currency

These consolidated financial statements of the Group are presented in UAE Dirhams (AED), which is the Group’s functional and presentation currency, rounded to the nearest thousand.

d. Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2. Basis of preparation (continued)

d. Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. In particular, these estimates and judgments relate to;

- impairment losses on investments in Islamic financing (refer note 7 & 28);
- amortised cost investments (refer note 8 & 28);
- net realizable value of held for sale properties (refer note 10 & 28);
- valuation of unquoted investment securities and impairment losses on investment securities (refer note 8); and
- investment properties (refer note 9 & 28).

Information about estimates and judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the note 4(ii)(a); where establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL is detailed.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the mandatory adoption of new accounting standards stated in note 3(x). The significant accounting policies adopted in preparation of these consolidated financial statements are as follows:

a. Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

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

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

i) Subsidiaries

Subsidiaries' are entities controlled by the Bank. The Bank 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

ii) Loss of control

When the Bank loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest (NCI) and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. Summary of significant accounting policies (continued)

a. Basis of consolidation (continued)

iv) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the Islamic securitization of particular assets, or the execution of a specific financing transaction. Special purpose entities are included in the Group's consolidated financial statement where the substance of the relationship is that the Bank controls the special purpose entity.

b. Non-derivative financial instruments

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa.

i) Initial measurement

Financial assets and liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

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

ii) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

I. Classification of financial assets

Balances with central banks, murabaha and wakalah with financial institutions, investment in Islamic financing, investments in sukuk held to maturity and certain items in receivables and other assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition):

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

All other financial assets are subsequently measured at fair value.

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

ii. Financial assets (continued)

II. 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 profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are supporting 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 cash flows are realised.

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

III. Cash flow characteristics assessment

Assessment of whether contractual cash flows are "solely payments of principal and profit (SPPP)"

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic financing arrangement. Contractual cash flows are consistent with a basic financing arrangement if they represent cash flows that are solely payments of principal and profit on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' 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 financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit rate margin.

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

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

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

ii. Financial assets (continued)

III. Cash flow characteristics assessment (continued)

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

IV. Effective profit rate method

The effective profit rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the consolidated statement of profit or loss on an effective profit rate basis for financing and investing instruments measured subsequently at amortised cost.

V. Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates them as an investment that is not held for trading and are accordingly carried at fair value through other comprehensive income (FVTOCI).

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking.

Financial assets that do not meet the amortised cost criteria are measured at FVTPL or FVOCI. In addition, financial assets that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financial assets may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

Financial assets are subsequently measured at fair value, with any gains or losses arising in re-measurement recognised in the consolidated statement of profit or loss. All directly attributable costs are charged to consolidated statement of profit or loss.

Dividend income on investments in equity instruments at FVTPL or FVOCI is recognised in the consolidated statement of profit or loss when Group's right to receive is established.

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

ii. Financial assets (continued)

VI. Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on instrument by instrument basis) to designate equity investments under the classification of FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. A sukuk is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

Financial assets are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income.

Dividends on equity investments are recognised in the consolidated statement of profit or loss when Group's right to receive is established.

VII. Financial assets measured at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

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

Financial assets are subsequently measured at amortised cost using their effective yield less any impairment.

Subsequent to the initial recognition, the Group is required to reclassify investments from amortised cost to FVTPL or FVOCI, if the objective of the business model changes so that the amortised cost criteria is no longer met.

VIII. Foreign exchange gains and losses

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

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in consolidated statement of profit or loss; and
- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

ii. Financial assets (continued)

IX. Type of financial assets held by the Group

Following terminologies for financial assets, classified under each of the financial instrument classification mentioned above, have been used in preparation of these consolidated financial statements:

Murabaha is an agreement for sale of commodities purchased by the Group based on the promise of the customer to buy the commodities on a cost plus the agreed profit basis.

Istisna'a is a sale contract between two parties whereby the Group undertakes to construct, for its customer, a specific asset or property according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount.

Wakalah is an agency or a delegated authority where the muwakkil (principal) appoints the wakil (agent) to carry out a specific job on behalf of the muwakkil.

Musharaka is an agreement between the Group and its customer, whereby both parties contribute towards the capital of the Musharaka (the "Musharaka Capital"). The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement.

Sukuks are asset backed Shari'a compliant trust certificates.

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

Ijarah is classified as a finance lease, when the Group transfers substantially all the risks and rewards incident to an ownership of the Ijarah receivable to the lessee. Ijarah receivable represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide that the lessor undertakes to transfer the leased property to the lessee upon receiving the final rental payment or the agreed price. Ijarah receivables are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

X. Impairment of financial assets

The IFRS 9 expected credit loss model is forward-looking compared to the IAS 39 incurred loss approach. Expected credit losses reflect the present value of all cash shortfalls related to default events either:

- i. over the following twelve months, or
- ii. over the expected life of a financial instrument depending on credit migration from inception. Expected credit loss (ECL) should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable forecasts.

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Group has developed new methodologies and models taking into account the relative size, quality and complexity of the portfolios.

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

ii. Financial assets (continued)

X. Impairment of financial assets (continued)

IFRS 9 ECL Impairment model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity. This Stage 1 approach is different to the current approach which estimates a collective allowance to recognize losses that have been incurred but not reported on performing Islamic financing.

Stage 2 – When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on a lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – Financial assets that have objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

Assessment of significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e., risk of default) on a financial instrument has increased significantly since the initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- i. the remaining lifetime PD as at the reporting date; with
- ii. the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

At each reporting date, the assessment of a change in credit risk will be assessed for those considered individually significant. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to stage 2 from stage 3 or from stage 2 to stage 1, if the increase in credit risk since origination has reduced and is no longer deemed significant, subject to the guidelines as specified by the Central Bank of UAE (CBUAE).

Macroeconomic factors, forward looking information (FLI) and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. Based on advice from the Risk management department and external economic experts and consideration of a variety of external actual and forecast information, the Group has formulated a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios, which shall in turn be probability weighted to determine ECL.

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

ii. Financial assets (continued)

X. Impairment of financial assets (continued)

Expected life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options, extension and rollover options. For credit cards that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Experienced credit judgment

The Bank's ECL allowance methodology, requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Definition of default and write-off

Default definition followed by the Bank for the impairment assessment remains in line with the guidelines of IFRS 9 and CBUAE, without any recourse to the assumptions. Inputs and assumptions into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

Modified financial assets

The contractual terms of investment in Islamic financing 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 investment in Islamic financing whose terms have been modified may be derecognized and the renegotiated investment in Islamic financing recognized as a new financing at fair value.

If the expected modifications do not result in the 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.

XI. Derecognition of financial assets

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expires, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets 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 and the consideration received is recognised in the consolidated statement of profit or loss, except for equity instruments designated at fair value through OCI.

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. Gains and losses on sukuk recognised in OCI are reclassified to profit and loss upon derecognition.

3. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments

iii. Classification of financial liabilities

The Group has classified all its financial liabilities at amortised cost. These include customer deposits, due to banks, sukuk payable, other liabilities, except zakat payable.

iv. Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The difference between the carrying value of the original financial liability and the consideration paid is recognised in consolidated statement of profit or loss.

v. Fair value measurement principles

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

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

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 there is no quoted price in an active market, then the Group uses valuation technique that maximises the use of relevant observable inputs and minimise the use of unobservable inputs.

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

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

Investments in unlisted funds and securities are fair valued internally by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values these models are tested before they are used and are calibrated to ensure that outputs reflect actual data and comparative model prices.

vi. Offsetting

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

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

3. Summary of significant accounting policies (continued)

c. Investment properties

Properties held for rental or capital appreciation are classified as investment properties. Investment properties are initially stated at cost and subsequently measured at fair value, determined at least annually by an independent professional valuer. Any gain or loss arising from a change in fair value is recognised in the consolidated statement of profit or loss.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the period in which the property is derecognised.

Transfers to and from investment properties are made when and only when there is change in use, evidenced by either starting or ending of owner-occupation, commencement or cessation of an operating lease to another party or commencement or cessation of construction or a development plan.

d. Properties held-for-sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress.

Transfer to and from held-for-sale properties is in case of change in use.

e. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Except for freehold land, property and equipment are depreciated on a straight-line basis over their estimated useful lives, using annual rates of 5% to 33% depending on the type of asset involved.

f. Intangibles

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on intangible asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis to consolidated statement of profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is seven years.

g. Other assets

Other assets include profit and other receivables which are stated at amortised cost net of provision for impairment, if any.

h. Impairment of non-financial assets

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

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

3. Summary of significant accounting policies (continued)

i. Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

j. Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with the CBUAE (excluding statutory reserves), nostro balances with other banks and financial institutions, international murabaha and wakalah arrangements, due to banks and other highly liquid assets with original maturities of less than three months from the date of acquisition, and are used by the Group in the management of its short term commitments.

k. Other liabilities

These include financial liabilities and other payables. Financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective yield method.

Other payables are stated at cost and are recognised for amounts to be paid in the future for goods or services received, whether or not billed.

l. Acceptances

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

m. Provision

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

n. Zakat

Zakat is computed in accordance with the Bank's Articles of Association and is approved by the Bank's Fatwa and Shari'a Supervisory Board. Zakat is calculated at 2.577% (to account for the difference between the Gregorian and Lunar calendar) on the Bank's reserves, retained earnings and provision for staff end of service benefits at the year end and it is the Bank's shareholders responsibility to pay the Zakat on their respective share in the Bank's capital and the distributed cash dividends.

o. Financial guarantees and financial commitments

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

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

3. Summary of significant accounting policies (continued)

p. Revenue recognition

Murabaha

The profit on Murabaha is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on an effective yield basis.

Ijarah

Income from Ijarah receivable is recognised on an accrual basis on an effective yield basis.

Fees and commissions

Fees and commissions income relating to underwriting and financing activities is recognised as the related service is performed. Fees and commission income and expense that are integral to the effective profit rate on a financial asset or financial liability are included in the measurement of the effective profit rate.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking services	<p>The Group provides banking services to retail and corporate customers including trade finance, account management, foreign currency transactions, credit cards and servicing fees (e.g. documentation and processing fee).</p> <p>Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.</p> <p>Transaction-based fees for interchange, foreign currency transactions are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.</p>	<p>Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place. The premium received on trade finance activities is recognised in the consolidated statement of profit or loss on a straight-line basis over the life of the guarantees and letters of credit.</p>

3. Summary of significant accounting policies (continued)

p. Revenue recognition (continued)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Investment related activities	<p>The Group's investment segment provides various finance-related services, including finance administration and agency services, administration of a finance syndication, execution of client transactions with exchanges and securities underwriting.</p> <p>Fees for ongoing services are charged annually at the end of the calendar year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date.</p> <p>Transaction-based fees for administration of a finance syndication, execution of transactions, and securities underwriting are charged when the performance obligation has been fulfilled.</p>	<p>Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables.</p> <p>Revenue related to transactions is recognised at the point in time when the performance obligation has been fulfilled.</p>

Rental income

Rental income from investment properties is recognised in profit and loss on a straight-line basis over the term of the leases.

Dividend income

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

Income from subsidiaries

Income from subsidiaries includes revenue from provision of accommodation, food, beverages and brokerage commission relating to the services provided by the subsidiaries.

Revenue from provision of accommodation, food, beverages and other services is recognised on an accrual basis as the services are rendered.

Commissions are accounted for on the completion of the brokerage deal.

Revenue from sale of properties

Revenue from the sale of properties is recognised when the properties are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Cost of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of apartments is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

3. Summary of significant accounting policies (continued)

q. Provision for end-of-service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the reporting date in accordance with the UAE Labour Law. The liability for employees end of service benefits is recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period and is calculated annually using the projected unit credit method in accordance IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on 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 with.

r. Due to banks

Amounts due to banks are initially recognised at the fair value of the consideration received, and are subsequently measured at amortised cost using the effective profit method.

s. Customers' deposits

The Bank accepts customer savings and time deposits on a mudaraba and wakalah basis, whereas current and other similar in nature deposits are accepted on a Qard Hassan (profit free finance) basis.

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

Distribution to depositors for Mudaraba deposits are calculated in accordance to the Group's standard procedures and are approved by the Group's Sharia' Supervisory Board.

t. General impairment reserve

The general impairment reserve is maintained in accordance with the guidelines of the CBUAE as issued in March 2018. The general impairment reserve is calculated as a difference between 1.5% of total credit risk weighted assets and ECL (stage 1 and 2). If the general impairment allowance as per the CBUAE requirement is greater than ECL (stage 1 and 2), the difference is transferred to general impairment reserve as an appropriation from the retained earnings.

At each subsequent reporting date, the general impairment reserve is recomputed and any resultant difference is either released to retained earnings or transferred from retained earnings to arrive at 1.5% of credit risk weighted assets, together with general impairment reserve and ECL (stage 1 and 2). No general impairment reserve is required to be maintained in case ECL (stage 1 and 2) is greater than 1.5% of credit risk weighted assets.

u. Translation of foreign currencies

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective profit and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognised in consolidated statement of profit or loss, other than investments classified as FVOCI, where the exchange translation is recognised in other comprehensive income.

3. Summary of significant accounting policies (continued)

v. Earnings per share

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

w. Segment reporting

Income and expenses directly associated with each segment, as well as those that can be reasonably associated on a reasonable basis, are included in determining business segment performance. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Group has determined the Group's Management Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis.

x. Standards and interpretation adopted for accounting periods beginning on 1 January 2019

IFRS 16 - Leases

The Group has adopted 'IFRS 16 – Leases' with a date of transition of 1 January 2019, which resulted in changes in accounting policies. The Group did not early adopt any of the provisions of IFRS 16 in previous periods.

The Group has adopted IFRS 16 from 1 January 2019 on a modified retrospective basis, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of 'IAS 17 – Leases'. These liabilities are measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

The associated right-of-use assets for property leases were measured on a modified retrospective basis by recognizing the Right of Use equivalent to the present value of minimum lease payment on the date of initial recognition. Right-of use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The recognised right-of-use assets relate to the properties.

As at 31 December 2018, the Group had operating lease commitments of AED 56.2 million including short term leases. The Group calculated present value of minimum lease obligation amounting to AED 37.6 million as on 1 January 2019. These minimum lease obligations were adjusted by prepayments amounted to AED 15.8 million as on 1 January 2019 and correspondingly, the Group recognised right of use assets of AED 53.4 on the same date. Short term leases to be recognised on a straight-line basis as an expense amounted to AED 1.9 million on 1 January 2019.

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

- Property and equipment – increased by AED 53.4 million.
- Other liabilities – increased by AED 37.6 million.
- Other assets – decreased by AED 15.8 million.

There was no impact on retained earnings as on 1 January 2019.

3. Summary of significant accounting policies (continued)

x. Standards and interpretation adopted for accounting periods beginning on 1 January 2019 (continued)

IFRS 16 – Leases (continued)

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and 'IFRIC 4 – Determining whether an Arrangement contains a Lease'.

The Group's leasing activities and how these are accounted for

The Group leases various offices and properties for the purpose of its operations of branches. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until the 2018 financial year, leases of properties were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

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

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

3. Summary of significant accounting policies (continued)

y. Standards and interpretation issued and not yet effective for accounting periods beginning after 1 January 2019

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.

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to References to Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts.

4. Risk management

i. Risk management framework

The Board of Directors ('the Board') is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within the set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility, the Board is assisted by Board Committees and Management Committees. The briefing about the role and function of each committee is as follows:

Executive Committee (EC)

EC acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four members.

Audit Committee (AC)

The AC consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information; and
- Reviewing reports on the internal controls.
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

Risk Management Committee (RMC)

The RMC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Group and the control processes with respect to such risks;
- Reviewing the risk profile of the Group;
- Managing the Risk Management Compliance and control activities of the Group;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the Group is exposed.

4. Risk management (continued)

i. Risk management framework (continued)

Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing and administrative processes. In addition, the MC is also responsible to liaise with all other units/divisions across the Group.

Investment Committee (IC)

The purpose of the IC is to review the quality of the Group's Investment portfolio on behalf of the Board of Directors, trends affecting the portfolio, the administration of investment related policies, as well as the approval of Investment proposals, including Sukuks and Syndicate Finance within the approval limit set by the BOD.

IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritization and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks;
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans.

Asset and Liability Committee (ALCO)

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors.

The roles of ALCO include the following:

Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:

- Liquidity risk – being the risk from the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
- Market risk – being the following risks;
 - The risk to earnings from adverse movements in profit rates, exchange rates and market volatility; and
 - The risk from changes in the value of portfolio of financial instruments;
- Statement of financial position risk - being the following risks;
 - The risk to earnings from changes in profit rates and market volatility in retail and wholesale rates;
 - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in profit rates and market volatility; and
 - The risk from material changes in global and domestic economic conditions generally.

4. Risk management (continued)

i. Risk management framework (continued)

Credit Committee (CC)

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the finances portfolio and the sufficiency of provisions thereof.

Human Resource Committee (HRC)

HRC manages the resources, performance and hiring of individuals required by the Group on a time to time basis.

Risk management group (RMG)

In order to manage the credit, market, operational and IT security risks an RMG is in place. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

Compliance

The overall role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues including “KYC” and “AML”, and plans for their resolution;
- contribute to a “no surprise” compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

Internal audit

The role of the internal audit department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures.

It is led by the head of internal audit who reports to the AC of the Board of Directors, with administrative reporting to the Chief Executive Officer (CEO).

To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

4. Risk management (continued)

i. Risk management framework (continued)

Internal control

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's management and external regulatory bodies. The functions and responsibilities of the internal control department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

ii. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

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

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 financing receivables, ijarah receivable, balances with banks and financial institutions, international murabaha and wakalah with financial institutions, other assets (except prepayments and assets available for sale) and investments in debt instruments. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposures into different sectors.

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

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

Regular audits of business units and Group credit processes are undertaken by the internal audit division.

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

I. Concentration

Concentration risk arises when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Concentration of credit risk by industrial sector for investment in Islamic financing are presented in note 7(b). Concentration of credit risk by geographical distribution is set out in note 29.

II. Maximum exposure to credit risk

The table below is the maximum exposure to credit risk for the Group and is shown gross, before any mitigation of collaterals.

	Gross maximum exposure	
	2019	2018
Cash and balances with banks and financial institutions	226,949	285,823
Murabaha and wakalah with financial institutions	4,498,456	5,268,935
Investment in Islamic financing	26,261,270	25,580,511
Investment securities measured at amortised cost	3,682,706	3,854,270
Investment securities measured at FVTOCI	936,472	1,191,463
Other assets	728,076	748,777
	36,333,929	36,929,779
Contingent liabilities	445,095	748,112
Total	36,779,024	37,677,891

Financial assets classified as fair value through profit and loss and equity instruments classified as fair value through other comprehensive income are not subject to any impairment under IFRS 9. Refer note 8 for details.

4. Risk management (continued)**ii. Financial risk management (continued)****a. Credit risk (continued)****III. Credit quality**

The table below shows the gross maximum exposure to credit risk for the Group before any mitigation of collateral.

	31 December 2019			Total
	Stage 1 12 month	ECL Staging		
		Stage 2 Lifetime	Stage 3 Lifetime	
<i>Cash and balances with banks and financial institutions</i>	226,851	98	-	226,949
Loss allowance	-	-	-	-
Carrying amount	226,851	98	-	226,949
<i>Murabaha and wakalah with financial institutions</i>	4,498,456	-	-	4,498,456
Loss allowance	(347)	-	-	(347)
Carrying amount	4,498,109			4,498,109
<i>Investments in Islamic financing</i>	23,555,984	1,354,745	1,350,541	26,261,270
Loss allowance	(194,801)	(113,428)	(810,149)	(1,118,378)
Carrying amount	23,361,183	1,241,317	540,392	25,142,892
<i>Investment securities measured at amortised cost</i>	3,620,369	-	62,337	3,682,706
Loss allowance	(3,174)	-	(53,065)	(56,239)
Carrying amount	3,617,195	-	9,272	3,626,467
<i>Investment securities measured at FVTOCI (excluding equity investments)</i>	936,472	-	-	936,472
Loss allowance	(928)	-	-	(928)
Carrying amount	935,544	-	-	935,544
<i>Other assets (excluding non-financial assets)</i>	699,147	380	28,549	728,076
Loss allowance	(8,459)	(3)	(28,549)	(37,011)
Carrying amount	690,688	377	-	691,065
Net credit risk exposures relating to on-balance sheet assets	33,329,570	1,241,792	549,664	35,121,026
<i>Letter of credit and guarantee</i>	441,563	3,501	31	445,095
Loss allowance	(2,089)	(53)	-	(2,142)
Net credit risk exposures relating to off-balance sheet assets	439,474	3,448	31	442,953
	33,769,044	1,245,240	549,695	35,563,979
Gross credit risk exposure	33,978,842	1,358,724	1,441,458	36,799,024
Total ECL	(209,798)	(113,484)	(891,763)	(1,215,045)
	33,769,044	1,245,240	549,695	35,563,979

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

III. Credit quality (continued)

	31 December 2018			Total
	Stage 1 12 month	ECL Staging		
		Stage 2 Lifetime	Stage 3 Lifetime	
<i>Cash and balances with banks and financial institutions</i>	285,812	11	-	285,823
Loss allowance	(24)	-	-	(24)
Carrying amount	285,788	11	-	285,799
<i>Murabaha and wakalah with financial institutions</i>	5,268,935	-	-	5,268,935
Loss allowance	(1,707)	-	-	(1,707)
Carrying amount	5,267,228	-	-	5,267,228
<i>Investments in Islamic financing</i>	22,639,112	1,540,472	1,400,927	25,580,511
Loss allowance	(168,261)	(191,279)	(1,097,211)	(1,456,751)
Carrying amount	22,470,851	1,349,193	303,716	24,123,760
<i>Investment securities measured at amortised cost</i>	3,828,663	-	25,607	3,854,270
Loss allowance	(6,244)	-	(24,327)	(30,571)
Carrying amount	3,822,419	-	1,280	3,823,699
<i>Investment securities measured at FVTOCI (excluding equity investments)</i>	1,191,463	-	-	1,191,463
Loss allowance	(958)	-	-	(958)
Carrying amount	1,190,505	-	-	1,190,505
<i>Other assets (excluding non-financial assets)</i>	712,351	1,274	35,152	748,777
Loss allowance	(6,948)	(7)	(35,152)	(42,107)
Carrying amount	705,403	1,267	-	706,670
Net credit risk exposures relating to on-balance sheet assets	33,742,194	1,350,471	304,996	35,397,661
<i>Letter of credit and guarantee</i>	740,207	7,674	231	748,112
Loss allowance	(2,892)	(393)	-	(3,285)
Net credit risk exposures relating to off-balance sheet assets	737,315	7,281	231	744,827
	34,479,509	1,357,752	305,227	36,142,488
Gross credit risk exposure	34,666,543	1,549,431	1,461,917	37,677,891
Total ECL	(187,034)	(191,679)	(1,156,690)	(1,535,403)
	34,479,509	1,357,752	305,227	36,142,488

4. Risk management (continued)**ii. Financial risk management (continued)****a. Credit risk (continued)****IV. Credit risk exposure of the Group's financial assets for each internal risk rating**

<i>Investment in Islamic financing</i>	2019			
	Stage 1	Stage 2	Stage 3	Total
Investment grade	10,925,850	174,877	-	11,100,727
Non-investment grade	12,630,134	1,010,308	-	13,640,442
Watch-list	-	169,560	-	169,560
Credit impaired	-	-	1,350,541	1,350,541
Grand Total	23,555,984	1,354,745	1,350,541	26,261,270

<i>Investment securities</i>				
	Stage 1	Stage 2	Stage 3	Total
Investment grade	4,373,191	-	-	4,373,191
Non-investment grade	183,650	-	-	183,650
Credit impaired	-	-	62,337	62,337
Grand Total	4,556,841	-	62,337	4,619,178

<i>Investment in Islamic financing</i>	2018			
	Stage 1	Stage 2	Stage 3	Total
Investment grade	11,269,846	112,765	-	11,382,611
Non-investment grade	11,369,266	1,174,099	-	12,543,365
Watch-list	-	253,608	-	253,608
Credit impaired	-	-	1,400,927	1,400,927
Grand Total	22,639,112	1,540,472	1,400,927	25,580,511

<i>Investment securities</i>				
	Stage 1	Stage 2	Stage 3	Total
Investment grade	4,766,843	-	-	4,766,843
Non-investment grade	253,283	-	-	253,283
Credit impaired	-	-	25,607	25,607
Grand Total	5,020,126	-	25,607	5,045,733

V. Significant increase in credit risk ("SICR")

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 Group considers a financial asset to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria***Corporate financing:***

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

- financing facilities restructured in the last 12 months;
- financing facilities that are past due for 30 days and above but less than 90 days;
- Actual or expected change in external ratings and / or internal ratings.

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

V. Significant increase in credit risk (“SICR”) (continued)

Quantitative criteria (continued)

Retail:

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

- Adverse findings for an account/ borrower as per credit bureau data;
- financing rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Treasury

- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the investment’s expected performance & behavior of borrower (collateral value, payment holiday, payment to income ratio etc.).

Qualitative criteria:

Feedback from the early warning signal framework of the Group (along with factors such as adverse changes in business, financial or economic conditions).

Backstop:

A backstop is applied and the financial asset is considered to have experienced a SICR if the borrower is more than 30 days past due on its contractual payments. The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2019.

Credit grades

The Group uses internal credit risk grading that reflects its assessment of the probability of default of an individual customer.

The Group’s rating method comprises 19 ratings levels for instruments not in default (1 to 7-) and three default classes (8-10). Investment grade is considered to be financial assets falling within credit grades 1 to 4-. Non-investment grade is considered to be financial assets falling within credit grades 5+ to 7, whereas, financial assets credit graded 7- are considered to be watch-list. The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating method is subject to annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

The Group allocates each 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 customer. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The table below provides an indicative mapping of how the Group’s internal credit risk grades relate to PD and, for the corporate customers portfolio, to external credit ratings of Moody’s, Fitch and S & P rating agencies.

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

V. Significant increase in credit risk (“SICR”) (continued)

Credit grades (continued)

SIB Grade Scale & Classification		S & P Rating Benchmark	Fitch Rating Benchmark	Moody's Rating Benchmark	ERR Grade	PD %	Grade Description
1	Excellent	AAA	AAA	Aaa	1	0.008	Exceptional business credit, judged to be of the highest quality, with minimal credit risk. Superior asset quality and financial capacity; which includes strong liquidity and cash generation, excellent and proven management; market leader.
2	Strong	AA+	AA+	Aa 1	2+	0.013	Very good business along with very good asset quality, consistently strong liquidity and financing capacity; highly regarded in the industry with strong market share.
		AA	AA	Aa 2	2	0.019	
		AA-	AA-	Aa 3	2-	0.029	
3	Good	A+	A+	A1	3+	0.044	Good business credit considered upper-medium grade, subject to low credit risk; good asset quality, strong liquidity and financing capacity. Company is above average size and holds a good position in the industry.
		A	A	A2	3	0.067	
		A-	A-	A3	3-	0.1	
4	Satisfactory	BBB+	BBB+	Baa 1	4+	0.155	Acceptable business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher than average risk characteristics. Customer has demonstrated adequate to good performance.
		BBB	BBB+	Baa 2	4	0.235	
		BBB-	BBB-	Baa 3	4-	0.355	
5	Adequate	BB+	BB+	Ba 1	5+	0.565	Average to below average business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher risk characteristics. Customer has demonstrated adequate performance.
		BB	BB	Ba 2	5	0.85	
		BB-	BB-	Ba 3	5-	1.25	
6	Marginal	B+	B+	B 1	6+	1.9	Below average business credit and subject to high credit risk. Customer is likely a lower-tier competitor in its industry. Acceptable but requiring close monitoring and support of strong risk mitigants.
		B	B	B 2	6	2.9	
		B-	B-	B 3	6-	4.25	
		CCC+	CCC+	Caa 1	7+	6.5	
		CCC	CCC	Caa 2	7	10	
7	Vulnerable	CCC-	CCC-	Caa 3	7-	13.5	Weak business credit: Judged to be poor standing and subject to very high credit risk. Constitutes undue and unwarranted credit risk. Currently in performing status and not to the point of justifying a Substandard classification.
8	Substandard	CC	CC	Ca	8	100	In Default (Substandard): Unacceptable business credit with normal repayment in jeopardy.
9	Doubtful	C	C	C	9	100	In Default (Doubtful): Full repayment questionable. Serious problems to the point where partial loss of principal is likely.
10	Loss	D	D	-	10	100	In Default (Loss): Expected loss. Such an asset may have recovery but not to the point of avoiding loss classification. Possible stage 3 provision and write-off.

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

V. Significant increase in credit risk (“SICR”) (continued)

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and customer as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

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 customer, and the geographical region. What is considered significant differs for various types of financing, in particular between corporate and retail portfolios. The increase in PD is dependent upon multiple factors including customer industry, customer initial rating, maturity of financing, repayment frequency, product type, etc.

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 its expert judgment and relevant historical experiences.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

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

- the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising collateral (if any is held);
- it is becoming probable that the customer will restructure the asset as a result of bankruptcy due to the customer’s inability to pay its credit obligations.

In assessing whether a customer is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

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

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

VI. Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The methodology of estimating PDs is discussed above under the heading '*Generating the term structure of PD*'.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financings secured by retail and commercial property, CBUAE haircuts are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective price rate as the discounting factor.

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 financing 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 computing credit conversion factors through modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any customer'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 a finance or terminate a finance commitment or guarantee.

However, for retail and credit card facilities that include both a financing 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. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. 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.

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;
- credit risk grading;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the customer.

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. Reconciliations from the opening to the closing balance of the loss allowance by class of financial asset is provided in note 7.

4. Risk management (continued)**ii. Financial risk management (continued)****a. Credit risk (continued)****VII. 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, optimistic and downside scenario. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting.

Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Group's senior management.

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 key macroeconomic drivers for credit risk for the corporate portfolio are oil price and equity price index, whereas, for the retail portfolio are non-oil UAE GDP, oil price and UAE CPI index. The most significant period-end assumptions used for ECL estimate as at 31 December 2019 are set out below. The scenarios base case, upside and downside has been used keeping in view the following principal macroeconomic variables:

Macroeconomic variables	Scenario	2020	2021	2022	2023	2024
Oil Price (USD per barrel)	Base case	59.34	61.47	62.29	63.12	64.5
	Upside	74.41	77.26	76.94	76.35	76.6
	Downside	35.95	40.31	44.27	49.57	53.43
Stock market volatility (%Delta of points)	Base case	11%	5%	7%	4%	6%
	Upside	33%	23%	21%	5%	1%
	Downside	-17%	-12%	1%	1%	6%
UAE non-oil GDP (%Delta of GDP)	Base case	3%	4%	3%	3%	3%
	Upside	6%	6%	3%	2%	2%
	Downside	-4%	0%	5%	5%	5%
UAE CPI Index	Base case	1%	2%	2%	3%	3%
	Upside	3%	4%	3%	3%	3%
	Downside	-2%	1%	2%	3%	3%

Sensitivity analysis

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

Macroeconomic variable	Down	Up
Oil Price (USD per barrel)	-5%	5%
Equity (Share Price Index: ADX General Index)	-5%	5%
UAE non-oil GDP	-1%	1%
UAE CPI Index	-1%	1%

Change in ECL due to change in macroeconomic variables	Downside	Upside
Stage 1	13.5%	(10.5%)
Stage 2	3.4%	(3.1%)

There has been no significant sensitivity impact on stage 3 ECL.

4. Risk management (continued)**ii. Financial risk management (continued)****a. Credit risk (continued)****VIII. Financial assets with renegotiated terms**

For the purposes of disclosures in these consolidated financial statements, 'Investment in Islamic financing with renegotiated terms' are defined as investment in Islamic financing that have been restructured due to a deterioration in the customer's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favorable for the customer than the Group had provided initially and that it would not otherwise consider.

The Group renegotiates investment in Islamic financing 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, forbearance is granted on a selective basis if the customer is currently in default on its liability or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

IX. Collateral and securities

The Group holds collateral and securities against investment in Islamic financing in the form of cash margins, personal guarantees, and mortgages over properties or other securities over assets. Estimates of credit risk mitigation relating to investment in Islamic financing are based on the value of collateral assessed at the time of financing, and are subsequently monitored on a periodic basis. A quantification of the extent to which collateral and other credit enhancements mitigate credit risk is shown below:

	2019			Total
	Stage 1	Stage 2	Stage 3	
Mortgage of properties	10,170,985	973,197	473,158	11,617,340
Cash lien and others	69,280	699	3,154	73,133
Carrying amount	10,240,265	973,896	476,312	11,690,473
	2018			
	Stage 1	Stage 2	Stage 3	Total
Mortgage of properties	9,556,031	1,055,016	344,649	10,955,696
Cash lien and others	114,638	19,685	742	135,065
Carrying amount	9,670,669	1,074,701	345,391	11,090,761

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 a counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group risk.

4. Risk management (continued)**ii. Financial risk management (continued)****b. Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

The Group's approach for managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

The Group's board of directors set the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. Treasury department manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Group and operating subsidiaries. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The Group's contractual maturities of financial instruments are summarised in the table below based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained.

31 December 2019	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Assets					
Cash and balances with banks and financial institutions	2,450,754	-	-	-	2,450,754
Murabaha and wakalah with financial institutions	6,885,368	910,190	152,551	-	7,948,109
Investment in Islamic financing	2,017,042	3,806,195	10,554,959	8,764,696	25,142,892
Investment securities	261,205	256,338	3,703,833	1,605,863	5,827,239
Other assets	567,160	123,905	-	-	691,065
	12,181,529	5,096,628	14,411,343	10,370,559	42,060,059
Liabilities					
Customers' deposits	19,038,212	8,274,845	-	-	27,313,057
Due to banks	2,360,035	941,002	1,914,622	-	5,215,659
Sukuk payable	1,847,455	-	4,022,908	-	5,870,363
Other liabilities	665,033	118,834	-	-	783,867
	23,910,735	9,334,681	5,937,530	-	39,182,946
Contingent liabilities	137,306	389,857	1,693,351	1,465	2,221,979

4. Risk management (continued)**ii. Financial risk management (continued)****b. Liquidity risk (continued)***Exposure to liquidity risk (continued)*

31 December 2018	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Assets					
Cash and balances with banks and financial institutions	2,440,868	-	-	-	2,440,868
Murabaha and wakalah with financial institutions	6,464,261	385,665	367,300	-	7,217,226
Investment in Islamic financing	1,630,349	3,570,112	11,870,906	7,052,393	24,123,760
Investment securities	344,134	599,261	3,639,495	1,637,562	6,220,452
Other assets	706,670	-	-	-	706,670
	11,586,282	4,555,038	15,877,701	8,689,955	40,708,976
Liabilities					
Customers' deposits	19,798,665	6,639,610	-	-	26,438,275
Due to banks	3,066,086	1,686,230	1,796,465	-	6,548,781
Sukuk payable	-	-	6,059,262	-	6,059,262
Other liabilities	618,557	123,290	-	-	741,847
	23,483,308	8,449,130	7,855,727	-	39,788,165
Contingent liabilities	197,136	524,419	1,394,075	-	2,115,630

Cash and balances with banks and financial institutions include mandatory deposits with the CBUAE (refer note 27). The Group's expected cash flows may vary from this analysis, for example, demand deposits from customers are expected to maintain a stable or increasing balance.

The residual maturity of the Group's financial liabilities is not significantly different from its contractual maturity, since, the Group follows Shari'a principles and contractual returns which is based on a profit or loss sharing basis and are not guaranteed.

c. Market risks

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

Profit margin risk

The Group is not significantly exposed to risk in terms of re-pricing its customer deposits, since, in accordance with Islamic Sharia, the Group does not provide a contractual rate of return to its investment account holders. The return payable to depositors and investment account holders is based on the principal of the mudaraba, by which the depositors and investment account holders agree to share the profits made by the Group's mudaraba asset pool over a given period.

Profit rate risk

The principal risk to which non-trading portfolios are exposed, is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market profit rates. Profit rate risk primarily comprises of market and valuation risk, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the ALCO.

4. Risk management (continued)**ii. Financial risk management (continued)****c. Market risk (continued)*****Profit rate risk (continued)***

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in profit rates on the net income for one year, based on the non-trading financial assets and financial liabilities

	Increase / decrease in basis point	Increase / decrease in net income	
		2019	2018
Net profit rate sensitivity on financial assets and liabilities	50 basis points	6,847	25,010

Currency risk

Currency risk is the risk that the Group's income or value of a financial instrument, other than functional currency denominated financial instruments, will fluctuate because of changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Group's open position and current and expected exchange rate movements. The Group does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The Board of Directors has set limits on positions by currency. Positions are closely monitored by ALCO to ensure positions are maintained within established limits.

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency net position

US dollar	(2,162,185)	(1,654,089)
UK Sterling	45,162	45,262
Euro	(1,231)	(1,413)
Bahrani Dinar	7,675	7,402
Saudi Riyals	(208,899)	(66,992)
Kuwaiti Dinar	1,130	717

The exchange rate of AED against US Dollar is pegged since November 1980 and therefore, the Group's exposure to currency risk is limited to that extent.

Equity price risk

Equity price risk arises from the change in fair value of equity instruments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The table summarises the impact of a change in equity prices by $\pm 10\%$ on statement of profit or loss and other comprehensive income of the Group.

	2019		2018	
	Effect on profit or loss	Effect on other comprehensive income	Effect on profit or loss	Effect on other comprehensive income
Financial assets at fair value through profit or loss	4,062	-	4,238	-
Financial assets at fair value through other comprehensive income	-	96,783	-	116,387

4. Risk management (continued)

ii. Financial risk management (continued)

d. Operational risks

Operational risk is the risk of a direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk Management Committee identify and manage operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance. In all cases, the Group's operational risk policies requires compliance with all applicable legal and regulatory requirements.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

e. Capital management

Regulatory capital

The Group's lead regulator, the CBUAE, sets and monitors regulatory capital requirements. The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CBUAE.

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

The Group's regulatory capital adequacy ratio is set by the CBUAE. The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year. The Group has adopted a standardised approach for Credit risk and Market risk and a Basic Indicator approach for Operational risk as a starting point and is working towards migrating to the foundation internal rating based (IRB) and advanced IRB in accordance with the time line set by the CBUAE.

- Tier 1 capital, which includes ordinary share capital, legal and statutory reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as FVTOCI and collective impairment provision.

The following limits have been applied for Tier 2 capital:

- Total tier 2 capital shall not exceed 67% of tier 1 capital
- Subordinated liabilities shall not exceed 50% of total tier 1 capital
- Collective impairment provision shall not exceed 1.25% of risk weighted assets.

4. Risk management (continued)

ii. Financial risk management (continued)

e. Capital management (continued)

The table below summarises the composition of regulatory capital of the Group:

	Basel III	
	2019	2018
Capital base		
Common equity tier 1	5,244,021	5,063,594
Additional tier 1 capital	1,836,500	-
Total tier 1 capital base	7,080,521	5,063,594
Total tier 2 capital base	380,085	371,192
Total capital base	7,460,606	5,434,786
Risk weighted assets		
Credit risk	30,406,780	29,695,340
Market risk	85,650	145,334
Operational risk	2,238,802	2,202,861
Risk weighted assets	32,731,232	32,043,535
Capital ratios		
Common equity tier 1 ratio	16.02%	15.80%
Tier 1 capital ratio	21.63%	15.80%
Capital adequacy ratio	22.79%	16.96%

Asset classes	2019				
	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion	Risk weighted assets
Claims on sovereigns	13,713,257	13,713,257	-	13,713,257	1,458,155
Claims on non-commercial public sector	363,154	363,154	-	363,154	3,673
Claims on banks	6,274,236	6,274,236	30,000	6,274,139	1,901,385
Claims on corporate and GRE	11,727,595	11,727,595	85,421	10,745,982	10,552,007
Claims included in the regulatory retail portfolio	8,869,695	8,869,666	252,326	8,854,494	7,996,968
Claims secured by residential property	1,429,901	1,429,890	5,601	1,425,548	1,259,119
Claims secured by commercial real estate	17,000	17,000	-	17,000	17,000
Past due financing	1,649,274	770,834	3,124	753,963	1,002,163
Higher-risk categories	6,886	6,886	-	6,886	10,328
Other assets	5,843,464	5,814,915	-	5,814,915	6,205,981
Total claims	49,894,462	48,987,433	376,472	47,969,338	30,406,780

4. Risk management (continued)**ii. Financial risk management (continued)****e. Capital management (continued)**

Asset classes	2018				
	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion	Risk weighted assets
Claims on sovereigns	10,060,574	10,060,574	-	10,060,574	861,786
Claims on non-commercial public sector	1,729,211	1,729,211	-	1,725,179	-
Claims on banks	7,504,847	7,504,847	-	7,504,006	2,599,531
Claims on corporate and GRE	11,613,311	11,588,965	(40,938)	10,666,087	10,513,519
Claims included in the regulatory retail portfolio	7,977,118	7,977,065	(81,709)	7,967,092	7,264,673
Claims secured by residential property	1,231,593	1,231,593	(121)	1,231,593	951,347
Claims secured by commercial real estate	112,343	112,343	-	112,343	112,343
Past due financing	1,585,515	457,433	(740)	449,837	559,173
Higher-risk categories	10,565	10,565	-	10,565	15,847
Other assets	6,562,233	6,527,080	-	6,519,909	6,817,121
Total claims	48,387,310	47,199,676	(123,508)	46,247,185	29,695,340

Risk weights for market risk

Capital requirement for market risk is calculated using the standardised approach. The capital requirement for market risk is analysed into the capital requirement for profit rate risk, equity risk and foreign exchange risk.

A summary of the capital requirement for market risk under the standardised approach of Basel III is set out below:

	2019	2018
Profit rate risk	2,451	-
Equity position risk	-	8,899
Foreign currency risk	6,105	6,361
	8,556	15,260

Risk weight for operational risk

The capital requirement for operational risk is calculated using the basic indicator approach. The total capital requirement is calculated as 15% of the last three years average income which amounts to AED 235.5 (2018: AED 231.3 million).

5. Cash and balances with banks and financial institutions

Cash		533,859	463,460
Statutory deposit with the CBUAE	5.1	1,689,263	1,689,711
Due from banks	5.2	227,632	287,697
		2,450,754	2,440,868

5.1 Statutory deposit with the CBUAE is non-profit bearing and not available to fund day-to-day operations of the Bank.

5.2 Due from banks includes a current account balance with the CBUAE amounting AED 0.7 million (2018: AED 1.9 million).

6. Murabaha and wakalah with financial institutions

	<u>2019</u>	<u>2018</u>
Murabaha	1,267,517	610,908
Wakalah arrangements	6.1 <u>6,680,592</u>	<u>6,606,318</u>
	<u>7,948,109</u>	<u>7,217,226</u>

6.1 Wakalah arrangements with financial institutions includes Islamic certificate of deposits with CBUAE amounting AED 3.5 billion (2018: AED 1.95 billion).

7. Investments in Islamic financing

Investments in Islamic financing are secured by acceptable forms of collateral to mitigate the related credit risk, as disclosed in note 4(a). Investments in Islamic financing comprise the following:

a) By product

Vehicle murabaha	246,861	286,136
Goods murabaha	7,248,656	6,483,636
Real estate murabaha	54,203	112,270
Other murabaha receivable	439,866	404,247
Syndicate murabaha	1,484,639	1,230,249
Gross murabaha financing	<u>9,474,225</u>	<u>8,516,538</u>
Less: deferred profit	(820,580)	(667,904)
Net murabaha financing	<u>8,653,645</u>	<u>7,848,634</u>
Ijara financing	14,658,166	15,337,400
Qard hasan	267,898	637,112
Credit card receivables	81,202	72,196
Istisna'a	2,600,359	1,685,169
Total investments in Islamic financing	<u>26,261,270</u>	<u>25,580,511</u>
Less: Loss allowance for investments in Islamic financing	7.1 <u>(1,118,378)</u>	<u>(1,456,751)</u>
	<u>25,142,892</u>	<u>24,123,760</u>

b) By Sector

Government departments and authorities	7,263,091	7,515,432
Construction and contracting	785,486	669,994
Manufacturing	787,450	791,962
Transportation	1,599,121	1,311,576
Real estate	6,810,033	5,739,167
Retail businesses	920,717	968,095
Trading	1,557,034	1,143,629
Financial institutions	175,740	160,469
Services and others	1,142,987	740,830
Individual	2,952,152	3,220,939
Consumer home finance	1,433,029	1,881,721
High net worth individuals	1,655,010	2,104,601
Deferred profit	(820,580)	(667,904)
Less: Loss allowance for investments in Islamic financing	<u>(1,118,378)</u>	<u>(1,456,751)</u>
	<u>25,142,892</u>	<u>24,123,760</u>

7. Investments in Islamic financing (continued)

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

	2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	168,261	191,279	1,097,211	1,456,751
Transfer to Stage 1	69,506	(69,329)	(177)	-
Transfer to Stage 2	(8,510)	8,510	-	-
Transfer to Stage 3	(12,566)	(29,033)	41,599	-
Net re-measurement of loss allowance	(21,890)	12,001	88,189	78,300
Recovery	-	-	(5,953)	(5,953)
Write-offs	-	-	(410,720)	(410,720)
Balance at 31 December	194,801	113,428	810,149	1,118,378
	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	-	-	-	1,139,881
Re-measurement under IFRS 9	-	-	-	283,943
	165,330	358,630	899,864	1,423,824
Transfer to Stage 1	2,250	(2,250)	-	-
Transfer to Stage 2	(8,060)	8,060	-	-
Transfer to Stage 3	(1,951)	(140,005)	141,956	-
Net re-measurement of loss allowance	10,692	(33,156)	110,118	87,654
Recovery	-	-	(41,680)	(41,680)
Write-offs	-	-	(13,047)	(13,047)
Balance at 31 December	168,261	191,279	1,097,211	1,456,751

8. Investment securities**Investment securities – by category**

	<u>2019</u>	<u>2018</u>
<i>Financial assets at fair value through profit or loss</i>		
- Equity and Funds	40,624	42,377
- Sukuks	256,778	-
	297,402	42,377
<i>Financial assets at fair value through other comprehensive income</i>		
- Equity and Funds	967,826	1,163,871
- Sukuks	936,472	1,191,463
	1,904,298	2,355,334
Less: Loss allowance on financial assets measured at FVTOCI	(928)	(958)
	1,903,370	2,354,376
<i>Financial assets measured at amortised cost</i>	3,682,706	3,854,270
Less: Loss allowance on financial assets measured at amortised cost	(56,239)	(30,571)
	3,626,467	3,823,699
	5,827,239	6,220,452

8.1 During the year ended 31 December 2019, an investment in sukuk measured at amortised cost amounting to AED 36 million was downgraded to stage 3 under the ECL model and an impairment provision of AED 27 million was recognised against this investment.

Investments securities – by quoted / unquoted

<i>Financial assets at fair value through profit or loss</i>		
- Quoted	266,129	5,563
- Unquoted	31,273	36,814
	297,402	42,377
<i>Financial assets at fair value through other comprehensive income</i>		
- Quoted	1,679,951	2,123,676
- Unquoted	224,347	231,658
Less: Loss allowance on financial assets measured at FVTOCI	(928)	(958)
	1,903,370	2,354,376
<i>Financial assets at amortised cost</i>		
- Quoted	3,160,569	3,001,955
- Unquoted	522,137	852,315
Less: Loss allowance on financial assets measured at amortised cost (note 8.1)	(56,239)	(30,571)
	3,626,467	3,823,699
	5,827,239	6,220,452

8.2 Sukuk held at amortised cost include AED 3,271 million (2018: AED 3,231 million) pledged against a collateralized commodity murabaha arrangement (refer note 14.1).

9. Investment properties

	<u>2019</u>	<u>2018</u>
Balance at the beginning of the year	2,318,129	2,167,763
Additions	304,780	248,046
Transfer from properties held for sale	83,144	-
Disposals	(8,744)	(87,484)
Revaluation gain / (loss)	2,650	(10,196)
Balance at the end of the year	<u>2,699,959</u>	<u>2,318,129</u>

The carrying amount of the investment properties is the fair value of the properties as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and is reviewed by the Board of Directors on an annual basis. Fair values were determined based on an open market value basis. Significant assumptions made by the valuer are mentioned in note 28.

10. Properties held for sale

Balance at the beginning of the year	658,460	568,078
Additions	104,014	114,501
Transfer to investment properties	(83,144)	-
Disposals	(97,443)	(12,218)
Impairment loss	(2,409)	(11,901)
Balance at the end of the year	<u>579,478</u>	<u>658,460</u>

11. Other assets

Prepaid expenses and other advances	50,462	65,843
Profit receivable	280,917	272,839
Sundry debtors	229,264	266,356
Assets available for sale - murabaha assets	78,424	138,677
Others	115,187	111,656
Reimbursements under acceptances	102,708	97,926
Less: loss allowance under IFRS 9 on other assets	(37,011)	(42,107)
Less: loss allowance under IFRS 9 on LC's and LG's	(2,142)	(3,285)
	<u>817,809</u>	<u>907,905</u>

12. Property and equipment

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital - work in progress	Total
Cost						
As at 1 January 2019	886,350	133,890	109,858	6,122	37,064	1,173,284
Additions	630	1,541	2,452	426	34,355	39,404
Disposals	(4,963)	(2,082)	(14,884)	(778)	-	(22,707)
Capitalized	3,718	2,889	5,881	-	(12,488)	-
Right of use assets	74,225	-	-	-	-	74,225
As at 31 December 2019	959,960	136,238	103,307	5,770	58,931	1,264,206
Accumulated depreciation						
As at 1 January 2019	144,607	114,513	51,050	4,427	-	314,597
Charge for the year	25,493	7,436	13,780	766	-	47,475
Disposals	(4,963)	(2,082)	(14,424)	(618)	-	(22,087)
As at 31 December 2019	165,137	119,867	50,406	4,575	-	339,985
Net book value						
As at 31 December 2019	794,823	16,371	52,901	1,195	58,931	924,221
As at 31 December 2018	741,743	19,377	58,808	1,695	37,064	858,687

13. Customer deposits

	2019	2018
Current accounts	7,268,962	7,815,320
Saving accounts	2,227,267	2,223,791
Watani / call accounts	417,513	437,870
Time deposits	16,795,806	15,435,348
Margins	603,509	525,946
	<u>27,313,057</u>	<u>26,438,275</u>

14. Due to banks

Term deposit	14.1	4,839,544	5,988,326
On demand		<u>288,463</u>	<u>560,455</u>
		<u>5,128,007</u>	<u>6,548,781</u>

14.1 Term deposit with banks include AED 2,156 million (2018: AED 2,376 million) under collateralized commodity murabaha arrangement, against which the Group has pledged sukuk amounting to AED 3,271 million (2018: AED 3,231 million) (refer note 8.2). The deposits bear profit rates in between 3 months LIBOR + 0.50% to 6 months LIBOR + 1.15% and are bound to mature in between 2020 and 2024.

15. Sukuk payable

Name of issuer	Maturity date	2019		2018	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk 2020	17 March 2020	1,836,289	2.843%	1,835,272	2.843%
SIB Sukuk 2021	8 September 2021	1,834,222	3.084%	1,832,861	3.084%
SIB Sukuk 2023	17 April 2023	1,832,628	4.231%	1,831,470	4.231%
Total		<u>5,503,139</u>		<u>5,499,603</u>	

16. Other liabilities

	2019	2018
Profit payable	242,156	255,129
Accrual and provision	47,974	28,538
Accounts payable	142,626	77,501
Provision for staff end of service benefits	70,769	67,760
Managers' cheques	24,462	48,697
Obligations under acceptances	102,708	97,926
Sundry creditors	223,941	234,056
	<u>854,636</u>	<u>809,607</u>

17. Share capital

The Bank's issued and fully paid up share capital comprises 2,934,855,000 (2018: 2,934,855,000) shares of AED 1 each.

	2019		2018	
	No. of shares	Value	No. of shares	Value
Share capital	<u>2,934,855,000</u>	<u>2,934,855</u>	<u>2,934,855,000</u>	<u>2,934,855</u>

18. Tier 1 sukuk

In July 2019, the Bank issued Shari'a compliant Tier 1 sukuk through an SPV, SIB Tier 1 Sukuk Company Limited, ("the issuer") amounting to USD 500 million (AED 1,836.5 million) at par.

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. These sukuk are expected to pay profit semi-annually of 5 per cent each year, commencing from 2 July 2019. The expected profit rate will be reset to a new fixed rate on the basis of the then prevailing reoffer spread of 321.30 bps on 2 July 2025 ("the first reset date") and every 6 years thereafter. These sukuk are listed on Euronext Dublin and Nasdaq Dubai and are callable by the Bank on 2 July 2025 ("the first call date") or any profit payment date thereafter subject to certain redemption conditions. The net proceeds of Tier 1 are invested by the Bank in its general business activities on a co-mingling basis.

At the Issuer's sole discretion, it may elect not to make any Mudaraba profit distributions expected and the event is not considered an event of default. In such an event, the Mudaraba profit will not be accumulated but forfeited to the issuer. If the issuer 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 make any other payment on, and will procure that no distribution or dividend or other payment is made on ordinary shares issued by the Bank, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by the Bank.

19. Proposed directors' remuneration

In accordance with the Article 169 of Commercial Companies Law No. 2 of 2015, the proposed directors' remuneration is AED 5.4 million (2018: AED 5.4 million).

20. Reserves

The movements in reserves are as follows:

	Legal reserve	Statutory reserve	General impairment reserve	Fair value reserve
Balance at 1 January 2019	1,429,264	89,008	66,717	(87,537)
Transfer to reserve	38,164	-	66,028	-
Change in fair value of financial assets	-	-	-	110,927
Balance at 31 December 2019	<u>1,467,428</u>	<u>89,008</u>	<u>132,745</u>	<u>23,390</u>
Balance at 1 January 2018	1,377,902	89,008	-	(39,488)
Transfer to reserve	51,362	-	66,717	183
Change in fair value of financial assets	-	-	-	(48,232)
Balance at 31 December 2018	<u>1,429,264</u>	<u>89,008</u>	<u>66,717</u>	<u>(87,537)</u>

20.1 Legal reserve

Article 239 of the U.A.E. Federal Law No. (2) of 2015 and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

20.2 Statutory reserve

In accordance with the Bank's Articles of Association, 10% of annual profits, if any, were transferred to a statutory reserve until 2005, subsequent to which it was suspended by an ordinary general meeting upon a proposal by the Board of directors. The statutory reserve can be utilised for the purposes determined by the ordinary general meeting upon recommendations of the Board of Directors.

20.3 General impairment reserve

The Bank has computed general provision as 1.5% of credit risk weighted assets as at 31 December 2019 in accordance with Guidance note to Banks and Financial Institutions on IFRS 9 Implementation, as issued by the CBUAE in March 2018. The resultant incremental difference between 1.5% of credit risk weighted assets and stage 1 & 2 combined ECL is transferred from retained earnings to a non-distributable general impairment reserve. Had the incremental difference in general impairment reserve been recognised in the consolidated statement of profit or loss for the year ended 31 December 2019, profit for the year would have decreased by AED 66.0 million (2018: AED 66.7 million).

20.4 Fair value reserve

The fair value reserve comprises the cumulative net change in fair values of financial assets through other comprehensive income.

	<u>2019</u>	<u>2018</u>
21 Income from investments in Islamic financing and sukus		
Income from murabaha and wakalah with financial institutions	132,348	112,109
Income from murabaha financing	345,132	342,343
Income from syndicate products	56,293	45,008
Income from ijara financing	833,871	752,548
Income from other Islamic financing products	115,957	71,176
Profit income on sukuk investments	266,059	266,413
	<u>1,749,660</u>	<u>1,589,597</u>
22 Investment, fees, commission and other income		
Other investment income	35,603	4,654
Net fees and commissions	186,915	191,788
Net rental income	6,674	6,627
Net gains from dealing in foreign currencies	22,503	25,632
Net income from sale of properties held-for-sale	7,590	5,579
Net income from sale of investment properties	-	21,552
Net revaluation gain / (loss) on investment properties	2,650	(10,196)
Revaluation loss on properties held for sale	(2,409)	(11,901)
Other operating income	185	2,296
	<u>259,711</u>	<u>236,031</u>
23 General and administrative expenses		
Staff costs	(409,621)	(419,458)
Other general and administrative expenses	(128,292)	(158,759)
Depreciation	(47,475)	(36,029)
	<u>(585,388)</u>	<u>(614,246)</u>
24 Provision - net of recoveries		
a) Provision on investments in Islamic financing		
Net provision made during the year	(78,300)	(87,654)
Recoveries during the year	5,953	41,680
	<u>(72,347)</u>	<u>(45,974)</u>
b) Other provisions		
Net ECL on other financial assets	(28,427)	(572)
Recoveries – subsidiaries receivables	3,288	8,403
	<u>(25,139)</u>	<u>7,831</u>
c) Other recoveries during the year	<u>714</u>	<u>1,374</u>
Total provision - net of recoveries	<u>(96,772)</u>	<u>(36,769)</u>

25 Distribution to depositors

The distribution of profit between depositor and shareholders is made in accordance with the methods approved by the Bank's Fatwa and Shari'a Supervisory Board effective from 1 July 2002. The Bank has adopted the "Common Pool Method" for distribution of profit between depositors and shareholders.

26 Basic and diluted earnings per share

The calculation of earnings per share is based on earnings of AED 545.5 million (2018: AED 510.4 million) for the year divided by the weighted average number of shares for the year. There is no dilution impact on basic earnings per share.

27 Cash and cash equivalents

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents comprise of:		
Cash and balances with banks and financial institutions	2,450,754	2,440,868
Murabaha and wakalah with financial institutions	7,948,109	7,217,226
Less: Due to banks	<u>(5,128,007)</u>	<u>(6,548,781)</u>
	5,270,856	3,109,313
Less: cash reserves with the CBUAE	<u>(1,689,263)</u>	(1,689,711)
Less: due from banks with original maturity of more than 3 months	<u>(2,332,774)</u>	(2,841,994)
Add: due to banks with original maturity of more than 3 months	3,532,908	4,515,680
Cash and cash equivalents	<u>4,781,727</u>	<u>3,093,288</u>

28 Key accounting estimates, and judgments in applying accounting policies

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

In particular, considerable judgment is required by management in respect of the following:

Impairment losses on investment in Islamic financing and other financial assets

The Group reviews its portfolios of investment in Islamic financing and other financial assets to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Group makes judgments as to whether there is an observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio within investment in Islamic financing and other financial assets before the decrease can be identified with an individual receivable in that portfolio.

A number of significant judgments are also required in applying the accounting requirements for measuring impairment of Investment in Islamic Financing and other assets, such as:

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

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. For detailed expected credit loss (ECL) observable and unobservable inputs, refer note 3(b)(ii)(X) and note 4a.

28. Key accounting estimates, and judgments in applying accounting policies (continued)

Valuation of financial instruments

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

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads 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 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 has an established control framework with respect to the measurement of fair values. This framework includes a valuation function, which is independent of front office management and reports to the Investment Committee, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving valuation function;
- calibration and back-testing of models against observed market transactions at regular intervals;
- analysis and investigation of significant valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by Investment Committee.

Significant valuation issues are reported to the Investment Committee.

28. Key accounting estimates, and judgments in applying accounting policies (continued)**Valuation of financial instruments (continued)**

The table below analyses financial and non-financial assets 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:

	Notes	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
31 December 2019					
Financial assets					
Investment securities - FVTPL	8	266,129	-	31,273	297,402
Investment securities – FVTOCI	8	1,679,023	-	224,347	1,903,370
Total		1,945,152	-	255,620	2,200,772
Non-financial assets					
Investment properties	9	-	-	2,699,959	2,699,959
31 December 2018					
Financial assets					
Investment securities - FVTPL	8	5,563	-	36,814	42,377
Investment securities – FVTOCI	8	2,122,718	-	231,658	2,354,376
Total		2,128,281	-	268,472	2,396,753
Non-financial assets					
Investment properties	9	-	-	2,318,129	2,318,129

There were no transfers of any financial asset in between any of the levels in fair value hierarchy during the years 2019 and 2018.

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the hierarchy for investment securities:

Financial assets

	<u>2019</u>	<u>2019</u>	2018	2018
	<u>FVTPL</u>	<u>FVTOCI</u>	FVTPL	FVTOCI
Balance as at 1 January	36,814	231,658	36,730	157,112
Revaluation (loss) / gain	(5,541)	(7,311)	84	1,086
Additions	-	-	-	73,460
As at 31 December	<u>31,273</u>	<u>224,347</u>	<u>36,814</u>	<u>231,658</u>

Non-financial assets

	<u>2019</u>	2018
Balance at the beginning of the year	2,318,129	2,167,763
Additions	304,780	248,046
Transfer from held-for-sale	83,144	-
Disposal	(8,744)	(87,484)
Revaluation loss	2,650	(10,196)
Balance at the end of the year	<u>2,699,959</u>	<u>2,318,129</u>

28. Key accounting estimates, and judgments in applying accounting policies (continued)**Unobservable inputs used in measuring fair value**

The investment department constantly monitors the progress of its investments by conducting its own valuation assessment along with information provided by the fund manager. Depending on the nature of the underlying asset, quantitative methods are used such as residual value, DCF / scenario analysis or comparable market valuation. Qualitative methods which involve taking into consideration the market & economic outlook are also employed.

The effect of unobservable input on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions by 10% would have the following effects.

	Effect on profit or loss		Effect on OCI	
	Favorable	Unfavorable	Favorable	Unfavorable
31 December 2019	273,123	(273,123)	22,435	(22,435)
31 December 2018		(235,494)	23,166	(23,166)
	235,494			
	(235,494)			

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value (amortised cost) and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
31 December 2019					
Financial assets					
Cash and balances with banks and financial institutions	-	2,450,754	-	2,450,754	2,450,754
Murabaha and wakalah with financial institutions	-	7,948,109	-	7,948,109	7,948,109
Investment in Islamic financing	-	-	25,142,892	25,142,892	25,142,892
Investment securities measured at amortised cost	3,212,742	-	468,393	3,681,135	3,626,467
Other assets	-	-	691,065	691,065	691,065
Total	3,212,742	10,398,863	26,302,350	39,913,955	39,859,287
Financial liabilities					
Customers' deposits	-	-	27,313,057	27,313,057	27,313,057
Due to banks	-	5,128,007	-	5,128,007	5,128,007
Sukuk payable	5,503,139	-	-	5,503,139	5,503,139
Other liabilities	-	-	783,867	783,867	783,867
Total	5,503,139	5,128,007	28,096,924	38,728,070	38,728,070

28. Key accounting estimates, and judgments in applying accounting policies (continued)**Financial instruments not measured at fair value (continued)**

31 December 2018	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial assets					
Cash and balances with banks and financial institutions	-	2,440,868	-	2,440,868	2,440,868
Murabaha and wakalah with financial institutions	-	7,217,226	-	7,217,226	7,217,226
Investment in Islamic financing	-	-	24,123,760	24,123,760	24,123,760
Investment securities measured at amortised cost	3,248,905	-	826,169	4,075,074	3,823,699
Other assets	-	-	706,670	706,670	706,670
Total	3,248,905	9,658,094	25,656,599	38,563,598	38,312,223
Financial liabilities					
Customers' deposits	-	-	26,438,275	26,438,275	26,438,275
Due to banks	-	6,548,781	-	6,548,781	6,548,781
Sukuk payable	5,499,603	-	-	5,499,603	5,499,603
Other liabilities	-	-	741,847	741,847	741,847
Total	5,499,603	6,548,781	27,180,122	39,228,506	39,228,506

Valuation of investment properties

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

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used. The Group has taken the highest and best use fair values for the fair value measurement of its investment properties.

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurements
Investment method	<p>Expected market rental growth rate</p> <p>Risk adjusted discount rates</p> <p>Free hold property</p> <p>Free of covenants, third party rights and obligations</p> <p>Statutory and legal validity</p> <p>Condition of the property</p>	<p>The estimated fair value increase / decrease if: Expected market rental growth rate were higher or lower</p> <p>The risk adjusted discount rates were lower / higher</p> <p>The property is not free hold</p> <p>The property is subject to any covenants, rights and obligations</p> <p>The property is subject to any adverse legal notices / judgment</p> <p>The property is subject to any defect / damages</p>
Comparison method	The Comparison approach involves examining and analysing recent market transaction/data and making adjustments to this data to account for differences in location, building area, quality of accommodation, finish, date of sale, view, aspect and other individual characteristics	The estimated fair value increase / decrease if the inputs to the comparison method varies.

29. Segment reporting

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

The Bank's activities comprise the following main business segments:

a. Government and corporate

Within this business segment the Bank provides companies, institutions and government departments with a range of Islamic financial products and services. This includes exposure to high net worth individuals.

b. Retail

The retail segment provides a wide range of Islamic financial services to individuals.

c. Investment and treasury

This segment mainly includes wakalah deals with other financial institutions, investments securities, investment properties, properties held for sale, sukuks issued and other money market activities.

d. Hospitality, brokerage and real estate

The Bank through its subsidiaries SNH, SIFS and ASAS provides hospitality, brokerage and real estate services respectively.

29. Segment reporting (continued)

	Corporate and government	Retail	Investment and treasury	Hospitality, brokerage and real estate	Total
For the year ended 31 December 2019:					
Consolidated statement of profit or loss:					
Income from investments in Islamic financing and sukuks	910,321	360,706	478,633	-	1,749,660
Profit expense on sukuk	-	-	(190,527)	-	(190,527)
Investments, fees, commission and other income	127,828	69,678	62,205	-	259,711
Income from subsidiaries	-	-	-	70,370	70,370
Total income	1,038,149	430,384	350,311	70,370	1,889,214
General and administrative expenses	-	-	-	(40,989)	(40,989)
General and administrative expenses - unallocated	-	-	-	-	(544,399)
Net operating income before provisions and distributions to depositors	1,038,149	430,384	350,311	29,381	1,303,826
Provisions- net of recoveries	86,681	(103,234)	(82,433)	2,214	(96,772)
Net operating income before distribution to depositors	1,124,830	327,150	267,878	31,595	1,207,054
Distribution to depositors	(478,661)	(50,900)	(131,968)	-	(661,529)
Profit for the year	646,169	276,250	135,910	31,595	545,525
As at 31 December 2019:					
Consolidated statement of financial position:					
Assets					
Segment assets	20,646,300	4,869,564	18,825,314	1,537,870	45,879,048
Unallocated assets	-	-	-	-	511,413
Total assets	20,646,300	4,869,564	18,825,314	1,537,870	46,390,461
Liabilities					
Segment liabilities	22,000,618	4,923,001	11,434,065	58,927	38,416,611
Unallocated liabilities	-	-	-	-	444,663
Total liabilities	22,000,618	4,923,001	11,434,065	58,927	38,861,274
For the year ended 31 December 2018:					
Consolidated statement of profit or loss:					
Income from investments in Islamic financing and sukuks	841,075	285,288	463,234	-	1,589,597
Profit expense on sukuk	-	-	(183,539)	-	(183,539)
Investments, fees, commission and other income	128,622	64,671	42,738	-	236,031
Income from subsidiaries	-	-	-	59,844	59,844
Total income	969,697	349,959	322,433	59,844	1,701,933
General and administrative expenses	-	-	-	(56,471)	(56,471)
General and administrative expenses - unallocated	-	-	-	-	(557,775)
Net operating income before provisions and distributions to depositors	969,697	349,959	322,433	3,373	1,087,687
Provisions- net of recoveries	(51,329)	9,959	(3,802)	8,403	(36,769)
Profit before distribution to depositors	918,368	359,918	318,631	11,776	1,050,918
Distribution to depositors	(376,250)	(44,701)	(119,588)	-	(540,539)
Profit for the year	542,118	315,217	199,043	11,776	510,379
As at 31 December 2018:					
Consolidated statement of financial position:					
Assets					
Segment assets	20,268,758	4,415,718	18,067,772	1,487,598	44,239,846
Unallocated assets	-	-	-	-	505,641
Total assets	20,268,758	4,415,718	18,067,772	1,487,598	44,745,487
Liabilities					
Segment liabilities	21,398,300	4,751,121	12,829,109	31,263	39,009,793
Unallocated liabilities	-	-	-	-	348,062
Total liabilities	21,398,300	4,751,121	12,829,109	31,263	39,357,855

29. Segment reporting (continued)**Geographical analysis**

Assets	2019							Total
	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other	
Cash and balances with banks and financial institutions	2,226,151	78,888	6,262	2,829	135,731	893	-	2,450,754
Murabaha and wakalah with financial institutions	7,336,432	376,483	-	-	-	220,380	14,814	7,948,109
Investments in Islamic financing	23,758,697	637,399	7	9	1,180	745,532	68	25,142,892
Investments securities	4,581,485	704,032	-	-	9,119	514,250	18,353	5,827,239
Investment properties	2,699,959	-	-	-	-	-	-	2,699,959
Properties held-for-sale	579,478	-	-	-	-	-	-	579,478
Other assets	809,841	4,127	-	-	3	3,831	7	817,809
Property and equipment	924,221	-	-	-	-	-	-	924,221
Total assets	42,916,264	1,800,929	6,269	2,838	146,033	1,484,886	33,242	46,390,461
Liabilities and shareholders' equity								
Customers' deposits	26,691,025	542,566	5,840	11,098	43,547	6,142	12,839	27,313,057
Due to banks	1,790,060	1,306,760	-	3,380	1,810,441	216,791	575	5,128,007
Sukuk payable	5,503,139	-	-	-	-	-	-	5,503,139
Other liabilities and zakat payable	852,357	8,942	113	3	6,902	132	48,622	917,071
Shareholders' equity	7,529,187	-	-	-	-	-	-	7,529,187
Total liabilities and shareholder's equity	42,365,768	1,858,268	5,953	14,481	1,860,890	223,065	62,036	46,390,461
Contingent liabilities	2,220,561	-	-	-	-	1,419	-	2,221,980

29. Segment reporting (continued)**Geographical analysis (continued)**

Assets	2018							Total
	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other	
Cash and balances with banks and financial institutions	2,182,150	3,647	45,391	33,493	175,732	455	-	2,440,868
Murabaha and wakalah with financial institutions	6,482,626	459,125	-	-	-	275,475	-	7,217,226
Investments in Islamic financing	23,152,331	729,282	12	5	934	241,196	-	24,123,760
Investments securities	4,637,793	696,598	-	-	14,600	853,096	18,365	6,220,452
Investment properties	2,318,129	-	-	-	-	-	-	2,318,129
Properties held-for-sale	658,460	-	-	-	-	-	-	658,460
Other assets	895,478	7,640	-	-	-	4,787	-	907,905
Property and equipment	858,687	-	-	-	-	-	-	858,687
Total assets	41,185,654	1,896,292	45,403	33,498	191,266	1,375,009	18,365	44,745,487
Liabilities and shareholders' equity								
Customers' deposits	26,438,275	-	-	-	-	-	-	26,438,275
Due to banks	4,047,622	792,827	-	4,157	1,486,439	216,913	823	6,548,781
Sukuk payable	5,499,603	-	-	-	-	-	-	5,499,603
Other liabilities and zakat payable	871,196	-	-	-	-	-	-	871,196
Shareholders' equity	5,387,632	-	-	-	-	-	-	5,387,632
Total liabilities and shareholder's equity	42,244,328	792,827	-	4,157	1,486,439	216,913	823	44,745,487
Contingent liabilities	2,114,235	-	-	-	1,395	-	-	2,115,630

30. Contingencies and commitments

The Bank provides financial guarantees and letter of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period.

The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

These contingent liabilities have off balance-sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

	<u>2019</u>	<u>2018</u>
a) Letter of credit - by sector:		
Corporate	139,331	129,188
Government	-	17,652
	<u>139,331</u>	<u>146,840</u>
b) Letter of guarantee – by sector:		
Banks	72,265	4,148
Corporate	1,598,974	2,066,797
Government	8,798	8,916
High net worth individual	23,469	28,493
Retail	14,775	15,923
Non-banking financial institution	364,368	133,523
	<u>2,082,649</u>	<u>2,257,800</u>
c) Capital commitments		
Property and equipment	52,399	48,701
Other real estate commitments	229,964	215,353
	<u>282,363</u>	<u>264,054</u>

Others

The letter of guarantees issued also include financial guarantees of AED 50 million and AED 5 million (2018: AED 50 million and AED 5 million) to the Department of Economic Development and Real Estate Registration Department against a real estate leasing and management license for ASAS real estate.

In addition, a financial guarantee of AED 230 million which comprises of AED 100 million issued to Abu Dhabi Securities Exchange, AED 100 million to Dubai Financial Market and AED 30 million to the Central Bank of UAE against conducting brokerage operations for Sharjah Islamic Financial Services (2018: AED 230 million).

The Bank receives legal claims arising in the normal course of business. The Bank considers none of these matters as material either individually or in aggregate. Where appropriate, the Bank recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The Bank seeks to comply with all applicable laws and regulations, but may be subject to regulatory actions and investigations from time to time, the outcome of which are generally difficult to predict and can be material.

31. Related parties

In the normal course of business, the Group enters into various transactions with enterprises and key management personnel which falls within the definition of related parties as defined in IAS 24. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties, which in the opinion of the management are not significantly different from those that could have been obtained from third parties. At the reporting date, such significant balances include:

Statement of financial position	2019			Total
	Key management personnel	Major shareholders	Other related parties	
Investment in Islamic financing	593,638	2,832,627	1,773,867	5,200,132
Customers deposits	(118,518)	(480,881)	(3,112,358)	(3,711,757)
Contingent liabilities – off balance sheet	102,957	13,463	8,798	125,218
Statement of profit or loss				
For the year ended 31 December 2019				
Income from Islamic financing	20,926	132,558	134,106	287,590
Depositors' share of profit	(732)	(4,255)	(58,118)	(63,105)
2018				
Statement of financial position	Key management personnel	Major shareholders	Other related parties	Total
Investment in Islamic financing	775,502	3,336,088	3,539,686	7,651,276
Customers deposits	(174,716)	(665,593)	(2,918,134)	(3,758,443)
Contingent liabilities – off balance sheet	114,650	29,541	-	144,191
Statement of profit or loss				
For the year ended 31 December 2018				
Income from Islamic financing	18,432	151,011	131,637	301,080
Depositors' share of profit	(494)	(6,703)	(26,495)	(33,692)

Key management compensation includes salaries and other short term benefits of AED 23.6 million in 2019 (2018: AED 25.3 million) and post-employment benefits of AED 1.4 million in 2019 (2018: AED 2.8 million).

32. Social contributions

The Bank has made social contributions of AED 60.9 million (2018: AED 58.5 million) from the zakat fund. Zakat fund is calculated in accordance with note 3(n).

The Bank during the year has also made a social contribution of AED 4.7 million (2018: AED 3.1 million) as donations and charities. These donations and charities are the amounts collected from the customers of the Bank as approved and defined by Bank's Fatwa and Shari'a Supervisory Board.

The Bank further made social contributions of AED 1.7 million (2018: 3.7 million) as sponsorships to universities and other public service organisations.

33. Dividends

During the annual general meeting of the shareholders held on 23 February 2019, a cash dividend of 8% of the paid up capital amounting to AED 234.8 million was approved for the year ended 31 December 2018 (2017: 8% cash dividend amounting to AED 234.8 million).

34. Comparatives figures

Certain prior year comparatives have been reclassified in order to conform to current year's presentation.

35. Subsequent event

On 2 January 2020, the Group paid a profit amounting to AED 45.9 million on tier 1 Sukuk issued by the Group (refer note 18). The profit paid is recorded as an appropriation of profit in statement of changes in equity. There have been no other events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2019.