SHARJAH ISLAMIC BANK PJSC

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020.

Financial Highlights

As at 31 December 2020, total assets of the Bank increased by AED 7.2 billion to reach AED 53.6 billion, an increase of 15.5%.

Investments in Islamic financing increased by 16.4% (AED 4.1 billion) to reach AED 29.3 billion and customer deposits increased by 23% (AED 6.3 billion) to reach AED 33.6 billion.

Net operating income before impairment charges for the Group increased by 8.7%, to reach AED 697.7 million for the year ended 31 December 2020 as compared to AED 642.1 million for the year ended 31 December 2019.

Impairment charges – net of recoveries made in the year 2020 amounts to AED 255.9 million, an increase of 164.4%.

Net profits of AED 405.8 million is recorded for year ended 31 December 2020 compared to AED 545.5 million for the corresponding prior year, a decrease of 25.6%.

Auditors:-

PricewaterhouseCoopers (PwC) were appointed as auditors of the Group for the year ending 31 December 2020 at the Annual General Meeting held on 22 February 2020.

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Abdul Rahman Mohammed Nasser Al Owais
Chairman
20 January 2021

Independent auditor’s report to the shareholders of Sharjah Islamic Bank PJSC and its subsidiaries

Report on the audit of the financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sharjah Islamic Bank PJSC (the “Bank”) and its subsidiaries (together “the Group”) as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Our audit approach

Overview

Key Audit Matters	• Measurement of Expected Credit Losses • Fair valuation of Group’s investment properties

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Overview (continued)

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses ("ECL")	
The Group applies ECL on all the financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria. For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Group's impairment policy under IFRS 9 is presented in Note 3(b)X to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.	We performed the following audit procedures to assess the adequacy of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2020: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal specialists to assess the following areas: • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. • ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial instruments. • Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk. • For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collaterals. ➢ For the Stage 3 portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files. ➢ We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9.

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fair valuation of Group's investment properties	
The Group's investment properties are held at a fair value of AED 2.9 billion as at 31 December 2020 (Note 9). The valuation of the Group's investment properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income or selling value for that particular property. Investment properties are initially recognized at cost and subsequently measured at fair value. The valuations were carried out by professional third party valuation companies. The valuers were engaged by the Group, and performed their work in accordance with relevant appraisal and valuation standards. In determining a property's valuation, the valuers take into account current market prices for similar properties in a similar location and condition. If prices for comparable properties are not available, the valuers make use of appropriate valuation techniques to arrive at the fair valuation. This valuation of investment properties is considered to be a key audit matter due to the significant judgements and assumptions made in determining the fair values of investment properties.	We evaluated the competence, capabilities and objectivity of professional third party valuation firms (the "experts") engaged for valuing the investment properties. We evaluated the appropriateness of the experts' work by considering the nature and content of the instructions provided to the experts by the Group. Where the experts' work involved valuation techniques which needed significant use of source data provided by the Group's management, the relevance, completeness and accuracy of that source data was evaluated. The relevance and reasonableness of the expert's findings or conclusions for investment properties were considered by engaging our own in-house valuation experts to assess and evaluate the work performed and assumptions used by the third party valuation firm.

Independent auditor's report to the shareholders of Sharjah Islamic Bank PJSC and its subsidiaries (continued)

Other information

The Directors are responsible for the other information. The other information comprises the Director's Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of the auditor's report, and the Chairman's Statement, Management Review, Financial Review and Fatwa and Sharia'a Supervisory Board Report which is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the Director's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read Chairman's Statement, Management Review, Financial Review and Fatwa and Sharia'a Supervisory Board Report if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Directors and those charged with governance for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Independent auditor's report to the shareholders of Sharjah Islamic Bank PJSC and its subsidiaries (continued)

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

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

(1) we have obtained all the information we considered necessary for the purpose of our audit;

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

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

(4) the financial information included in the directors' report is consistent with the books of account of the Group;

(5) as disclosed in note 7 to the consolidated financial statements, the Group has not purchased or invested in any shares during the financial year ended 31 December 2020;

(6) note 31 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

(7) note 32 to the consolidated financial statement disclosed the social contribution made during the year ended 31 December 2020; and

(8) based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Group has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the UAE Federal law No. (2) of 2015 or in respect of the Group, its Memorandum of and Articles of Association which would materially affect its activities of financial position as at 31 December 2020;

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

PricewaterhouseCoopers
__ January 2021

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

SHARJAH ISLAMIC BANK PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
(Currency: Thousands of U.A.E. Dirhams)

	Notes	2020	2019
Assets			
Cash and balances with banks and financial institutions	*5*	**3,391,498**	2,450,754
Murabaha and wakalah with financial institutions	*6*	**7,831,780**	7,948,109
Investment securities	*7*	**7,747,406**	5,827,239
Investments in Islamic financing	*8*	**29,268,559**	25,142,892
Investment properties	*9*	**2,886,044**	2,699,959
Properties held-for-sale	*10*	**653,083**	579,478
Other assets	*11*	**897,361**	817,809
Property and equipment	*12*	**925,022**	924,221
Total assets		**53,600,753**	**46,390,461**
Liabilities and shareholders' equity			
Liabilities			
Customers' deposits	*13*	**33,608,308**	27,313,057
Due to banks	*14*	**5,973,063**	5,128,007
Sukuk payable	*15*	**5,500,746**	5,503,139
Other liabilities	*16*	**806,856**	854,636
Zakat payable		**66,422**	62,435
Total liabilities		**45,955,395**	**38,861,274**
Shareholders' equity			
Share capital	*17*	**3,081,598**	2,934,855
Tier 1 sukuk	*18*	**1,836,500**	1,836,500
Legal reserve	*20*	**1,508,508**	1,467,428
Statutory reserve	*20*	**89,008**	89,008
General impairment reserve	*20*	**112,371**	132,745
Fair value reserve	*20*	**44,380**	23,390
Retained earnings		**972,993**	1,045,261
Total shareholders' equity		**7,645,358**	**7,529,187**
Total liabilities and shareholders' equity		**53,600,753**	**46,390,461**

These consolidated financial statements were authorised for issue in accordance with a resolution of Directors on 20 January 2021 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 2020

(Currency: Thousands of U.A.E. Dirhams)

	Notes	2020	2019
Income from investments in Islamic financing and sukuk	*21*	**1,727,910**	1,749,660
Distribution to depositors' and sukuk holders	*25*	**(753,966)**	(852,056)
Net income from financing and investment products		**973,944**	**897,604**
Investment, fees, commission and other income	*22*	**285,208**	329,840
Total operating income		**1,259,152**	**1,227,444**
General and administrative expenses	*23*	**(561,450)**	(585,388)
Net operating income before impairment and revaluation		**697,702**	**642,056**
Impairment on financial assets - net of recoveries	*24*	**(255,845)**	(96,772)
Revaluation (loss) / gain on properties		**(36,023)**	241
Profit for the year		**405,834**	**545,525**
(Attributable to the shareholders of the Bank)			
Basic and diluted earnings per share (U.A.E. Dirhams)	*26*	**0.13**	**0.18**

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The independent auditors' report is set out on pages 2 to 7.

SHARJAH ISLAMIC BANK PJSC

CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020
(Currency: Thousands of U.A.E. Dirhams)

	2020	2019
Profit for the year (Attributable to the shareholders of the Bank)	**405,834**	**545,525**
Other comprehensive income		
Items that will be reclassified to profit or loss		
Net change in fair value reserve on sukuk investments classified at FVTOCI	**34,557**	**68,769**
Items that will not be reclassified to profit or loss		
Net change in fair value reserve on equity investments classified at FVTOCI	**(13,978)**	**3,573**
Total comprehensive income for the year (Attributable to the shareholders of the Bank)	**426,413**	**617,867**

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 CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(Currency: Thousands of U.A.E. Dirhams)

	Notes	2020	2019
Cash flows from operating activities:			
Profit for the year		**405,834**	545,525
Adjustments for:			
- Depreciation	*12*	**49,881**	47,475
- Amortisation of sukuk issuance cost		**(2,393)**	3,536
- Provision on customer receivables		**253,349**	74,422
- Provision on investment securities		**2,158**	25,638
- Provision / (recoveries) on subsidiaries receivables		**338**	(3,288)
- Gain on disposal of properties held-for-sale		**(11,729)**	(7,590)
- Gain on disposal of investment securities		**(3,434)**	(17,400)
- Revaluation loss / (gain) on investment properties	*9*	**35,029**	(2,650)
- Revaluation loss / (gain) on investment securities		**569**	(5,990)
- Impairment loss on properties held-for-sale	*10*	**995**	2,409
- Loss / (gain) on sale of property and equipment		**111**	(77)
Operating profit before changes in operating assets and liabilities		**730,708**	**662,010**
Changes in:			
- Statutory deposit with CBUAE		**(243,674)**	448
- Murabaha and wakalah with financial institutions		**1,901,511**	845,665
- Investments in Islamic financing		**(4,379,354)**	(1,090,266)
- Other assets		**(79,552)**	90,096
- Customers' deposits		**6,295,251**	874,782
- Due to banks		**1,119,666**	(1,148,782)
- Zakat payable		**(62,276)**	(61,581)
- Other liabilities		**(53,190)**	39,642
Net cash generated from operating activities		**5,229,090**	**212,014**
Cash flows from investing activities:			
Acquisition of property and equipment		**(55,650)**	(113,629)
Disposal of property and equipment		**4,857**	697
Acquisition of investment properties		**(178,923)**	(304,780)
Disposal of investment properties		**-**	8,744
Acquisition of properties held for sale		**(176,857)**	(104,014)
Disposal of properties held for sale		**71,794**	105,033
Acquisition of investment securities		**(2,418,459)**	(634,456)
Disposal/redemption in Investments securities		**519,579**	1,097,763
Net cash (used in) / generated from investing activities		**(2,233,659)**	**55,358**
Cash flows from financing activities:			
Issuance of tier 1 sukuk	*18*	**-**	1,826,290
Profit paid on tier 1 sukuk		**(91,826)**	
Issuance of sukuk		**1,836,500**	-
Repayment of sukuk		**(1,836,500)**	-
Cash dividend		**(146,743)**	(234,788)
Net cash (used in) / generated from financing activities		**(238,569)**	**1,591,502**
Net increase in cash and cash equivalents		**2,756,862**	**1,858,874**
Cash and cash equivalents, beginning of the year	*27*	**3,669,631**	1,810,757
Cash and cash equivalents, end of the year	*27*	**6,426,493**	**3,669,631**

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 CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(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 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**
As at 1 January 2020	**2,934,855**	**1,836,500**	**1,467,428**	**89,008**	**132,745**	**23,390**	**1,045,261**	**7,529,187**
Total comprehensive income for the year								
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**405,834**	**405,834**
Other comprehensive income								
Net change in fair value reserve	**-**	**-**	**-**	**-**	**-**	**20,579**	**-**	**20,579**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**20,579**	**405,834**	**426,413**
Transactions recorded directly in equity								
Realized loss on equity instruments measured at FVTOCI transferred to retained earnings	**-**	**-**	**-**	**-**	**-**	**411**	**(411)**	**-**
Transfer to legal reserves *(note 20)*	**-**	**-**	**41,080**	**-**	**-**	**-**	**(41,080)**	**-**
Bonus dividend declared	**146,743**	**-**	**-**	**-**	**-**	**-**	**(146,743)**	**-**
Cash dividends declared	**-**	**-**	**-**	**-**	**-**	**-**	**(146,743)**	**(146,743)**
Transfer to general impairment reserve *(note 20)*	**-**	**-**	**-**	**-**	**(20,374)**	**-**	**20,374**	**-**
Tier 1 sukuk profit paid	**-**	**-**	**-**	**-**	**-**	**-**	**(91,826)**	**(91,826)**
Zakat	**-**	**-**	**-**	**-**	**-**	**-**	**(66,263)**	**(66,263)**
Board of directors' fees *(note 19)*	**-**	**-**	**-**	**-**	**-**	**-**	**(5,410)**	**(5,410)**
Total transactions with owners	**146,743**	**-**	**41,080**	**-**	**(20,374)**	**411**	**(478,102)**	**(310,242)**
As at 31 December 2020	**3,081,598**	**1,836,500**	**1,508,508**	**89,008**	**112,371**	**44,380**	**972,993**	**7,645,358**

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

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 34 branches (2019 : 36 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. Federal Decree Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Group is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

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 8 & 28);
- impairment losses on amortised cost investments (refer note 7 & 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 7); and
- fair value of 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. 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 losses 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. 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. 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. 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. 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 consolidate 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. 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. 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. 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 sukuks recognised in OCI are reclassified to profit and loss upon derecognition.

3. 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.

Given the significant impact of the COVID-19 pandemic on the global financial markets, the Group is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario.

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. 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. 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 three months or less 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 profit 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. 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	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). 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. 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.	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.

3. 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	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. 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. Transaction-based fees for administration of a finance syndication, execution of transactions, and securities underwriting are charged when the performance obligation has been fulfilled.	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. Revenue related to transactions is recognised at the point in time when the performance obligation has been fulfilled.

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. 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. 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. Leases

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.

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. Significant accounting policies (continued)

y. Standards and interpretation adopted for accounting periods beginning on 1 January 2020

New standards and significant amendments to standards applicable to the Group	Effective date
Amendments to IAS 1 and IAS 8 on the definition of material	1 January 2020

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRS:

- use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting ;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

There is no impact on the Group's consolidated financial statements for the year ended 31 December 2020 due to the adoption of the above amendment.

Amendments to the conceptual framework	1 January 2020

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect.

Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality - defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability - removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

There is no impact on the Group's consolidated financial statements for the year ended 31 December 2020 due to the adoption of the above amendment.

Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions – effective for annual periods beginning on or after 1 June 2020	1 June 2020

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. There is no material impact on the Group's consolidated financial statements for the year ended 31 December 2020 from the adoption of this amendment on 1 June 2020.

There are no other IFRSs, IFRIC interpretations or amendments to standards that were effective for the first time for the financial year beginning 1 January 2020 that have had a material impact on the Group's consolidated financial statements.

3. Significant accounting policies (continued)

z. Standards and interpretation issued and not yet effective for accounting periods beginning after 1 January 2021

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

New standards and significant amendments to standards applicable to the Group	Effective date
Interest rate benchmark In August 2020, the IASB issued Profit Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 Insurance contracts and IFRS 16 (Phase 2 Amendments). The Phase 2 Amendments address issues that arise upon replacing the existing profit rate benchmark with the alternative profit rates and introduces additional disclosure requirements. The Phase 2 Amendments provide two key reliefs: • Modifications made as a direct result of the Reform on an economically equivalent basis are reflected prospectively in the effective profit rate rather than as an immediate gain or loss. • If qualifying criteria are met, hedging relationships that are directly impacted by the Reform would be able to continue hedge accounting upon transition to alternative profit rates. We are currently assessing the impact of the adoption of the Phase 2 Amendments on our Consolidated Financial Statements. To manage our transition to alternative profit rates, we have implemented a comprehensive enterprise-wide program and governance structure that addresses the key areas of impact including contract remediation, funding and liquidity planning, risk management, financial reporting and valuation, systems, processes, customer education and communication. Transition activities are focused on conversion of existing EIBOR based Islamic financing contracts to alternative benchmark rates. Our transition timelines are ultimately dependent on broader industry acceptance of Islamic products that reference the new alternative benchmark and our customers' readiness and ability to adopt the replacement products. Significant matters that we continue to evaluate include legal and sharia impact assessment of new benchmark on Islamic financing contracts and short and long term funding strategies.	Annual reporting periods beginning on or after 1 January 2021
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, deposits and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.	Annual reporting periods beginning on or after 1 January 2022
Annual Improvements to IFRS Standards 2018–2020 Number of improvements have been made to IFRS 1, IFRS 9, IFRS 16 and IAS 41 during the annual improvements cycle of IASB 2018-2020. The changes do not significantly impact the Group.	Annual reporting periods beginning on or after 1 January 2022

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.

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.

4. Risk management (continued)

i. Risk management framework (continued)

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.

Information Security Working Group Committee (ISWGC)

The purpose of the Information Security Working Group Committee (ISWGC) is to ensure that there is clear direction and visible management support for information security initiatives. The committee shall be responsible for the following:

- To provide oversight of information security policies, procedures, plans, and execution intended to provide confidentiality, availability, and integrity of the information.
- To formulate the tasks related to Information Security Management System (ISMS) rollout like Risk Management, Policy and Procedure Deployment, Information Security Awareness, Information Security Incident Monitoring, Measurement of control effectiveness, etc.
- To oversee the effectiveness of the information security controls with respect to its information systems, including network security and data security.
- To monitor the significant development in information security related projects, incidents handling and risk mitigation.
- To review the changes to significant threats and exposures of information assets against cyberattacks, insider activity, error or control failure.

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

In SIB, Compliance is an independent control function headed by Head of Compliance and constitutes the second line of defense. The main role of Compliance is to ensure that bank operates with integrity and adhere to applicable laws, regulations and internal policies. Moreover, Compliance function mitigates risks related to misconduct, money laundering and other forms of non-compliance. Compliance is responsible for having an independent oversight of the Bank's Compliance risks by performing risk assessment, monitoring activities, advisory work and providing independent report to Senior Management and the Board of Directors.

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 8(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 and ECL.

	Gross maximum exposure	
	2020	2019
Cash and balances with banks and financial institutions	**789,083**	226,949
Murabaha and wakalah with financial institutions	**2,883,120**	4,498,456
Investment securities measured at FVTOCI	**1,192,418**	936,472
Investment securities measured at amortised cost	**5,479,669**	3,682,706
Investment in Islamic financing	**30,556,381**	26,261,270
Other assets	**831,092**	728,076
	41,731,763	**36,333,929**
Contingent liabilities	**725,478**	445,095
Total	**42,457,241**	**36,779,024**

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 7 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 2020 ECL Staging			
	Stage 1 12 month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Cash and balances with banks and financial institutions	789,083	-	-	789,083
Loss allowance	-	-	-	-
Carrying amount	789,083	-	-	789,083
Murabaha and wakalah with financial institutions	2,883,120	-	-	2,883,120
Loss allowance	(1,340)	-	-	(1,340)
Carrying amount	2,881,780	-	-	2,881,780
Financial assets measured at FVTOCI (excluding equity investments)	1,192,418	-	-	1,192,418
Loss allowance	(734)	-	-	(734)
Carrying amount	1,191,684	-	-	1,191,684
Financial assets measured at amortised cost	5,417,332	-	62,337	5,479,669
Loss allowance	(5,526)	-	(53,065)	(58,591)
Carrying amount	5,411,806	-	9,272	5,421,078
Investments in Islamic financing	26,825,490	2,237,139	1,493,752	30,556,381
Loss allowance	(264,019)	(135,049)	(888,754)	(1,287,822)
Carrying amount	26,561,471	2,102,090	604,998	29,268,559
Other assets (excluding non-financial assets)	800,118	-	30,974	831,092
Loss allowance	(8,461)	-	(30,974)	(39,435)
Carrying amount	791,657	-	-	791,657
Net credit risk exposures relating to on-balance sheet assets	37,627,481	2,102,090	614,270	40,343,841
Letter of credit and guarantee	701,237	24,210	31	725,478
Loss allowance	(2,389)	(53)	-	(2,442)
Net credit risk exposures relating to off-balance sheet assets	698,848	24,157	31	723,036
	38,326,329	2,126,247	614,301	41,066,877
Gross credit risk exposure	38,608,798	2,261,349	1,587,094	42,457,241
Total ECL	(282,469)	(135,102)	(972,793)	(1,390,364)
	38,326,329	2,126,247	614,301	41,066,877

4. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

III. Credit quality (continued)

	31 December 2019 ECL Staging Stage 1 12 month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Cash and balances with banks and financial institutions	226,851	98	-	226,949
Loss allowance	-	-	-	-
Carrying amount	**226,851**	**98**	**-**	**226,949**
Murabaha and wakalah with financial institutions	4,498,456	-	-	4,498,456
Loss allowance	(347)	-	-	(347)
Carrying amount	**4,498,109**			**4,498,109**
Investment securities measured at FVTOCI (excluding equity investments)	936,472	-	-	936,472
Loss allowance	(928)	-	-	(928)
Carrying amount	**935,544**	**-**	**-**	**935,544**
Investment securities measured at amortised cost	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**
Investments in Islamic financing	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**
Other assets (excluding non-financial assets)	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**
Letter of credit and guarantee	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)

IV. Credit risk exposure of the Group's financial assets for each internal risk rating

Investment in Islamic financing	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Investment grade	**12,766,553**	**112,635**	-	**12,879,188**
Non-investment grade	**14,058,937**	**1,791,537**	-	**15,850,474**
Watch-list	-	**332,967**	-	**332,967**
Credit impaired	-	-	**1,493,752**	**1,493,752**
Grand Total	**26,825,490**	**2,237,139**	**1,493,752**	**30,556,381**

Investment securities				
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Investment grade	**6,426,100**	-	-	**6,426,100**
Non-investment grade	**183,650**	-	-	**183,650**
Credit impaired	**-**	-	**62,337**	**62,337**
Grand Total	**6,609,750**	-	**62,337**	**6,672,087**

Investment in Islamic financing	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**

Investment securities				
	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**

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 2020.

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 8.

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 2020 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	2021	2022	2023	2024	2025
Oil Price (USD per barrel)	Base case	51.5	59.6	62.3	64.1	65.1
	Upside	57.3	65.8	68.5	70.5	71.6
	Downside	21.3	34.4	46.5	51.7	54.7
Stock market volatility (%Delta of points)	Base case	-8%	1%	7%	11%	14%
	Upside	-1%	10%	17%	22%	26%
	Downside	-42%	-11%	1%	4%	4%
UAE non-oil GDP (%Delta of GDP)	Base case	4%	3%	3%	3%	3%
	Upside	8%	3%	2%	3%	2%
	Downside	-5%	4%	7%	6%	5%
UAE CPI Index	Base case	1%	1%	2%	2%	2%
	Upside	4%	3%	3%	3%	2%
	Downside	0%	0%	2%	2%	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	15.4%	(12.7%)
Stage 2	5.5%	(5.9%)

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:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Mortgage of properties	**9,782,991**	**1,859,405**	**603,050**	**12,245,446**
Cash lien and others	**148,074**	**89**	**615**	**148,778**
Carrying amount	**9,931,065**	**1,859,494**	**603,665**	**12,394,224**

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
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**

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. Credit risk (continued)

X. Credit risk management against impact of COVID-19

In response to the COVID-19 outbreak, the Bank's Risk management division identified the vulnerable sectors that are significantly impacted by this stressed situation, and reviews are being conducted on a more frequent basis. The existing corporate credit lines are being reviewed and the utilization is being closely monitored. The Bank enjoys a well-diversified financing portfolio where Government and Government related entities (GRE) represent more than 34% (31 December 2019: 26%).

The Bank has been extra vigilant in underwriting to companies in the vulnerable sectors, especially for any New-to-Bank customers. Extra measures, such as requiring additional approvals for disbursals of facilities have been implemented to ensure a high level of scrutiny over the credit management process. The Bank is conducting frequent reviews of the Loan to Value ("LTV") ratios on the securities held against facilities, specifically securities which are illiquid in nature. Moreover, the management has reviewed all of its credit lending policies to address the current increasing economic risk for different sectors.

In addition to the above and as explained in note 4 (ii) liquidity risk management, as required by the Joint Guidance issued in April 2020 for clients benefitting from payment deferrals, the Bank has considered the following principles for the classification of the customers into Group 1 and Group 2:

Group 1: clients that are temporality and mildly impacted by the Covid-19 crisis:

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

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

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

These are the clients whose businesses are directly impacted by COVID-19. These clients are expected to face changes in their creditworthiness beyond liquidity issues leading to deterioration in credit risk. Consequently, exposure from these clients is reported as stage 2.

Due to the possibility of later economic rebound, these clients are not expected to migrate to IFRS 9 stage 3 based on their financial performance during the period of the crisis. In exceptional circumstances, such stage 3 migration can be triggered by liquidation/ bankruptcy caused by non-financial events (such as fraud) or significant disruptions threatening the long-term sustainability of the clients' business model. Consequently, the Bank continues to monitor the creditworthiness of these clients, particularly indications of potential inability to pay any of their obligations as and when they become due.

As at 31 December 2020, the Bank has classified its clients awarded deferment into Group 1 and Group 2 (refer note 8.2).

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 2020	**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	**3,391,498**	**-**	**-**	**-**	**3,391,498**
Murabaha and wakalah with financial institutions	**6,915,045**	**788,180**	**128,555**	**-**	**7,831,780**
Investment securities	**776,157**	**1,261,749**	**2,440,220**	**3,269,280**	**7,747,406**
Investment in Islamic financing	**3,242,443**	**4,325,087**	**11,763,728**	**9,937,301**	**29,268,559**
Other assets	**626,416**	**165,241**	**-**	**-**	**791,657**
	14,951,559	**6,540,257**	**14,332,503**	**13,206,581**	**49,030,900**
Liabilities					
Customers' deposits	**23,250,584**	**10,357,724**	**-**	**-**	**33,608,308**
Due to banks	**3,250,697**	**1,502,396**	**1,266,382**	**-**	**6,019,475**
Sukuk payable	**46,670**	**1,958,361**	**3,953,429**	**-**	**5,958,460**
Other liabilities	**601,566**	**129,551**	**-**	**-**	**731,117**
	27,149,517	**13,948,032**	**5,219,811**	**-**	**46,317,360**
Contingent liabilities	**206,031**	**432,553**	**1,478,666**	**-**	**2,117,250**

4. Risk management (continued)

ii. Financial risk management (continued)

b. Liquidity risk (continued)

Exposure to liquidity risk (continued)

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 securities	261,205	256,338	3,703,833	1,605,863	**5,827,239**
Investment in Islamic financing	2,017,042	3,806,195	10,554,959	8,764,696	**25,142,892**
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**

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.

Liquidity risk management against impact of COVID-19

The UAE Central Bank has announced AED 256 billion stimulus package in an attempt to combat the above effects of COVID-19 and ease the liquidity constraints in the UAE Banking Sector, by providing relief to the local economy.

The stimulus package includes the following:

- Launch of the Targeted Economic Support Scheme ('TESS'), which allows banks to grant temporary relief to certain customers in the way of deferring payments, and allowing banks to apply for zero-cost funding from the Central Bank. The Zero cost facility ("ZCF") consists of collateralized CBUAE liquidity facilities provided to eligible counter parties under the TESS program. Funds borrowed by the Bank under the ZCF are priced at zero profit rate and the Bank is expected to pass on this zero-cost benefit, at a minimum, to its clients who have been identified to be eligible as per TESS guidelines;
- Granted an extension of the capital buffer relief to 31 December 2021 for banks participating in the TESS Program:
- Reduction of the reserve requirements by half for demand deposits for all banks, from 14% to 7%; and
- Planned implementation of certain Basel III capital requirements will be implemented in a phased manner from Q2 2021 to Q4 2021.

4. Risk management (continued)

ii. Financial risk management (continued)

c. Liquidity risk (continued)

Liquidity risk management against impact of COVID-19 (continued)

In response to the COVID 19 outbreak, the Bank is evaluating its liquidity and funding position and has taken into consideration all the reliefs provided by the Central Bank. Further, the Bank has taken the following actions to manage liquidity risks:

1) Monitoring the movements and composition of its deposits on a daily basis;
2) Monitoring the adherence to regulatory ratios, including eligible liquid assets ratio (ELAR) and lending to stable resources ratio (LSRR) on a daily basis. As of reporting date ELAR stands at 18.10%, well above the minimum requirement of 10% (without incentive from CBUAE) and 7% (after reduction in the requirement from CBUAE), whereas LSRR stands at 70.52% as against the maximum allowed of 100% by CBUAE.
3) Developing contingency plans and opening up new funding lines in the treasury and inter-bank markets of other GCC countries;
4) Developing stress testing scenarios to assess the impact on the Bank in extreme stress; and
5) Bank as of the reporting date holds sovereign marketable securities amounting AED 2.4 billion which can be utilised in case of extreme liquidity shortage, if required.

As at 31 December 2020, out of CBUAE's total funding program of AED 50 billion under ZCF, an amount of AED 825.8 million has been earmarked for the Bank, maturing on 30 June 2021. The Bank has pledged Islamic certificate of deposits of equivalent amount to CBUAE against ZCF. The benefit has been passed onto customers in the form of payment reliefs (installment deferrals). The Bank continues to accrue profit on payment deferrals provided to the ijara financing receivable customers and there will be no significant change to the present value of future cash flows due to these deferrals. Currently, the Bank is closely monitoring its liquidity position and risks arising due to the COVID-19 crisis.

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 2020	2019
Net profit rate sensitivity on financial assets and liabilities	50 basis points	**14,308**	6,847

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	**(3,338,134)**	(2,162,185)
UK Sterling	**33,695**	45,162
Euro	**(1,706)**	(1,231)
Bahrani Dinar	**7,902**	7,675
Saudi Riyals	**26,427**	(208,899)
Kuwaiti Dinar	**201**	1,130

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 ±10% on statement of profit or loss and other comprehensive income of the Group.

	2020		2019	
	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	**4,115**	-	4,062	-
Financial assets at fair value through other comprehensive income	-	**102,965**	-	96,783

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 identifies and manages 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.

Business continuity plan

In light of current scenarios caused by COVID 19, the Bank has activated its business continuity policy (BCP). In light of the BCP, the Bank has established a system of a secured remote access management system with dual authentication access and functioning of its operations, IT systems and client's digital channels. For this purpose the Bank has designed standard operating procedures which are duly followed. The Bank also has appropriate cyber security architecture to support its commercial assets and customers without any interruption to business activities through its comprehensive digital channels. Moreover, the bank has engaged with a third party to review the security of the current working environment.

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.

4. Risk management (continued)

ii. Financial risk management (continued)

e. Capital management (continued)

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.

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

	Basel III	
	2020	2019
Capital base		
Common equity tier 1	**5,528,835**	5,244,021
Additional tier 1 capital	**1,836,500**	1,836,500
Total tier 1 capital base	**7,365,335**	**7,080,521**
Total tier 2 capital base	**441,619**	380,085
Total capital base	**7,806,954**	**7,460,544**
Risk weighted assets		
Credit risk	**35,329,510**	30,406,780
Market risk	**111,831**	85,650
Operational risk	**2,262,468**	2,238,802
Risk weighted assets	**37,703,808**	**32,731,232**
Capital ratios		
Common equity tier 1 ratio	**14.66%**	**16.02%**
Tier 1 capital ratio	**19.53%**	**21.63%**
Capital adequacy ratio (after proposed dividend adjustment)	**20.71%**	**22.79%**

As at 31 December 2020, capital adequacy ratio before adjustment of proposed dividends stands at 21.46% *(2019: 23.69%).*

	2020				
Asset classes	**Gross outstanding**	**Exposure before CRM**	**CRM**	**Net exposure after credit conversion**	**Risk weighted assets**
Claims on sovereigns	**16,168,419**	**16,168,419**	**-**	**16,095,738**	**1,534,523**
Claims on non-commercial public sector	**515,094**	**515,094**	**-**	**515,094**	**-**
Claims on banks	**5,340,499**	**5,340,499**	**-**	**5,340,033**	**2,162,145**
Claims on corporate and GRE	**15,954,406**	**15,954,406**	**760,259**	**15,157,960**	**13,837,382**
Claims included in the regulatory retail portfolio	**10,107,676**	**10,107,676**	**89,963**	**9,837,312**	**9,068,515**
Claims secured by residential property	**1,410,748**	**1,410,748**	**4,661**	**1,410,518**	**1,255,900**
Claims secured by commercial real estate	**47,145**	**47,145**	**30,428**	**47,032**	**16,604**
Past due financing	**1,693,163**	**662,433**	**620**	**647,601**	**803,617**
Higher-risk categories	**36,967**	**36,967**	**-**	**36,967**	**55,450**
Other assets	**6,272,492**	**6,241,518**	**-**	**6,241,341**	**6,595,374**
Total claims	**57,546,609**	**56,484,905**	**885,931**	**55,329,596**	**35,329,510**

4. Risk management (continued)

ii. Financial risk management (continued)

e. Capital management (continued)

Asset classes	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion	Risk weighted assets
	2019				
Claims on sovereigns	13,713,217	13,713,217	-	13,713,217	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	11,642,174	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	6,205,982
Total claims	**49,894,462**	**48,987,433**	**376,472**	**47,969,338**	**30,406,780**

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:

	2020	2019
Profit rate risk	**1,258**	2,451
Equity position risk	**-**	-
Foreign currency risk	**10,484**	6,105
	11,742	**8.556**

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 237.6 thousands *(2019: AED 235.5 thousands).*

f) Capital adequacy initiatives in response to COVID-19

The outreaching impact of COVID 19 is expected to impact the Bank's Risk Weightage Assets via higher charges arising from increased volatility and higher counter party risks. The implementation of the requirements of IFRS 9 Expected Credit Losses in a less favorable economic outlook is expected to increase the credit risk weights of financing and also increase provision allowances and hence impacts the Bank's strong capital adequacy, which currently stands at 21.42% (31 December 2019: 22.79%). The Bank expects CAR in an extreme stressed scenario to remain well above the UAE banking sector average and the baseline CBUAE BASEL III requirement of 13% including capital conservation buffer of 2.5%, 11.5%. In order to relieve the pressure on financial institutions, the CBUAE, vide its official paper issued on 5 April 2020, has allowed banks to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of the expected volatility due to the COVID 19 crisis. The filter will allow Banks to partially add incremental ECL provisions back to their Tier 1 capital for the purpose of calculating capital adequacy ratios. Banks are however required to reverse this capital benefit in a gradual and phased manner over a period of 5 years (ending on 31 December 2024). The CBUAE has also granted extension of the capital buffer relief to 31 December 2021 for banks enrolled in the TESS program.

5. Cash and balances with banks and financial institutions

		2020	2019
Cash		**669,478**	533,859
Statutory deposit with the CBUAE	*5.1*	**1,932,937**	1,689,263
Due from banks	*5.2*	**789,083**	227,632
		3,391,498	**2,450,754**

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 nil *(2019: AED 0.7 million).*

6. Murabaha and wakalah with financial institutions

		2020	2019
Murabaha		**422,208**	1,267,517
Wakalah arrangements	*6.1*	**7,409,572**	6,680,592
		7,831,780	**7,948,109**

6.1 Wakalah arrangements with financial institutions includes Islamic certificate of deposits with CBUAE amounting AED 4.9 billion *(2019: AED 3.5 billion).*

7. Investment securities

Investment securities – by category

	2020	2019
Financial assets at fair value through profit or loss		
- Equity and Funds	**41,148**	40,624
- Sukuks	**63,844**	256,778
	104,992	**297,402**
Financial assets at fair value through other comprehensive income		
- Equity and Funds	**1,029,652**	967,826
- Sukuks	**1,192,418**	936,472
	2,222,070	**1,904,298**
Less: Loss allowance on financial assets measured at FVTOCI	**(734)**	(928)
	2,221,336	**1,903,370**
Financial assets measured at amortised cost	**5,479,669**	3,682,706
Less: Loss allowance on financial assets measured at amortised cost	**(58,591)**	(56,239)
	5,421,078	**3,626,467**
	7,747,406	**5,827,239**

7.1 During the year ended 31 December 2020, an investment in sukuk measured at amortised cost amounting to AED nil *(2019: AED 36 million)* is downgraded to stage 3 under the ECL model and an impairment provision of AED nil *(2019: AED 27 million)* is recognised against this investment.

7.2 Sukuk held at amortised cost include AED 3,076 million *(2019: AED 3,271 million)* pledged against a collateralized commodity murabaha arrangement *(refer note 14.1).*

7.3 During the year ended 31 December 2020, the Group has purchased equity securities amounting AED 78.2 million *(2019: AED nil).*

7. Investment securities (continued)

Investments securities – by quoted / unquoted

		2020	2019
Financial assets at fair value through profit or loss			
- Quoted		**73,428**	266,129
- Unquoted		**31,564**	31,273
		104,992	**297,402**
Financial assets at fair value through other comprehensive income			
- Quoted		**1,934,860**	1,679,951
- Unquoted		**287,210**	224,347
Less: Loss allowance on financial assets measured at FVTOCI		**(734)**	(928)
		2,221,336	**1,903,370**
Financial assets at amortised cost			
- Quoted		**3,871,891**	3,160,569
- Unquoted		**1,607,778**	522,137
Less: Loss allowance on financial assets measured at amortised cost *(note 7.1)*		**(58,591)**	(56,239)
		5,421,078	**3,626,467**
		7,747,406	**5,827,239**

8. 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

		2020	2019
Vehicle murabaha		**218,076**	246,861
Goods murabaha		**8,626,467**	7,248,656
Real estate murabaha		**32,358**	54,203
Other murabaha receivable		**560,861**	439,866
Syndicate murabaha		**1,352,097**	1,484,639
Gross murabaha financing		**10,789,859**	**9,474,225**
Less: deferred profit		**(1,007,659)**	(820,580)
Net murabaha financing		**9,782,200**	**8,653,645**
Ijara financing		**17,296,420**	14,658,166
Qard hasan		**548,921**	267,898
Credit card receivables		**79,513**	81,202
Istisna'a		**2,849,327**	2,600,359
Total investments in Islamic financing		**30,556,381**	**26,261,270**
Less: Loss allowance for investments in Islamic financing	*8.1*	**(1,287,822)**	(1,118,378)
		29,268,559	**25,142,892**

8. Investments in Islamic financing

b) By Sector	2020	2019
Government departments and authorities	**10,926,792**	7,263,091
Construction and contracting	**823,149**	785,486
Manufacturing	**745,265**	787,450
Transportation	**1,523,434**	1,599,121
Real estate	**6,614,683**	6,810,033
Retail businesses	**600,189**	920,717
Trading	**1,655,858**	1,557,034
Financial institutions	**248,515**	175,740
Services and others	**1,254,170**	1,142,987
Individual	**3,053,764**	2,952,152
Consumer home finance	**1,456,580**	1,433,029
High net worth individuals	**2,661,641**	1,655,010
Deferred profit	**(1,007,659)**	(820,580)
Less: Loss allowance for investments in Islamic financing	**(1,287,822)**	(1,118,378)
	29,268,559	**25,142,892**

8.1 Reconciliations from the opening to the closing balance of the gross exposure at default (EAD) and loss allowance (ECL) for retail and corporate banking segment can be seen below.

	2020							
	Stage 1		Stage 2		Stage 3		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
Balance at the beginning of year	23,555,984	194,801	1,354,745	113,428	1,350,541	810,149	26,261,270	1,118,378
Retail banking								
Transfer to Stage 1	14,125	809	(10,710)	(809)	(3,415)	-	-	-
Transfer to Stage 2	(50,007)	(1,375)	50,007	1,375	-	-	-	-
Transfer to Stage 3	(110,130)	(2,917)	(23,717)	(1,135)	133,847	4,052	-	-
Net addition / (repayments)	(120,327)	-	(28,777)	-	745	-	(148,359)	-
Net re-measurement of loss allowance	-	55,934	-	754	-	66,418	-	123,106
Recovery	-	-	-	-	(27,456)	(13,283)	(27,456)	(13,283)
Write-offs	-	-	-	-	(59,873)	(59,873	(59,873)	(59,873)
Corporate banking								
Transfer to Stage 1	82,045	6,592	(82,045)	(6,592)	-	-	-	-
Transfer to Stage 2	(889,086)	(8,447)	889,217	8,447	(131)	-	-	-
Transfer to Stage 3	(97,491)	(1,627)	(216,003)	(21,541)	313,494	23,168	-	-
Net addition / (repayments)	4,440,377	-	304,422	-	(187,589)	-	4,557,210	-
Net re-measurement of loss allowance	-	20,249	-	41,122	-	80,124	-	141,495
Recovery	-	-	-	-	(8,814)	(5,649)	(8,814)	(5,649)
Write-offs	-	-	-	-	(17,597)	(16,352)	(17,597)	(16,352)
Balance at the end of year	26,825,490	264,019	2,237,139	135,049	1,493,752	888,754	30,556,381	1,287,822

8. Investments in Islamic financing (continued)

	2019							
	Stage 1		Stage 2		Stage 3		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
Balance at 1 January	22,631,549	168,261	1,540,472	191,279	1,400,928	1,097,211	**25,572,949**	**1,456,751**
Transfer to Stage 1	603,736	69,506	(599,170)	(69,329)	(4,566)	(177)	**-**	**-**
Transfer to Stage 2	(1,093,510)	(8,510)	1,094,905	8,510	(1,395)	-	**-**	**-**
Transfer to Stage 3	(99,753)	(12,566)	(128,791)	(29,033)	228,544	41,599	**-**	**-**
Net addition / (repayments)	1,513,962	-	(552,671)	-	164,879	-	**1,126,170**	-
Net re-measurement of loss allowance	-	(21,890)	-	12,001	-	88,189	**-**	**78,300**
Recovery	-	-	-	-	(27,129)	(5,953)	**(27,129)**	**(5,953)**
Write-offs	-	-	-	-	(410,720)	(410,720)	**(410,720)**	**(410,720)**
Balance at 31 December	**23,555,984**	**194,801**	**1,354,745**	**113,428**	**1,350,541**	**810,149**	**26,261,270**	**1,118,378**

8.2 Analysis of customers benefiting from payment deferrals

The table below is an analysis of EAD and related ECL for customers that are benefiting from payment deferrals as of 31 December 2020:

	Corporate banking	Retail banking	Total
Group 1:	**TESS and Non-TESS program deferrals**		
Investments in Islamic financing	**5,315,204**	**1,229,187**	**6,544,391**
ECL	**(66,176)**	**(37,506)**	**(103,682)**
Deferral amount	**796,301**	**65,471**	**861,772**
Number of customers	**584**	**5,765**	**6,349**
Group 2:			
Investments in Islamic financing	**848,874**	**65,948**	**914,822**
ECL	**(45,016)**	**(8,675)**	**(53,691)**
Deferral amount	**112,431**	**4,113**	**116,544**
Number of customers	**104**	**169**	**273**

8.3 Portfolio wise analysis of ECL during the year

	2020			
	Stage 1	Stage 2	Stage 3	Total
Balance 1 January	**194,801**	**113,428**	**810,149**	**1,118,378**
Retail banking				
Credit Cards	**(7)**	**(29)**	**(1,068)**	**(1,104)**
Housing Loans	**10,152**	**200**	**14,090**	**24,442**
Personal Loans	**43,088**	**22**	**(13,197)**	**29,913**
Auto Loans	**856**	**45**	**(2,137)**	**(1,236)**
Corporate banking				
Government and related exposures	**8,122**	**-**	**-**	**8,122**
Other Corporates	**7,260**	**17,571**	**40,674**	**65,505**
High Net Worth Individuals	**3,958**	**(12,864)**	**22,222**	**13,316**
SMEs	**(4,211)**	**16,676**	**18,021**	**30,486**
ECL allowance as of 31 December 2020	**264,019**	**135,049**	**888,754**	**1,287,822**

(Currency: Thousands of U.A.E. Dirhams)

9. Investment properties

	2020	**2019**
Balance at the beginning of the year	**2,699,959**	2,318,129
Additions	**178,922**	304,780
Transfer from properties held for sale	**42,192**	83,144
Disposals	**-**	(8,744)
Revaluation (loss) / gain	**(35,029)**	2,650
Balance at the end of the year	**2,886,044**	**2,699,959**

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

	2020	**2019**
Balance at the beginning of the year	**579,478**	658,460
Additions	**176,856**	104,014
Transfer to investment properties	**(42,192)**	(83,144)
Disposals	**(60,065)**	(97,443)
Impairment loss	**(994)**	(2,409)
Balance at the end of the year	**653,083**	**579,478**

11. Other assets

	2020	**2019**
Prepaid expenses and other advances	**29,229**	50,462
Profit receivable	**340,907**	280,917
Sundry debtors	**270,625**	229,264
Assets available for sale - murabaha assets	**39,482**	78,424
Others	**103,865**	115,187
Reimbursements under acceptances	**155,130**	102,708
Less: loss allowance under IFRS 9 on other assets	**(41,877)**	(39,153)
	897.361	**817,809**

12. Property and equipment

	Freehold land & buildings	Right of use assets	Equipment, furniture & fittings	Computer Equipment	Motor vehicles	Capital - work in progress	Total
Cost							
As at 1 January 2020	**885,735**	**74,225**	**136,238**	**103,307**	**5,770**	**58,931**	**1,264,206**
Additions	**2,940**	**10,864**	**4,536**	**3,232**	**-**	**44,564**	**66,136**
Disposals	**(8,959)**	**(10,486)**	**(1,540)**	**(7,930)**	**(559)**	**-**	**(29,474)**
Capitalized	**66,501**	**-**	**809**	**4,567**	**-**	**(71,877)**	**-**
As at 31 December 2020	**946,217**	**74,603**	**140,043**	**103,176**	**5,211**	**31,618**	**1,300,868**
Accumulated depreciation							
As at 1 January 2020	**151,867**	**13,270**	**119,867**	**50,406**	**4,575**	**-**	**339,985**
Charge for the year	**11,861**	**19,187**	**6,424**	**11,716**	**693**	**-**	**49,881**
Disposals	**(4,051)**	**-**	**(1,480)**	**(7,930)**	**(559)**	**-**	**(14,020)**
As at 31 December 2020	**159,677**	**32,457**	**124,811**	**54,192**	**4,709**	**-**	**375,846**
Net book value							
As at 31 December 2020	**786,540**	**42,146**	**15,232**	**48,984**	**502**	**31,618**	**925,022**
As at 31 December 2019	733,868	60,955	16,371	52,901	1,195	58,931	**924,221**

13. Customer deposits

	2020	2019
Current accounts	**8,801,886**	7,268,962
Saving accounts	**2,660,073**	2,227,267
Watani / call accounts	**729,395**	417,513
Time deposits	**20,736,776**	16,795,806
Margins	**680,178**	603,509
	33,608,308	**27,313,057**

14. Due to banks

		5,959,210	4,839,544
Term deposit	*14.1*	**13,853**	288,463
On demand		**5,973,063**	**5,128,007**

14.1 Term deposit with banks include AED 1,943 million *(2019: AED 2,156 million)* under collateralized commodity murabaha arrangement, against which the Group has pledged sukuk amounting to AED 3,076 million *(2019: AED 3,271 million) (refer note 7.2)*. 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 2021 and 2024.

15. Sukuk payable

Name of issuer	Maturity date	2020		2019	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk 2020	17 March 2020	**-**	**-**	1,836,289	2.843%
SIB Sukuk 2021	8 September 2021	**1,835,499**	**3.084%**	1,834,222	3.084%
SIB Sukuk 2023	17 April 2023	**1,833,722**	**4.231%**	1,832,628	4.231%
SIB Sukuk 2025	23 June 2025	**1,831,525**	**2.850%**	-	-
Total		**5,500,746**		**5,503,139**	

16. Other liabilities

		2020	2019
Profit payable		**200,077**	242,156
Accrual and provision		**39,202**	47,974
Accounts payable		**64,474**	142,626
Provision for staff end of service benefits		**75,739**	70,769
Managers' cheques		**62,041**	24,462
Obligations under acceptances		**155,130**	102,708
Sundry creditors		**192,401**	192,815
Lease obligation	16.1	**17,792**	31,126
		806,856	**854,636**

16.1 Lease obligation

	2020	2019
Balance at the beginning of the year	**31,126**	45,702
Recognition	**10,864**	-
De-recognition	**(11,225)**	-
Amortisation	**(12,973)**	(14,576)
Balance at the end of the year	**17,792**	**31,126**

17. Share capital

The Bank's authorised, issued and fully paid up share capital comprises 3,081,597,750 (*2019: 2,934,855,000)* shares of AED 1 each.

	2020		2019	
	No. of shares	Value	No. of shares	Value
Share capital	**3,081,597,750**	**3,081,598**	2,934,855,000	2,934,855

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 *(2019: 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 2020	**1,467,428**	**89,008**	**132,745**	**23,390**
Transfer to (from) reserve	**41,080**	**-**	**(20,374)**	**-**
Change in fair value of financial assets	**-**	**-**	**-**	**20,990**
Balance at 31 December 2020	**1,508,508**	**89,008**	**112,371**	**44,380**
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	**1,467,428**	**89,008**	**132,745**	**23,390**

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 2020 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 2020, profit for the year would have increased by AED 23.2 million *(2019: decreased by AED 66.0 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.

21 Income from investments in Islamic financing and sukuks

	2020	2019
Income from murabaha and wakalah with financial institutions	**48,355**	132,348
Income from murabaha financing	**398,251**	345,132
Income from syndicate products	**34,582**	56,293
Income from ijara financing	**798,386**	833,871
Income from other Islamic financing products	**135,095**	115,957
Profit income on sukuk investments	**313,241**	266,059
	1,727,910	**1,749,660**

22 Investment, fees, commission and other income

Other investment income	**16,928**	35,603
Fees and commissions	**185,528**	217,750
Rental income	**25,380**	31,489
Income from dealing in foreign currencies	**27,501**	22,503
Income from sale of properties held-for-sale	**11,729**	7,590
Income from subsidiaries	**18,142**	14,905
	285,208	**329,840**

23 General and administrative expenses

Staff costs	**388,539**	409,621
Other general and administrative expenses	**123,030**	128,292
Depreciation	**49,881**	47,475
	561,450	**585,388**

24 Impairment on financial assets – net of recoveries

a) Provision on investments in Islamic financing		
Net provision made during the year	**264,602**	78,300
Recoveries during the year	**(18,932)**	(5,953)
	245,670	**72,347**
b) Other provisions		
Net ECL on other financial assets	**10,128**	28,427
(Provision) / Recoveries – subsidiaries receivables	**338**	(3,288)
	10,466	25,139
c) Other recoveries during the year	**(291)**	(714)
Total impairment on financial assets - net of recoveries	**255,845**	**96,772**

25 Distribution to depositors and sukuk holders

	2020	2019
Mudarba and wakala financing from financial institutions	**(84,924)**	(120,550)
Mudarba investments and saving deposits from customers	**(54,416)**	(66,374)
Wakala and other investment deposits from customers	**(437,976)**	(474,605)
Sukuk holders' realized profit on sukuk issues	**(176,650)**	(190,527)
	(753,966)	**(852,056)**

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 405.8 million *(2019: AED 545.5 million)* for the year divided by the weighted average number of shares 3,081,597,750 *(2019: 2,934,855,000)* for the year. There is no dilution impact on basic earnings per share.

27 Cash and cash equivalents

	2020	2019
Cash and cash equivalents comprise of:		
Cash and balances with banks and financial institutions	**3,391,498**	2,450,754
Murabaha and wakalah with financial institutions	**7,831,780**	7,948,109
Less: Due to banks	**(5,973,063)**	(5,128,007)
	5,250,215	**5,270,856**
Less: cash reserves with the CBUAE	**(1,932,937)**	(1,689,263)
Less: due from banks with original maturity of more than 3 months	**(2,849,995)**	(4,751,506)
Add: due to banks with original maturity of more than 3 months	**5,959,210**	4,839,544
Cash and cash equivalents	**6,426,493**	**3,669,631**

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)

Impact of COVID-19 on ECL

The spread of COVID-19 rapidly increased in April 2020 as the number of cases spiked, and governments around the world deployed a multitude of measures to combat the virus and protect their economies. The Group is constantly monitoring the current situation as it unfolds, noting that there is limited economic data available to accurately evaluate the impact of the outbreak on the UAE economy, and on the Bank's financial position as at 31 December 2020.

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

Governance around IFRS 9 ECL models and calculations

Given the significant impact that the macro economic scenarios and weightages will have on the Bank's Expected Credit losses, the Bank has further strengthened its processes, controls and governance frameworks around macro economic forecasting and the computation of Expected Credit losses. The Bank's IFRS 9 Committee, which reports to the Executive Management, has primary responsibility for overseeing the Bank's ECL models. To ensure the ongoing integrity of ECL calculations during times of extreme uncertainty and volatility, the Bank's IFRS 9 Committee will be exercising oversight by conducting regular reviews of the portfolio. The committee will closely monitor the macro economic inputs applied to the IFRS 9 model at the bank and recommend changes required over the period in the light of relevant information received. The committee will continually assess the performance of the Bank's portfolio, ensuring that credit risk behaviors align with the significant increase in credit risk policy and that the staging criteria remain relevant.

The IFRS 9 Committee has reviewed the inputs and assumptions for IFRS 9 ECL measurement in light of available information. While it is challenging to estimate the impact of COVID-19 on our ECL estimates as the situation is still evolving, it is expected to have a deep impact on the macro-economic environment. The Bank has assessed the impact of the crisis and changed the weightages assigned to the scenario probabilities of its ECL models from a 20% weightage to the upward scenario as of 31 December 2019 to a 0% weightage to the upward scenario as of 31 December 2020. Had adverse scenario for corporate portfolio of investments in Islamic financing and other financial assets been increased from 20% by another 10%, or for retail portfolio of investments in Islamic financing been increased from 35% to another 10%, impairment loss allowance would increase by AED 31.5 million.

The Bank considers a range of possible outcomes and their respective probabilities, and to apply judgement in determining what constitutes reasonable and forward looking information. The volatility caused by the current situation has been reflected through adjustment in the methods of forward looking scenario construction. These adjustments reflect the macroeconomic overlays as suggested in the Joint Guidance Note on IFRS 9 by CBUAE. The most significant period-end assumptions used for ECL estimate has been reported in note 4(ii) (a) (VII).

Judgement is also required in estimating EAD, particularly for Islamic financing commitments, including letters of credit and guarantee, and revolving credit facilities such as credit cards, where deterioration in the macro economic environment is generally accompanied by an increase in the volumes and duration of the drawdowns. Credit conversion factor used by the Bank for unutilized limits has been set at 20%, thus stressing EAD to current situation.

The COVID 19 related impact on LGD, the Bank has computed ECL using stressed BASEL LGD of 60% for real estate, construction and contracting and consumer home financing. Islamic financing to individuals' accounts for 10% of the total gross portfolio; ECL on which has been computed based on stressed LGD of as high as 91.9%.

Management will continually monitor how the economic conditions change over the next reporting period and will re-evaluate the adequacy of downside weight, and adverse effect, if any, will be accounted for.

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	Level 1	Level 2	Level 3	Total
31 December 2020					
Financial assets					
Investment securities - FVTPL	*7*	**73,428**	-	**31,564**	**104,992**
Investment securities – FVTOCI	*7*	**1,934,860**	-	**287,210**	**2,222,070**
Total		**2,008,288**	-	**318,774**	**2,327,062**
Non-financial assets					
Investment properties	*9*	-	-	**2,886,044**	**2,886,044**

	Notes	Level 1	Level 2	Level 3	Total
31 December 2019					
Financial assets					
Investment securities - FVTPL	*7*	266,129	**-**	31,273	**297,402**
Investment securities – FVTOCI	*7*	1,679,951	-	224,347	**1,904,298**
Total		**1,946,080**	-	**255,620**	**2,201,700**
Non-financial assets					
Investment properties	*9*	-	**-**	**2,699,959**	**2,699,959**

There were no transfers of any financial asset in between any of the levels in fair value hierarchy during the years 2020 and 2019.

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

	2020	**2020**	2019	2019
	FVTPL	**FVTOCI**	FVTPL	FVTOCI
Balance as at 1 January	**31,273**	**224,347**	36,814	231,658
Revaluation loss	**291**	**(15,334)**	(5,541)	(7,311)
Additions	**-**	**78,197**	-	-
As at 31 December	**31,564**	**287,210**	**31,273**	**224,347**

Non-financial assets

	2020	2019
Balance at the beginning of the year	**2,699,959**	2,318,129
Additions	**178,922**	304,780
Transfer from held-for-sale	**42,192**	83,144
Disposal	**-**	(8,744)
Revaluation loss	**(35,029)**	2,650
Balance at the end of the year	**2,886,044**	**2,699,959**

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 2020	**289,761**	**(289,761)**	**28,721**	**(28,721)**
31 December 2019	273,123	(273,123)	22,435	(22,435)

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.

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Financial assets					
Cash and balances with banks and financial institutions	**-**	**3,391,498**	**-**	**3,391,498**	**3,391,498**
Murabaha and wakalah with financial institutions	**-**	**7,831,780**	**-**	**7,831,780**	**7,831,780**
Investment securities measured at amortised cost	**4,080,645**	**-**	**1,548,151**	**5,628,796**	**5,421,078**
Investment in Islamic financing	**-**	**-**	**29,268,559**	**29,268,559**	**29,268,559**
Other assets	**-**	**-**	**791,657**	**791,657**	**791,657**
Total	**4,080,645**	**11,223,278**	**31,608,367**	**46,912,290**	**46,704,572**
Financial liabilities					
Customers' deposits	**-**	**-**	**33,608,308**	**33,608,308**	**33,608,308**
Due to banks	**-**	**5,973,063**	**-**	**5,973,063**	**5,973,063**
Sukuk payable	**5,500,746**	**-**	**-**	**5,500,746**	**5,500,746**
Other liabilities	**-**	**-**	**731,117**	**731,117**	**731,117**
Total	**5,500,746**	**5,973,063**	**34,339,425**	**45,813,234**	**45,813,234**

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

Financial instruments not measured at fair value (continued)

31 December 2019	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
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 securities measured at amortised cost	3,212,742	-	468,393	3,681,135	**3,626,467**
Investment in Islamic financing	-	-	25,142,892	25,142,892	**25,142,892**
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**

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	Expected market rental growth rate	The estimated fair value increase / decrease if:
	Risk adjusted discount rates	Expected market rental growth rate were higher or lower
	Free hold property	The risk adjusted discount rates were lower / higher
	Free of covenants, third party rights and obligations	The property is not free hold
	Statutory and legal validity	The property is subject to any covenants, rights and obligations
	Condition of the property	The property is subject to any adverse legal notices / judgment
		The property is subject to any defect / damages
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.

(Currency: Thousands of U.A.E. Dirhams)

29. Segment reporting (continued)

For the year ended 31 December 2020:	Corporate and government	Retail	Investment and treasury	Hospitality, brokerage and real estate	Total
Consolidated statement of profit or loss:					
Income from investments in Islamic financing and sukuks	**962,547**	**332,517**	**432,846**	**-**	**1,727,910**
Less: distribution to depositors and sukuk holders	**(419,970)**	**(41,079)**	**(292,917)**	**-**	**(753,966)**
Net income from financing and investment products	**542,577**	**291,438**	**139,929**	**-**	**973,944**
Investments, fees, commission and other income	**123,666**	**63,499**	**33,290**	**64,753**	**285,208**
Total operating income	**666,243**	**354,937**	**173,219**	**64,753**	**1,259,152**
General and administrative expenses	**-**	**-**	**-**	**(40,789)**	**(40,789)**
General and administrative expenses - unallocated	**-**	**-**	**-**	**-**	**(520,661)**
Net operating income before impairment and revaluation	**666,243**	**354,937**	**173,219**	**23,964**	**697,702**
Less: impairment on financial assets - net of recoveries	**(124,494)**	**(105,747)**	**(23,151)**	**(2,453)**	**(255,845)**
Revaluation loss on properties	**-**	**-**	**-**	**(36,023)**	**(36,023)**
Profit for the year	**541,749**	**249,190**	**150,068**	**(14,512)**	**405,834**
As at 31 December 2020:					
Consolidated statement of financial position:					
Assets					
Segment assets	**23,530,963**	**4,756,938**	**23,400,229**	**1,452,369**	**53,140,499**
Unallocated assets	**-**	**-**	**-**	**-**	**460,254**
Total assets	**23,530,963**	**4,756,938**	**23,400,229**	**1,452,369**	**53,600,753**
Liabilities					
Segment liabilities	**26,383,978**	**5,589,668**	**13,582,122**	**53,191**	**45,608,959**
Unallocated liabilities	**-**	**-**	**-**	**-**	**346,436**
Total liabilities	**26,383,978**	**5,589,668**	**13,582,122**	**53,191**	**45,955,395**
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
Less: distribution to depositors and sukuk holders	(478,661)	(50,900)	(322,495)	-	(852,056)
Net income from financing and investment products	**431,660**	**309,806**	**156,138**	**-**	**897,604**
Investments, fees, commission and other income	127,828	69,678	62,205	70,129	329,840
Total operating income	**559,488**	**379,484**	**218,343**	**70,129**	**1,227,444**
General and administrative expenses	-	-	-	(40,989)	(40,989)
General and administrative expenses - unallocated	-	-	-	-	(544,399)
Net operating income before impairment and revaluation	**559,488**	**379,484**	**218,343**	**29,140**	**642,056**
Less: impairment on financial assets - net of recoveries	86,681	(103,234)	(82,433)	2,214	(96,772)
Revaluation gain on properties	-	-	-	241	241
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**

(Currency: Thousands of U.A.E. Dirhams)

29. Segment reporting (continued)

Geographical analysis

	2020							
Assets	**GCC**	**Other Arab Countries**	**North America**	**USA**	**Europe**	**Asia**	**Other**	**Total**
Cash and balances with banks and financial institutions	**2,620,590**	**823**	**7,322**	**312,871**	**447,084**	**2,808**	**-**	**3,391,498**
Murabaha and wakalah with financial institutions	**7,576,775**	**18,365**	**-**	**-**	**-**	**236,640**	**-**	**7,831,780**
Investments securities	**6,748,506**	**-**	**-**	**-**	**4,045**	**985,290**	**9,565**	**7,747,406**
Investments in Islamic financing	**28,347,480**	**398,960**	**-**	**13**	**1,013**	**521,093**	**-**	**29,268,559**
Investment properties	**2,886,044**	**-**	**-**	**-**	**-**	**-**	**-**	**2,886,044**
Properties held-for-sale	**653,083**	**-**	**-**	**-**	**-**	**-**	**-**	**653,083**
Other assets	**894,165**	**1,729**	**-**	**-**	**2**	**1,465**	**-**	**897,361**
Property and equipment	**925,022**	**-**	**-**	**-**	**-**	**-**	**-**	**925,022**
Total assets	**50,651,665**	**419,877**	**7,322**	**312,884**	**452,144**	**1,747,296**	**9,565**	**53,600,753**
Liabilities and shareholders' equity								
Customers' deposits	**33,464,815**	**43,527**	**7,865**	**12,375**	**42,405**	**16,173**	**21,148**	**33,608,308**
Due to banks	**3,798,968**	**55,095**	**-**	**-**	**1,938,996**	**180,004**	**-**	**5,973,063**
Sukuk payable	**5,500,746**	**-**	**-**	**-**	**-**	**-**	**-**	**5,500,746**
Other liabilities and zakat payable	**834,810**	**43**	**34,559**	**2**	**3,823**	**37**	**4**	**873,278**
Shareholders' equity	**7,645,358**	**-**	**-**	**-**	**-**	**-**	**-**	**7,645,358**
Total liabilities and shareholder's equity	**51,244,697**	**98,665**	**42,424**	**12,377**	**1,985,224**	**196,214**	**21,152**	**53,600,753**
Contingent liabilities	**2,116,898**	**-**	**-**	**-**	**352**	**-**	**-**	**2,117,250**

29. Segment reporting (continued)

Geographical analysis (continued)

	2019							
Assets	**GCC**	**Other Arab Countries**	**North America**	**USA**	**Europe**	**Asia**	**Other**	**Total**
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 securities	4,581,485	704,032	-	-	9,119	514,250	18,353	**5,827,239**
Investments in Islamic financing	23,758,697	637,399	7	9	1,180	745,532	68	**25,142,892**
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**

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.

	2020	2019
a) Letter of credit - by sector:		
Corporate	**185,856**	139,331
Government	**148**	-
	186,004	**139,331**
b) Letter of guarantee – by sector:		
Banks	**61,074**	72,265
Corporate	**1,483,732**	1,598,974
Government	**20,797**	8,798
High net worth individual	**14,230**	23,469
Non-banking financial institution	**330,368**	364,368
Retail	**21,045**	14,775
	1,931,246	**2,082,649**
c) Capital commitments		
Property and equipment	**17,470**	52,399
Other real estate commitments	**98,032**	229,964
	115,502	**282,363**

Others

The letter of guarantees issued also include financial guarantees of AED 50 million and AED 5 million *(2019: 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 *(2019: AED 30 million).*

The Bank receives legal claims arising in the normal course of business. As of the reporting date, The Bank has assessed these claims and considers them not to be material, individually or in aggregate. Where appropriate, the Bank has recognised a provision for liabilities when it was probable that an outflow of economic resources embodying economic benefits would be required and for which a reliable estimate could 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:

	2020			
Statement of financial position	**Key management personnel**	**Major shareholders**	**Other related parties**	**Total**
Investment in Islamic financing	**679,870**	**2,243,450**	**6,001,766**	**8,925,086**
Customers deposits	**(152,012)**	**(662,205)**	**(5,018,937)**	**(5,833,154)**
Contingent liabilities – off balance sheet	**58,489**	**6,825**	**20,945**	**86,259**
Statement of profit or loss				
For the year ended 31 December 2020				
Income from Islamic financing	**27,236**	**87,521**	**175,498**	**290,255**
Depositors' share of profit	**(959)**	**(5,696)**	**(98,525)**	**(105,180)**

	2019			
Statement of financial position	**Key management personnel**	**Major shareholders**	**Other related parties**	**Total**
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)**

Key management compensation includes salaries and other short term benefits of AED 23.0 million in 2020 *(2019: AED 23.6 million)* and post-employment benefits of AED 1.4 million in 2020 *(2019: AED 1.4 million).*

As at 31 December 2020, the Group does not have any related party balance in stage 3 classification.

32. Social contributions

The Bank has made social contributions of AED 62.3 million *(2019: AED 60.9 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 9.9 million *(2019: AED 4.7 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 1.9 million *(2019: 1.7 million)* as sponsorships to universities and other public service organisations.

33. Dividends

During the annual general meeting of the shareholders held on 22 February 2020, a cash dividend of 5% and stock dividend of 5% of the paid up capital, each amounting to AED 146.7 was approved for the year ended 31 December 2019 (2019: 8% dividend, amounting to AED 234.8 million for the year ended 31 December 2018).

34. Comparatives figures

Certain comparative amounts in condensed consolidated interim statement of cash flows and notes to the condensed consolidated interim financial information have been adjusted to conform to the presentation adopted in the consolidated financial statements for the year ended 31 December 2020.

35. Subsequent event

On 2 January 2021, 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 2020.

36. Approval of the consolidated financial statements

These consolidated financial statements were authorised for issue in accordance with a resolution of Directors on 20 January 2021. The Directors have the power to amend the consolidated financial statements after issue.