Bank of Sharjah P.J.S.C.

**Consolidated financial statements
for the year ended 31 December 2019**

Consolidated Financial Statements
for the year ended 31 December 2019

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Board of Directors' report

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

INCORPORATION AND REGISTERED OFFICE

Bank of Sharjah P.J.S.C. (the "Bank") is a Public Joint Stock Company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness the Ruler of Sharjah and was registered in February 1993 under Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced operations under a banking license issued from United Arab Emirates Central Bank dated 26 January 1974.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates.

PRINCIPAL ACTIVITIES

The Bank's principal activities are commercial and investment banking.

RESULTS

The Bank's UAE operations have generated a Net Profit of AED 163 million (2018: AED 130 million) However as a result of the exceptional situation in Lebanon, unrealized non cash provisions were called for on the Bank's subsidiary, Emirates Lebanon Bank SAL ("ELBank"), leading to a Net loss of AED 488 million.

The unrealized losses represent AED 274 million goodwill impairment, out of which AED 185 million is denominated in Lebanese Liras at the official LBP rate and AED 377 million towards Expected Credit Losses ("ECL") on limited exposure in Sovereign Bonds and balances maintained with Banque Du Liban ("BDL"), while it is expected that this ECL will be amortized as per expected BDL guidelines, over 5 to 10 years with effect from 2020 onwards and depending on compliance with Circular No. 13129, dated 4 November 2019, calling for the increase by 20% of the Equity of Lebanese banks prior to 30 June 2020. (Bank of Sharjah has complied fully with the above Circular).

The detailed results are set out in the attached consolidated financial statements.

GOING CONCERN BASIS

The Board of Directors has reasonable expectation that the Group has adequate resources and support to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2019.

TRANSACTIONS WITH RELATED PARTIES

The consolidated financial statements disclose related party transactions and balances in note 35. All transactions are carried out as part of our normal course of business and in compliance with applicable laws and regulations.

AUDITORS

KPMG were appointed as external auditors for the Group for the year ended 31 December 2019. KPMG have expressed their willingness to continue in office. A shareholder resolution for the reappointment of KPMG is proposed and to absolve them of their responsibility for the year ended 31 December 2019.

DIRECTORS

The Directors during the year were:

1. Sheikh Mohammed Bin Saud Al Qasimi (Chairman)
2. Sh. Saif Bin Mohammed Bin Butti Al Hamed (Vice Chairman)
3. HE. Humaid Nasir Al Owais
4. Mr. Abdul Aziz Al Midfa
5. Mr. Abdul Aziz Al Hasawi
6. Mr. Saud Al Besharah
7. Mr. Salem Al Ghammai
8. Salah Ahmed Abdalla Al Noman
9. Mr. Abdulla Sherif Al Fahim
10. Mr. François Dauge

On behalf of the Board

Mohammed Bin Saud Al Qasimi
Chairman

KPMG Lower Gulf Limited
2002, Al Batha Tower
Buhaira Corniche, Sharjah, UAE
Tel. +971 (6) 517 0700, Fax (6) 5723773

Independent Auditors' Report

To the Shareholders of Bank of Sharjah P.J.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional 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 Matters (continued)

Impairment of loans and advances to customers

Refer to note 4.4.3, 5.2, 9, 33 and 38 of the consolidated financial statements.

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

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

Our response

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

Controls Testing

- Testing key controls over modelling process, including model review and approval;

- Testing key controls over the accuracy of key inputs and appropriateness of key assumptions and judgment's used in the model;

- Testing key controls over significant increase in credit risk (SICR) criteria involved testing controls relating to authorisation of the criteria and the application of the criteria in the models;

- Testing key controls over internal credit grading (which is a key driver in determining SICR) and monitoring the process; to assess if the risk grades allocated to counterparties were appropriately identified and updated on a timely basis; and

- Testing controls over the assessment of model outputs and authorisation and review of post model adjustments and management overrides.

Key Audit Matters (continued)

Impairment of loans and advances to customers (continued)

Our response (continued)

Involvement of Specialists

- We involved our accounting specialists to assist in reviewing the reasonableness of the Group's IFRS 9 policy including the appropriateness of the assumptions being used and for the portfolios examined we have involved our financial risk modelling specialists to assist in evaluating the appropriateness of the SICR criteria including assessing the IFRS 9 ECL methodology, macro-economic scenarios and probabilities used by the management in the Group's IFRS 9 ECL models. As part of this work we assessed probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD') assumptions.

- We have involved our information technology specialists to assist in testing the relevant General IT and Applications Controls over Key Systems used in ECL Process.

Substantive Testing

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

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

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

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

- Assessing the adequacy of the Group's disclosure in relation to IFRS 9 and use of significant estimates and judgement by reference to the requirements of the relevant accounting standards.

Key Audit Matters (continued)

Valuation of Level 3 financial instruments

Refer to note 5.2, 10 and 40 of the consolidated financial statements.

The risk is that the valuation of financial instruments maybe misstated due to the application of valuation techniques which often involve the exercise of significant judgement and the use of assumptions and estimates.

Of the financial instruments that are held at fair value through profit or loss or as fair value through other comprehensive income in the Group's consolidated statement of financial position, 34% (2018: 40%) were measured using level 3 inputs in the fair value hierarchy as at 31 December 2019.

Financial instruments are classed at Level 3 because significant pricing inputs to them are unobservable. The determination of these prices is inherently more subjective and as such due to the uncertainty in estimating some of the fair values, this is considered as a key audit matter.

Our response

Our audit procedures included:

1. The assessment of controls over the identification, measurement and management of valuation risk, evaluating the methodologies, reasonableness of inputs and assumptions used by the Group in determining fair values.

2. Where necessary, involved specialist in assessing, for a selection of investments, key inputs, assumptions used by management and supporting to key factors.

3. Assessing the adequacy of the Group's disclosure in relation to the requirements of the relevant accounting standards.

Valuation of investment properties and properties acquired in settlement of debt

Refer to note, 4.6, 4.12, 11 and 13 of the consolidated financial statements.

Due to the significance of these properties, the general slowdown in the UAE real estate sector and the impact on the consolidated statement of profit or loss and related estimation uncertainty, this is considered as a key audit matter.

The valuation of the portfolio is a significant judgment area and is underpinned by a number of assumptions. The existence of significant estimation uncertainty warrants specific audit focus in this area as any bias or error in determining the fair value, whether deliberate or not, could lead to an overstatement (or understatement) of profit or loss for the year.

Key Audit Matters (continued)

Valuation of investment properties and properties acquired in settlement of debt (continued)

Our response

Our audit procedures included:

1. We assessed the competence, independence and integrity of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;

2. We obtained the external valuation reports for all properties and confirmed that the valuation approach is in accordance with international standards and suitable for use in determining the carrying value in the consolidated statement of financial position;

3. We involved a specialist to carry out procedures on selected samples, to assess key valuation assumptions, such as market rent, sale prices, discount rates and capitalisation rates and cross-check the accuracy of these assumptions adopted by the valuers; and

4. Based on the outcome of our evaluation we determined the adequacy of the disclosure in the consolidated financial statements.

Carrying value of goodwill

Refer to note, 4.17 and 12 of the consolidated financial statements.

The Group's acquisition of Emirates Lebanon Bank resulted in goodwill being recorded. Management performed it's annual impairment assessment of goodwill which arose from the acquisition. For cash generating units (CGUs) which contain goodwill, the determination of recoverable amount being the higher of fair value less cost to sell and value in use requires judgement on the part of management in both identifying and then determining the recoverable amount of the CGUs.

Our response

Our procedures included the following:

1. We assessed the management's identification of CGU, and the methodology adopted by management in its impairment assessment of goodwill;

2. We assessed the reasonableness of the cash flow projections alongside with the growth rate assumption to externally available industry, economic and financial data;

3. We involved our valuation specialists to critically assess the appropriateness of the discount rates used in order to determine estimated discounted cash flows and benchmarking these against external data sources;

Key Audit Matters (continued)

Carrying value of goodwill (continued)

Our response (continued)

4. We performed sensitivity analysis over the estimated discounted future cash flows and assessed the impact of changes in the key assumptions to the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias; and

5. We performed an assessment over management's ability to accurately forecast and compared to actual results based on historic data available.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the consolidated financial statements and our auditors' report thereon. We obtained the Directors' report, prior to the date of this auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of the auditors' report.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' 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 the reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements (continued)

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

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

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

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

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;

v) as disclosed in note 10 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2019;

Report on Other Legal and Regulatory Requirements (continued)

vi) note 35 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

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

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

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 purposes of our audit.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No: 968
Dubai, United Arab Emirates
Date: 8 July 2020

Consolidated Statement of Financial Position
As at 31 December

	Notes	2019 AED'000	2018 AED'000
ASSETS			
Cash and balances with central banks	6	5,808,927	4,636,343
Deposits and balances due from banks	7	350,287	507,785
Reverse-repo placements	8	457,291	849,188
Loans and advances, net	9	17,735,756	17,301,105
Investments measured at fair value	10	619,478	817,319
Investments measured at amortised cost	10	452,219	671,554
Investment properties	11	756,037	608,473
Goodwill and other intangibles	12	136,587	416,056
Assets acquired in settlement of debt	13	4,044,572	2,113,117
Other assets	13	994,831	894,390
Derivative assets held for risk management	14	20,400	3,590
Property and equipment	15	370,920	304,577
Total assets		31,747,305	29,123,497
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	17	21,326,234	20,119,169
Deposits and balances due to banks	18	42,989	304,931
Repo borrowings	19	130,230	-
Other liabilities	20	1,513,253	1,267,702
Derivative liabilities held for risk management	14	7,577	62,808
Issued bonds	21	5,597,926	3,589,972
Total liabilities		28,618,209	25,344,582
Equity			
Capital and reserves			
Share capital	22 (a)	2,100,000	2,100,000
Statutory reserve	22 (b)	1,050,000	1,050,000
Contingency reserve	22 (c)	640,000	600,000
General and other reserves	9 (d) &22 (d)	293,109	250,257
Investment fair value reserve		(682,249)	(535,375)
(Accumulated losses)/ Retained earnings		(291,984)	300,324
Equity attributable to equity holders of the Bank		3,108,876	3,765,206
Non-controlling interests		20,220	13,709
Total equity		3,129,096	3,778,915
Total liabilities and equity		31,747,305	29,123,497

To the best of our knowledge, the consolidated financial statements fairly presents, in all material respects, the consolidated financial position, financial performance and consolidated cash flows of the Group as of, and for, the year ended 31 December 2019.

Mohammed Bin Saud Al Qasimi
Chairman

Varouj Nerguizian
General Manager

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

Consolidated Statement of Profit or Loss
for the year ended 31 December

	Notes	2019 AED'000	2018 AED'000
Interest income	28	1,388,048	1,268,889
Interest expense	29	(972,393)	(756,166)
Net interest income		415,655	512,723
Net fee and commission income	30	159,823	172,866
Exchange profit		11,532	14,928
Income on investments	31	21,740	31,303
Revaluation loss on properties and shares	11, 12, 13	(84,677)	(25,635)
Other income	32	40,034	15,292
Operating income		564,107	721,477
Net impairment loss on financial assets	33	(438,654)	(251,785)
Goodwill impairment	12	(273,559)	-
Net operating (loss)/ income		(148,106)	469,692
Personnel expenses	34	(183,721)	(197,723)
Depreciation	34	(34,862)	(27,915)
Other expenses	34	(99,283)	(91,762)
Amortisation of intangible assets	12	(5,910)	(5,910)
(Loss)/ profit before taxes		(471,882)	146,382
Income tax expense - overseas		(15,802)	(16,680)
Net (loss)/ profit for the year		(487,684)	129,702
		==========	==========
Attributable to:			
Equity holders of the Bank		(494,195)	127,455
Non-controlling interests		6,511	2,247
Net (loss)/ profit for the year		(487,684)	129,702
		==========	==========
Basic and diluted (loss)/ earnings per share (AED)	23	(0.24)	0.06
		==========	==========

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December

	2019 AED'000	2018 AED'000
Net (loss)/ profit for the year	**(487,684)**	129,702
Other comprehensive income items *Items that will not be reclassified subsequently to consolidated statement of profit or loss:*		
Net changes in fair value of financial assets measured at fair value through other comprehensive income	**(104,488)**	(220,519)
Net changes in fair value of own credit risk on financial liabilities designated at fair value through profit or loss	**(42,386)**	93,408
Other comprehensive loss for the year	**(146,874)**	(127,111)
Total comprehensive (loss) / income for the year	**(634,558)**	2,591
Attributable to:		
Equity holders of the Bank	**(641,069)**	344
Non-controlling interests	**6,511**	2,247
Total comprehensive (loss) / income for the year	**(634,558)**	2,591

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

Bank of Sharjah P.J.S.C.

Consolidated Statement of Changes in Equity
for the year ended 31 December

	Share capital AED'000	Statutory reserve AED'000	Contingency reserve AED'000	General and other reserves AED'000	Investment fair value reserve AED'000	(Accumulated losses)/ Retained earnings AED'000	Total equity attributable to owners of the parent AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2018	**2,100,000**	**1,050,000**	**560,000**	**100,000**	**(400,782)**	**647,251**	**4,056,469**	**11,462**	**4,067,931**
Net profit for the year	-	-	-	-	-	127,455	127,455	2,247	129,702
Other comprehensive loss	-	-	-	-	(127,111)	-	(127,111)	-	(127,111)
Total comprehensive income for the year	-	-	-	-	(127,111)	127,455	344	2,247	2,591
Transactions with owners of the Group									
Effect of adopting IFRS9	-	-	-	-	-	(265,158)	(265,158)	-	(265,158)
Effect of adopting IFRS9 for a subsidiary	-	-	-	-	(7,482)	-	(7,482)	-	(7,482)
Transfer to IFRS9 reserves (Note 9d)	-	-	-	150,257	-	(150,257)	-	-	-
Transfer to contingency reserve	-	-	40,000	-	-	(40,000)	-	-	-
Distribution to directors (Note 24)	-	-	-	-	-	(11,467)	(11,467)	-	(11,467)
Charity donations (Note 24)	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Balance at 31 December 2018	**2,100,000**	**1,050,000**	**600,000**	**250,257**	**(535,375)**	**300,324**	**3,765,206**	**13,709**	**3,778,915**
Net loss for the year	-	-	-	-	-	(494,195)	(494,195)	6,511	(487,684)
Other comprehensive loss	-	-	-	-	(146,874)	-	(146,874)	-	(146,874)
Total comprehensive loss for the year	-	-	-	-	**(146,874)**	**(494,195)**	**(641,069)**	**6,511**	**(634,558)**
Transactions with owners of the Group									
Disposal of FVOCI investment	-	-	-	-	-	6,919	6,919	-	6,919
Effect of adopting IFRS16 (Notes 2.2 & 4.22)	-	-	-	-	-	(3,874)	(3,874)	-	(3,874)
Transfer to IFRS9 reserves (Note 9d)	-	-	-	42,852	-	(42,852)	-	-	-
Transfer to contingency reserve	-	-	40,000	-	-	(40,000)	-	-	-
Distribution to directors (Note 24)	-	-	-	-	-	(10,806)	(10,806)	-	(10,806)
Charity donations (Note 24)	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Balance at 31 December 2019	**2,100,000**	**1,050,000**	**640,000**	**293,109**	**(682,249)**	**(291,984)**	**3,108,876**	**20,220**	**3,129,096**
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The accompanying notes form an integral part of these consolidated financial statements.

Bank of Sharjah P.J.S.C.

Consolidated Statement of Cash Flows
for the year ended 31 December

	2019 AED'000	2018 AED'000
Cash flows from operating activities		
Net (loss)/ profit for the year	**(487,684)**	129,702
Adjustments for:		
Depreciation of property and equipment	**34,862**	27,915
Amortisation of other intangible assets	**5,910**	5,910
Amortisation of premium on debt instruments	**619**	506
Gain on sale of investment properties	**1,000**	-
(Gain)/ loss on sale on assets acquired in settlement of debts	**(22,547)**	15
Net fair value loss/ (gain) on issued debt securities	**2,534**	(54,874)
Net fair value (gain)/ loss on interest rate swaps	**(2,534)**	54,874
Net fair value loss on other financial assets	**(396)**	(17,145)
Fair value (gain)/ loss on revaluation of investment properties and shares	**(17,353)**	12,138
Unrealized loss on assets acquired in settlement of debts	**100,676**	13,497
Net impairment loss on financial assets	**438,654**	251,785
Dividends income	**(20,047)**	(15,091)
Goodwill impairment	**273,559**	-
Operating profit before changes in operating assets and liabilities	**307,253**	409,232
Changes in		
Deposits and balances due from banks maturing after three months	**91,935**	(28,134)
Statutory deposits with central banks	**(15,763)**	69,468
Loans and advances	**(873,305)**	(927,131)
Other assets	**(2,136,901)**	25,909
Customers' deposits	**1,207,065**	(1,511,302)
Other liabilities	**163,955**	247,961
Cash used in operating activities	**(1,255,761)**	(1,713,997)
Payment of directors' remuneration and charity donations	**(18,306)**	(18,967)
Net cash used in operating activities	**(1,274,067)**	(1,732,964)
Cash flows from investing activities		
Purchase of property and equipment	**(20,281)**	(63,992)
Proceeds from sale of property and equipment	**26,491**	307
Purchase of other financial assets	**2,085**	(210,944)
Additions to investment properties	**(130,211)**	(35,753)
Proceeds from sale of other financial assets	**310,379**	117,828
Dividends received	**20,047**	15,091
Net cash generated from/ (used in) investing activities	**208,510**	(177,463)
Cash flows from financing activities		
Issued bonds	**3,023,560**	-
Partial settlement of bonds	**(1,126,931)**	-
Net cash generated from financing activities	**1,896,629**	-
Net increase/ (decrease) in cash and cash equivalents	**831,072**	(1,910,427)
Cash and cash equivalents at the beginning of the year	**3,203,321**	5,113,748
Cash and cash equivalents at the end of the year (Note 26)	**4,034,393**	3,203,321
	=========	=========

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2019

1 General information

Bank of Sharjah P.J.S.C. (the "Bank"), is a public joint stock company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through eight branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the "Group").

2 Application of new and revised International Financial Reporting Standards ("IFRSs")

2.1 Relevant new and revised IFRS

Relevant new and revised IFRS applied with no material effect on the consolidated financial statements

	Effective for annual periods beginning on or after
• Annual improvements 2015-2017 cycle	1 January 2019
• Prepayment features with Negative Compensation - Amendments to IFRS 9	1 January 2019
• Long-term interests in Associates and Joint Ventures – Amendments to IAS 28	1 January 2019
• Plan Amendment, Curtailments or Settlement - Amendments to IAS 19	1 January 2019

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2019.

Relevant new and revised IFRS issued but not yet effective

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

	Effective for annual periods beginning on or after
• Definition of a Business – Amendments to IFRS 3	1 January 2020
• Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
• Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020
• The Conceptual Framework for Financial Reporting	1 January 2020
• IFRS 17 Insurance Contracts	1 January 2023

2 Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

2.1 Relevant new and revised IFRS (continued)

Relevant new and revised IFRS issued but not yet effective (continued)

Management anticipates that these IFRS and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

2.2 Changes in accounting policies

Transition

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Impact on financial statements

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

	1 January 2019 **AED'000**
Right-of-use assets presented in property and equipment	80,321
Lease liabilities	82,840
Retained earnings	(3,874)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 4.23%.

	1 January 2019 **AED'000**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	109,001
Discounted using the incremental borrowing rate at 1 January 2019	4.23%
Lease liabilities recognized at 1 January 2019	82,840

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

2.2 Changes in accounting policies (continued)

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'Operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The financial impact of adopting the standard is not material.

There were no leases previously classified as finance lease by the entity.

Group's leasing activities and how they are accounted for

During the financial year 2018, leases of office premises were classified as operating lease. Payments made under the operating leases (net of any incentives received from the lessor) were charged to profit and loss account on a straight line basis over the period of lease.

From 1 January 2019, leases are recognized 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 interest 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;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; 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 interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee 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.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group’s accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

- Any lease payments made at or before the commencement date less any lease incentives received,
- Any initial direct costs, and
- Restoration costs.

2 Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

2.2 Changes in accounting policies (continued)

Group's leasing activities and how they are accounted for (continued)

Critical judgments in determining the lease term:

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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.

3 Basis of preparation

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standard Board (IASB) and applicable requirements of the laws of the U.A.E.

These consolidated financial statements include Basel III Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank of the UAE.

3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies below.

3.3 Functional and presentation currency

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

4 Summary of significant accounting policies

4.1 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.

4 Summary of significant accounting policies (continued)

4.1 Basis of consolidation (continued)

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. This includes circumstances in which protective rights (e.g. more from a lending relationship) becomes substantive and lead to the Bank having power over as investee.

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

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

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

Profit or loss and each component of other comprehensive income are attributable to the owners of the Bank and to the non-controlling interests.

Total comprehensive income of the subsidiaries is attributable to the owners of the Group and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Group.

4 Summary of significant accounting policies (continued)

4.1 Basis of consolidation (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 (IFRS 9 Financial instruments) issued in 2010, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4.2 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4.3 Reverse-repo placements

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

4.4 Financial instruments

4.4.1 Recognition and Initial Measurement

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.

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.

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

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.1 Recognition and Initial Measurement (continued)

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

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

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

4.4.2 Classification of financial assets

Balances with central banks, due from banks and financial institutions, financial assets 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).

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.2 Classification of financial assets (continued)

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

Financial assets measured at amortised cost

The effective interest 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 interest 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 interest rate, transaction costs and other premiums or discounts) through the expected life of the financial 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 interest rate basis for financing and investing instruments measured subsequently at amortised cost.

Financial assets measured at FVTPL

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Group designates fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets that do not meet the amortised cost criteria described above, or that meet the criteria but the Group has chosen to designate it as at FVTPL at initial recognition, are measured at FVTPL.

Financial assets (other than equity instruments) may be designated 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 or losses on them on different basis.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met.

Reclassification of financial assets (other than equity instruments) designated as at FVTPL at initial recognition is not permitted.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss at the end of each reporting period. The net gain or loss recognised in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 40.

Financial assets measured at FVTOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.2 Classification of financial assets (continued)

Financial assets measured at FVTOCI (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- 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; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments fair value reserve is not transferred to consolidated statement of profit or loss.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank 's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; 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 Bank’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.

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.2 Classification of financial assets (continued)

Assessments whether contractual cash flows are solely payments of principal and interest

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank 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 Bank 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 from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan; and
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and whether the Group will benefit from any upside from the underlying assets.

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.3 Measurement of ECL

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

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

However, for unfunded exposures, ECL is measured as follows:

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

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

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

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

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.3 Measurement of ECL (continued)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

- PD – PD estimates are estimates at a certain date, which are calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories and sizes of counterparties .

- EAD – EAD represents the expected exposure upon default of an obligor. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

  EAD is calculated as below:

  - For Direct Facilities: Limit or Exposure whichever is higher
  - For Letters of Credit & Acceptances: Limit or Exposure whichever is higher
  - For all types of Guarantees: Exposure

- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from the proceeds from liquidation of any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims.

  LGD is derived as below:

  - Senior Unsecured: 45%
  - Subordinated Unsecured: 75%
  - Eligible Securities as per Basel lower LGD, taking into consideration applicable Basel haircuts on collateral as well as LGD floors to certain collateral

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.3 Measurement of ECL (continued)

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;
- collateral type;
- date of initial recognition;
- remaining term of maturity;
- industry;
- geography location of the borrower;
- size of counterparty; and
- segment of counterparty.

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

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement. The group formulates three economic scenarios: a base case with a 40% weight, upside scenario with a 30% weight and an advance scenario with 30% weight.

Macroeconomic factors

In its models, the Group relies on a broad range of forward-looking information as economic inputs, such as: GDP (Gross Domestic Product) growth and oil prices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.3 Measurement of ECL (continued)

Macroeconomic factors (continued)

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

	Macro Variable	Scenario	2020	2021	2022	2023	2024
UAE	Oil Price	Base	-2.77%	1.54%	-1.80%	0.79%	1.38%
		Upside	10.43%	10.51%	-2.96%	-1.05%	-0.36%
		Downside	-28.07%	-10.17%	6.63%	10.15%	7.91%
	GDP	Base	2.20%	3.52%	3.16%	3.08%	2.88%
		Upside	3.28%	5.82%	4.31%	2.82%	1.93%
		Downside	-2.84%	-2.78%	1.36%	5.10%	4.79%
Lebanon	GDP	Baseline	-4.50%	2.2%	4.5%	3.9%	3.4%
		Upside	-3.2%	3.2%	4.8%	4.4%	3.9%
		Downside	-9.2%	-1.0%	5.3%	5.8%	4.5%
	Equity Index	Baseline	-40.9%	37.6%	24.5%	11.9%	7.5%
		Upside	-31.6%	47.8%	21.3%	10.3%	5.8%
		Downside	-56.1%	25.8%	29.3%	15.2%	10.8%

Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant.

This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1, if certain criteria are met, if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.3 Measurement of ECL (continued)

Assessment of significant increase in credit risk (continued)

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

The credit risk may be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management process 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 judgement and relevant historical experiences.

As a backstop, the group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might available to the borrower.

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

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]

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.3 Measurement of ECL (continued)

Assessment of significant increase in credit risk (continued)

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

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

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations)

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- quantitative indicators
- a backstop of 30 days past due.

Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Group has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 instalments (for quarterly instalments) have been made or 12 months (for instalments longer than quarterly) curing period is met.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.3 Measurement of ECL (continued)

Definition of default (continued)

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank 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 Bank; 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.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: (as a deduction from the gross carrying amount of the assets);
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as deduction from the gross carrying amount of the drawn component.
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the statement of profit or loss.

4.5 Definition of fair value

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

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

4 Summary of significant accounting policies (continued)

4.5 Definition of fair value (continued)

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

4.6 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment properties include cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties are reported at valuation based on fair value at the end of the reporting period. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated statement of profit or loss in the period in which these gains or losses arise.

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

4 Summary of significant accounting policies (continued)

4.6 Investment properties (continued)

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

4.7 Property and equipment

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

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

	Years
Buildings	20 - 40
Furniture and office equipment	2 - 6
Installation, partitions and decorations	3 - 4
Leasehold improvements	5 - 10
Motor vehicles	3

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

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated statement of profit or loss.

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

4.8 Intangible assets acquired separately

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

4 Summary of significant accounting policies (continued)

4.8 Intangible assets acquired separately (continued)

Amortisation is charged so as to write off the cost of intangible assets, over their estimated useful lives using the straight-line method as follows:

	Years
Banking license	Indefinite
Legal corporate setup in Lebanon	10
Customer base	10
Branch network	10

4.9 Impairment of tangible and intangibles

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

4.10 Derecognition of financial assets

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

4 Summary of significant accounting policies (continued)

4.10 Derecognition of financial assets (continued)

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain / loss allocated to it that had been recognised in OCI is recognised in consolidated statement of profit or loss.

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

4.11 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either 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 by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

4.12 Assets acquired in settlement of debt

The Group often acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral are stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated statement of profit or loss.

4.13 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward foreign exchange contracts, interest rate swaps and currency swaps.

4 Summary of significant accounting policies (continued)

4.13 Derivative financial instruments (continued)

All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Hedge Accounting

The Bank may designate a recognised asset or liability, a firm commitment, highly probable forecast transaction or net investment of a foreign operation into a formal hedge accounting relationship with a derivative that has been entered to manage interest rate and/or foreign exchange risks present in the hedged item. The Bank continues to apply the hedge accounting requirements of IAS 39 Financial Instruments: Recognition and Measurement.

For the purpose of hedge accounting, the Group classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated statement of profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated statement of profit or loss category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated statement of profit or loss category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised in the consolidated statement of profit or loss as part of the recalculated effective interest rate over the period to maturity.

4 Summary of significant accounting policies (continued)

4.13 Derivative financial instruments (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated statement of profit or loss in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in other comprehensive income remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated statement of profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in other comprehensive income are immediately transferred to the consolidated statement of profit or loss and classified as trading revenue/loss.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated statement of profit or loss.

4.14 Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘amortised cost’. The Group initially recognises financial liabilities such as deposits and debt securities issued on the date at which they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated at FVTPL and measured at fair value. Determination is made at initial recognition and is not reassessed.

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

4 Summary of significant accounting policies (continued)

4.14 Financial liabilities (continued)

Financial liabilities at FVTPL (continued)

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to consolidated statement of profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Fair value is determined in the manner described in note 40.

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities at amortized cost

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

De-recognition of financial liabilities

Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

4.15 Customers' deposits

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 interest method.

4 Summary of significant accounting policies (continued)

4.16 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair values at the acquisition date; except for non-current assets (or disposal banks) that are classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations,* which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated statement of profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4.17 Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

4.18 Employees' end-of-service benefits

The Group provides end of service benefits for its expatriate employees in accordance with U.A.E. Labour Law. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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.

4 Summary of significant accounting policies (continued)

4.19 Provisions and contingent liabilities

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

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

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

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements.

4.20 Acceptances

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognized as a financial asset.

Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and continued to be recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

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

4.21 Financial guarantees

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

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable).

4 Summary of significant accounting policies (continued)

4.22 Leasing

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

Policy applicable from 1 January 2019

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

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

i. Group acting as a lessee

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

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

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

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

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

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

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

4 Summary of significant accounting policies (continued)

4.22 Leasing (continued)

Policy applicable from 1 January 2019 **(continued)**

i. Group acting as a lessee (continued)

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

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

Short-term leases and leases of low-value assets

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

ii. Group acting as a lessor

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

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

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

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

i. As a lessee

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

4 Summary of significant accounting policies (continued)

4.22 Leasing (continued)

***Policy applicable before 1 January 2019* (continued)**

ii. As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

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

4.23 Revenue and expense recognition

4.23.1 Interest income and expense

Interest income and interest expense are recognised in consolidated statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Effective interest rate

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

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

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

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

4 Summary of significant accounting policies (continued)

4.23 Revenue and expense recognition (continued)

4.23.1 Interest income and expense (continued)

Calculation of interest income and expense

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

However, for financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

4.23.2 Fees and commission

Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Group to its customers, and are accounted for in accordance with IFRS 15 ‘Revenue from Contracts with Customers’. Under the IFRS 15, fee income is measured by the Group based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

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

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- other fees and commission income and expense are recognised as the related services are performed or received.

Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in ‘Interest income’.

4 Summary of significant accounting policies (continued)

4.23 Revenue and expense recognition (continued)

4.23.3 Dividend income

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

Presentation

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

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

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

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

- Financial liabilities measured at amortised cost; and
- The effective portion of fair value changes in qualifying hedging derivatives designated ii cash flows hedges of variability in interest cash flows; in the same period as the hedged cash flows affect interest income/ expense

Interest income and expenses on all trading assets and liabilities were considered to be incidental to the Groups trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities carried at FVTPL were presented in net income from other financial instruments at FVTPL.

4.24 Foreign currency transactions

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the consolidated statement of financial position date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Foreign currency differences are generally recognised in the statement of profit or loss.

For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

4 Summary of significant accounting policies (continued)

4.24 Foreign currency transactions (continued)

For foreign currency denominated debt instruments measured at amortised cost, the foreign exchange gains and losses are determined based on the amortised cost of the asset and are recognised in the consolidated statement of profit or loss.

4.25 Foreign operations

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Group's presentation currency at the rate of exchange ruling at the consolidated statement of financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign exchange reserve'.

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated statement of profit or loss on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated statement of profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4.26 Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group's consolidated financial statements as they are not assets of the Group.

4.27 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiary in accordance with the fiscal regulations of the respective country in which the subsidiary operates.

4.28 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

4.29 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

4 Summary of significant accounting policies (continued)

4.29 Deferred tax (continued)

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

5 Use of estimates and judgements

5.1 Critical judgements in applying the Group’s accounting policies

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

Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

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

5 Use of estimates and judgements (continued)

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

Significant increase in credit risk

As explained in note 4.4.3, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 4.4.3 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 4.4.3 for more details on ECL.

Going concern

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other available fair value indicators.

5 Use of estimates and judgements (continued)

5.2 Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Group's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 40 for more details on fair value measurement.

6 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

	2019 AED'000	2018 AED'000
Cash on hand	**72,105**	57,144
Statutory deposits (note 6.1)	**1,084,851**	1,069,087
Current accounts	**2,421,579**	858,287
Certificates of deposits	**2,528,123**	2,660,207
	6,106,658	4,644,725
Expected credit loss	**(297,731)**	(8,382)
	5,808,927	4,636,343

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2019 AED'000	2018 AED'000
Banks abroad	**2,648,408**	1,725,320
Banks in the U.A.E.	**3,458,250**	2,919,405
	6,106,658	4,644,725
Expected credit loss	**(297,731)**	(8,382)
	5,808,927	4,636,343

6 Cash and balances with central banks (continued)

6.1 The Group is required to maintain statutory deposits with Central Bank of UAE and Central Bank of Lebanon on demand, time and other deposits as per the statutory requirements. The statutory deposits with the Central Banks are not available to finance the day to day operations of the Group. However, as per notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and US$ reserve requirement limit. As at 31 December 2019, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 421 million (31 December 2018: AED 488 million).

7 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2019 AED'000	2018 AED'000
Demand	**206,065**	276,592
Time	**154,892**	232,074
	360,957	508,666
Expected credit loss	**(10,670)**	(881)
	350,287	507,785

(b) The geographical analysis of the deposits and balances due from banks is as follows:

	2019 AED'000	2018 AED'000
Banks abroad	**321,711**	426,731
Banks in the U.A.E.	**39,246**	81,935
	360,957	508,666
Expected credit loss	**(10,670)**	(881)
	350,287	507,785

8 Reverse-repo placements

The analysis of the Group's repurchase agreements is as follows:

	2019 AED'000	2018 AED'000
Banks abroad	**-**	-
Banks in the U.A.E.	**457,713**	849,534
	457,713	849,534
Expected credit loss	**(422)**	(346)
	457,291	849,188

8 Reverse-repo placements (continued)

The Group entered into reverse-repo agreements under which bonds with fair value of AED 460 million (31 December 2018 - AED 850 million) were received as collateral against cash placements. The risks and rewards relating to these bonds remain with the counter parties.

9 Loans and advances, net

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	2019 **AED'000**	2018 AED'000
Overdrafts	**7,301,407**	7,192,041
Commercial loans	**8,731,786**	9,355,962
Bills discounted	**1,977,841**	2,046,182
Other advances	**1,569,344**	707,229
Gross amount of loans and advances	**19,580,378**	19,301,414
Less: Allowance for impairment	**(1,844,622)**	(2,000,309)
Net loans and advances	**17,735,756**	17,301,105

(b) The geographic analysis of the gross loans and advances of the Group is as follows:

	2019 **AED'000**	2018 AED'000
Loans and advances resident in the U.A.E.	**16,307,624**	16,591,736
Loans and advances non-resident in Lebanon	**2,212,732**	2,265,168
Loans and advances non-resident others	**1,060,022**	444,510
	19,580,378	19,301,414

9 Loans and advances, net (continued)

(c) An analysis of changes in the gross carrying and the corresponding ECL allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying as at 1 January 2019	**9,967,492**	**7,208,338**	**2,125,584**	**19,301,414**
Net transfers between stages	**1,443,210**	**(2,297,721)**	**854,511**	**-**
Net additions / (repayments)	**1,358,900**	**(766,696)**	**(81,691)**	**510,513**
Amounts written off	**-**	**(476)**	**(231,073)**	**(231,549)**
Gross amount of loans and advances as at 31 December 2019	**12,769,602**	**4,143,445**	**2,667,331**	**19,580,378**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowance as at 1 January 2019	**21,327**	**735,776**	**1,243,206**	**2,000,309**
Net transfers between stages	**224,886**	**(273,250)**	**48,364**	**-**
Net (reversals) / impairment charge	**165,088**	**151,847**	**(49,255)**	**267,680**
Write backs on loans	**(2,013)**	**(7,074)**	**(182,731)**	**(191,818)**
Amounts written off	**-**	**(101)**	**(231,448)**	**(231,549)**
Closing balance 31 December 2019	**409,288**	**607,198**	**828,136**	**1,844,622**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying as at 1 January 2018	**8,986,922**	**7,320,059**	**3,131,189**	**19,438,170**
Net transfers between stages	**447,156**	**254,562**	**(701,718)**	**-**
Net additions / (repayments)	**534,709**	**(366,283)**	**186,498**	**354,924**
Amounts written off	**(1,295)**	**-**	**(490,385)**	**(491,680)**
Gross amount of loans and advances as at 31 December 2018	**9,967,492**	**7,208,338**	**2,125,584**	**19,301,414**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowance as at 1 January 2018	**40,025**	**353,840**	**1,835,511**	**2,229,376**
Net transfers between stages	**(64,253)**	**52,605**	**11,648**	**-**
Net (reversals) / impairment charge	**160,919**	**335,347**	**(108,220)**	**388,046**
Recoveries	**(114,069)**	**(6,016)**	**(5,348)**	**(125,433)**
Amounts written off	**(1,295)**	**-**	**(490,385)**	**(491,680)**
Closing balance 31 December 2018	**21,327**	**735,776**	**1,243,206**	**2,000,309**

9 Loans and advances, net (continued)

(d) **IFRS 9 reserve**

In accordance with CBUAE circular, in case where provision under CBUAE guidance exceeds provision under IFRS 9, the excess is required to be transferred to IFRS 9 reserve. The details of the same are below:

	Bank 2019 AED'000	Bank 2018 AED'000
Impairment reserve – Specific		
Specific provisions and interest in suspense under Circular 28/2010 of CBUAE	**1,482,602**	1,389,130
Stage 3 provisions under IFRS 9	**1,559,341**	1,252,614
Specific provision transferred to the impairment reserve	**-**	136,516

	Bank 2019 AED'000	Bank 2018 AED'000
Impairment reserve – Collective		
Collective provisions under Circular 28/2010 of CBUAE	**293,729**	719,927
Stage 1 and Stage 2 provisions under IFRS 9	**100,620**	706,186
Collective provision transferred to the impairment reserve	**193,109**	13,741

(e) The composition of the loans and advances portfolio by industry is as follows:

	2019 AED'000	2018 AED'000
Economic sector		
Trading	**4,931,417**	5,195,663
Services	**4,627,290**	5,124,260
Manufacturing	**2,813,336**	2,709,191
Personal loans for commercial purposes	**2,509,787**	2,677,525
Government	**1,798,173**	1,406,793
Construction	**1,132,253**	1,236,329
Mining and quarrying	**698,298**	132,359
Transport and communication	**330,665**	313,278
Financial institutions	**259,792**	265,242
Personal loans for individual purposes	**177,187**	115,881
Agriculture	**78,754**	70,774
Other	**223,426**	54,119
	19,580,378	19,301,414
Less: Allowance for impairment	**(1,844,622)**	(2,000,309)
	17,735,756	17,301,105

9 Loans and advances, net (continued)

(f) The composition of the non-performing loans and advances portfolio by industry is as follows:

	2019 AED'000	2018 AED'000
Economic sector		
Trading	**1,454,327**	1,451,643
Manufacturing	**917,970**	333,233
Services	**163,257**	164,643
Construction	**55,419**	41,948
Personal loans for commercial purposes	**41,884**	122,786
Financial institutions	**18,886**	-
Personal loans for individual purposes	**8,340**	7,947
Transport and communication	**7,248**	3,384
Total non-performing loans	**2,667,331**	2,125,584

10 Other financial assets

(a) The analysis of the Group's other financial assets is as follows:

	2019 AED'000	2018 AED'000
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	**159,284**	143,446
	159,284	143,446
(ii) Investments measured at FVTOCI		
Quoted equity	**127,183**	160,069
Unquoted equity	**209,252**	323,239
Debt Securities	**123,759**	190,565
	460,194	673,873
Total other financial assets measured at fair value	**619,478**	817,319
Other financial assets measured at amortised cost		
Debt securities	**486,484**	675,585
Expected credit losses	**(34,265)**	(4,031)
	452,219	671,554
Total other financial assets	**1,071,697**	1,488,873

All of the quoted investments (majority in 2018) are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market).

10 Other financial assets (continued)

(b) The composition of the other financial assets by geography is as follows:

	2019 AED'000	2018 AED'000
United Arab Emirates	**586,962**	693,747
Middle East (other than G.C.C. countries)	**478,358**	769,040
Europe	**40,642**	30,117
	1,105,962	1,492,904
Expected credit losses	**(34,265)**	(4,031)
	1,071,697	1,488,873

(c) Other financial assets measured at FVTOCI that are not held to benefit from changes in their fair value and are not held for trading. The management believes therefore that designating these investments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments rather than fair valuing through profit and loss.

During the year ended 31 December 2019, 13.8 million shares of equity securities were acquired at an amount of AED 22 million (2018: 25 million shares of equity securities were acquired at an amount of AED 23 million.).

(d) During the year ended 31 December 2019, dividends received from financial assets measured at FVTOCI amounting to AED 20 million (2018: AED 15 million) have been recognised as investment income in the consolidated statement of profit or loss.

11 Investment properties

Details of investment properties are as follows:

	Plots of land in the U.A.E. AED'000	**Commercial and residential units in the U.A.E. AED'000**	**Total AED'000**
Fair value at 1 January 2018	**34,018**	**550,840**	**584,858**
Decrease in fair value during the year	(3,968)	(8,170)	(12,138)
Additions during the year	11	35,742	35,753
Fair value at 31 December 2018	**30,061**	**578,412**	**608,473**
(Decrease) / Increase in fair value during the year	(2,532)	19,885	17,353
Additions during the year	-	130,211	130,211
Fair value at 31 December 2019	**27,529**	**728,508**	**756,037**

The fair value of the Group's investment properties is estimated annually by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

11 Investment properties (continued)

As at 31 December 2019, the valuations were carried out by RICS certified professional valuers not related to the Group who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued.

All investments properties have been classified as Level 3 in the fair value hierarchy.

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

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

	Valuation technique	**Significant unobservable inputs**
Building	Sales Comparison Method Income Capitalization Approach	Comparable transactions Current market price of similar
Land	Sales Comparison Method Comparable and Residual Method	Discount rate Cash inflows Cash outflows
Properties under development	Discounted Cash Flow Approach	Cost of construction Developer’s profit Financing cost

12 Goodwill and other intangibles

The analysis of the Group's goodwill and other intangibles is as follows:

Emirates Lebanon Bank S.A.L

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share in the net identifiable assets, liabilities and contingent liabilities of a Lebanese branch of a multinational bank acquired in 2008. Goodwill and other intangibles are denominated in Lebanese Lira.

During the year, as a result of the political uncertainty in Lebanon, the Group recorded an impairment of AED 274 million to Goodwill.

	2019 AED'000	2018 AED'000
Goodwill	**184,733**	184,733
Other intangibles		
Banking license	**18,365**	18,365
Legal corporate setup in Lebanon	**-**	4,299
Customer base	**7,496**	8,742
Branch network	**-**	365
	25,861	31,771
	210,594	216,504
Impairment	**(184,733)**	-
Total	**25,861**	216,504

The recoverable amount of the assets acquired in the business combination (cash generating unit) described above is determined based on fair value less cost of disposal which is determined to be higher than the asset's carrying value using the market approach.

The movement on other intangible assets during the year is as follows:

Other intangibles	**Banking license AED'000**	**Legal corporate setup in Lebanon AED'000**	**Customer base AED'000**	**Branch network AED'000**	**Total AED'000**
Balance as at 1 January 2018	**18,365**	**8,593**	**9,991**	**732**	**37,681**
Amortisation in 2018	-	(4,294)	(1,249)	(367)	(5,910)
Balance as at 31 December 2018	**18,365**	**4,299**	**8,742**	**365**	**31,771**
Amortisation in 2019	-	(4,299)	(1,246)	(365)	(5,910)
Balance as at 31 December 2019	**18,365**	**-**	**7,496**	**-**	**25,861**

12 Goodwill and other intangibles (continued)

Muwaileh Capital FZC

(i) On 26 April 2017, the Bank acquired 90% of Muwaileh Capital FZC. A Sharjah Airport International Free Zone company. The acquisition was in cash and the effective date acquisition was 31 May 2017. The operations of Muwaileh Capital FZC have been fully transferred to the Bank on that date. The acquisition is accounted for using the purchase method of accounting, and the financial statements of Muwaileh Capital FZC have been consolidated.

As per the sales and purchase agreement, the purchase price was finalized based on the completion of the due diligence and the negotiations for the determination of the final net assets fair value. The difference between the consideration paid and the fair value of the net assets at the transaction date has been booked under goodwill. The amount recognized in goodwill at the transaction date amounted to AED 110.73 million.

The transaction has been accounted for during the second quarter of 2017 as follows:

	Net Carrying Value AED'000
Consideration paid	225,000
Fair value of net assets acquired	(114,274)
Goodwill	**110,726**

El Capital FZC

(ii) On 14 December 2016, the Board of Directors of the Bank decided to acquire El Capital FZC that owns 20% of share capital of Emirates Lebanon Bank S.A.L.

A per the sales and purchase agreement, the purchase price was finalized based on the completion of the due diligence and the negotiations for the determination of the final net assets fair value. The difference between the consideration paid and the fair value of the net assets at the transaction date has been booked under goodwill out of which 40.23% related to some Bank of Sharjah board members and 7.54% related to some Bank of Sharjah management.

The amount recognized in goodwill at the transaction date amounted to AED 88.83 million.

The transaction has been accounted for last quarter of 2017 as follows:

	Net Carrying Value AED'000
Consideration paid	305,777
Fair value of net assets acquired	(216,951)
Goodwill	**88,826**
Impairment	(88,826)
Total	**-**

13 Other assets

	2019	2018
	AED'000	AED'000
Acceptances – contra (Note 20)	**765,271**	732,922
Receivable from sale of property	**71,220**	-
Clearing receivables and accrued income	**63,492**	65,990
Interest receivable	**37,616**	42,916
Prepayments	**10,521**	15,587
Other	**51,991**	36,975
	1,000,111	894,390
Expected credit losses	**(5,280)**	-
	994,831	894,390

Assets acquired in settlement of debt

Assets acquired in settlement of debt amounting to AED 4,044 million (2018: AED 2,113 million) are net of AED 101 million unrealized losses for the year ended 31 December 2019 (2018: AED 13 million). Of this amount AED 4,035 million (2018: AED 2,088 million) pertains to the properties and plots of lands acquired in settlement of debt. Fair valuations of the properties and plots of land were carried out by RICS certified independent valuers having appropriate professional qualifications and are based on recent experience in the location and category of the properties and plots of land being valued. The fair value of those properties and plots of land as at 31 December 2019 amounted to AED 4,035 million (2018: AED 2,108 million).

The Group reports under other assets, positive fair value of derivative contracts used by the Group in the ordinary course of business. Refer to Note 14 below for further details about the nature and type of derivative contracts utilised by the Group, together with the notional amounts and maturities.

14 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivatives. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instruments, reference rate, or index. Derivative financial instruments which the Group enters into include forwards and swaps.

The Group uses the following derivative financial instruments for both hedging and non-hedging purposes.

Forward currency transactions - Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Swap transactions – ***Interest rate (IRS) and*** cross currency interest rate swaps (CCIRS) are commitments to exchange one set of cash flows for another. CCIRS result in an economic exchange of currency cash flows. Exchange of principal may or may not take place. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

14 Derivative financial instruments (continued)

This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities, and applies cash margining with market counterparties to mitigate the credit risk involved.

Derivative related credit risk - Credit risk with respect to derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with a number of financial institutions of good credit rating.

Derivatives held or issued for hedging purposes - The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in interest rates and exchange rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

The following table shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity, and the nature of the risk being hedged.

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the fair value of the derivatives, nor market risk.

Notes to the Consolidated Financial Statements (continued)
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14 Derivative financial instruments (continued)

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity: Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000
2019						
Interest rate swaps	**9,838**	**(7,301)**	**2,694,073**	**2,546,069**	**-**	**148,004**
Currency swaps	**10,562**	**-**	**3,709,977**	**3,271,987**	**437,990**	**-**
Forward foreign exchange contracts	**-**	**(276)**	**53,372**	**53,372**	**-**	**-**
Total	**20,400**	**(7,577)**	**6,457,422**	**5,871,428**	**437,990**	**148,004**
2018						
Interest rate swaps	3,223	(62,802)	3,945,518	272,518	-	3,673,000
Currency swaps	367	-	2,049,128	2,049,128	-	-
Forward foreign exchange contracts	-	(6)	30,912	30,912	-	-
Total	3,590	(62,808)	6,025,558	2,352,558	-	3,673,000

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

15 Property and equipment

	Land & buildings AED'000	Furniture and office equipment AED'000	Leasehold improvements installation, partitions and decoration AED'000	Motor vehicles AED'000	Total AED'000
Cost					
At 1 January 2018	241,157	117,954	111,705	4,663	475,479
Additions	45,735	15,147	2,074	1,036	63,992
Disposals	-	(877)	(104)	(400)	(1,381)
At 31 December 2018	286,892	132,224	113,675	5,299	538,090
Additions	128,518	8,936	1,760	241	139,455
Disposals	(4,076)	(911)	(407)	(169)	(5,563)
Transfers	-	(321)	-	-	(321)
At 31 December 2019	411,334	139,928	115,028	5,371	671,661
Accumulated depreciation					
At 1 January 2018	39,277	100,295	63,681	3,404	206,657
Charge for the year	42,089	11,291	8,989	686	63,055
Disposals	-	(561)	(98)	(400)	(1,059)
At 31 December 2018	81,366	111,025	72,572	3,690	268,653
Charge for the year	17,780	9,326	6,992	764	34,862
Disposals	(159)	(889)	(402)	(169)	(1,619)
Transfers	-	(1,155)	-	-	(1,155)
At 31 December 2019	98,987	118,307	79,162	4,285	300,741
Net book value:					
At 31 December 2019	**312,347**	**21,621**	**35,866**	**1,086**	**370,920**
At 31 December 2018	240,666	21,199	41,103	1,609	304,577

16 Subsidiaries

a) The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

Name of Subsidiary	Proportion of ownership interest 2019	Proportion of ownership interest 2018	Year of incorporation	Year of acquisition	Country of incorporation	Principal activities
Emirates Lebanon Bank S.A.L.	**100%**	100%	1965	2008	Lebanon	Financial institution
El Capital FZC	**100%**	100%	2007	2017	U.A.E.	Investment in a financial institution
BOS Real Estate FZC	**100%**	100%	2007	2007	U.A.E.	Real estate development activities
BOS Capital FZC	**100%**	100%	2007	2007	U.A.E.	Investment
Polyco General Trading L.L.C.	**100%**	100%	2008	2008	U.A.E.	General trading
Borealis Gulf FZC	**100%**	100%	2010	2010	U.A.E.	Investment & Real estate development activities
BOS Funding Limited	**100%**	100%	2015	2015	Cayman Islands	Financing activities
Muwaileh Capital FZC	**90%**	90%	2010	2017	U.A.E.	Developing of real estate & related activities
BOS Repos Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities
BOS Derivatives Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities

b) Emirates Lebanon Bank S.A.L (fully owned by the Group, 80% by Bank of Sharjah PJSC and 20% by EL Capital FZC) summarised statements of financial position, comprehensive income and cash flows as at and for the years ended 31 December 2019 and 2018:

	2019 AED'000	2018 AED'000
Statement of financial position		
Total assets	**5,793,340**	5,331,495
Total liabilities	**4,698,994**	4,298,426
Equity	**1,094,346**	1,033,069
Dividends paid to non-controlling interests	**0**	0
Statement of comprehensive income		
Interest income	**364,585**	312,703
Profit for the year	**6,538**	46,500
Total comprehensive (loss)/ income	**(8,877)**	44,160

16 Subsidiaries (continued)

	2019 **AED'000**	2018 AED'000
Statement of cash flows		
Net cash flows generated from operating activities	**540,587**	25,335
Net cash flows generated from investing activities	**99,779**	64,507
Net cash flows generated from / (used in) financing activities	**69,048**	(22,038)
Net increase in cash flows during the year	**709,414**	67,804

17 Customers' deposits

The analysis of customers' deposits is as follows:

	2019 **AED'000**	2018 AED'000
Current and other accounts	**3,878,614**	2,952,570
Saving accounts	**1,424,628**	1,595,786
Time deposits	**16,022,992**	15,570,813
	21,326,234	20,119,169

18 Deposits and balances due to banks

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

	2019 **AED'000**	2018 AED'000
Demand	**32,307**	46,853
Time	**10,682**	258,078
	42,989	304,931

Due to banks represent due to:

	2019 **AED'000**	2018 AED'000
Banks in the U.A.E.	**32,285**	209,121
Banks abroad	**10,704**	95,810
	42,989	304,931

Notes to the Consolidated Financial Statements (continued)
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19 Repo borrowings

The analysis of the repo borrowing agreements is as follows:

	2019	2018
	AED'000	AED'000
Banks in the U.A.E.	**130,230**	-
Banks abroad	**-**	-
	130,230	-

The Group entered into repo agreements under which bonds with fair value of AED 130 million (31 December 2018 - nil) were given as collateral against borrowings. The risks and rewards relating to these bonds remain with the Group.

20 Other liabilities

	2019	2018
	AED'000	AED'000
Acceptances – contra (Note 13)	**765,271**	732,922
Interest payable	**251,915**	172,668
ECL on unfunded exposure	**121,820**	116,729
Accrued expenses and others	**110,352**	88,304
Lease liabilities	**98,470**	-
Unearned income	**68,587**	97,080
Managers' cheques	**51,261**	15,191
Provision for employees' end of service benefits (Note 20.1)	**45,577**	44,808
	1,513,253	1,267,702

20.1 The movement in the provision for employees' end of service benefits is as follows:

	2019	2018
	AED'000	AED'000
At 1 January	**44,808**	42,569
Charged during the year	**8,411**	6,825
Payments during the year	**(7,642)**	(4,586)
At 31 December	**45,577**	44,808

21 Issued bonds

On 8 June 2015, the Bank raised financing by way of USD 500 million (equivalent to AED 1,836 million) in senior unsecured bonds (the "Bonds") issued by BOS Funding Limited, a wholly owned subsidiary of the Bank, incorporated in the Cayman Islands. The Bonds are fully guaranteed by the Bank, carry a fixed interest rate of 3.374% per annum payable semi-annually and are listed on the Irish Stock Exchange. On 18 September 2019, the Bank repurchased by way of a Public Tender Offer USD 306.81 million of these bonds at a price of 101.

21 Issued bonds (continued)

On 28 February 2017, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 500 million (equivalent to AED 1,836 million) for a five year maturity at mid swaps plus 225 basis point, to yield 4.23%. The Notes were issued under the Bank's recently established Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange.

On 08 August 2019, the Bank issued Senior Unsecured Floating Rate Notes, totalling USD 120 million (equivalent to AED 440.76 million) for a three year maturity at three month Libor plus 190 basis points, classified at amortized cost. The Notes were issued under the Bank's Euro Medium Term Note (EMTN) Programme.

On 18 September 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 600 million (equivalent to AED 2,204 million) for a five year maturity at mid swaps plus 250 basis point, to yield 4.015%, classified at amortized cost. The Notes were issued under the Bank's Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange.

The fair value and the change in that fair value that can be ascribed to changes in underlying credit risk are set out below:

	31 December 2019 AED'000	31 December 2018 AED'000
Fair value of issued bond	**5,597,926**	3,589,972
Changes in fair value of issued bond not attributable to changes in market conditions	**(42,386)**	93,408
Difference between carrying amount and amount contractually required to be paid at maturity	**27,857**	(83,028)

The Group estimates changes in fair value due to credit risk by estimating the amount of change in fair value that is not due to changes in market conditions that give rise to market risk.

22 Capital and reserves

(a) Issued and paid up capital

	2019		2018	
	Number of shares	**AED'000**	Number of shares	AED'000
Issued capital	**2,100,000,000**	**2,100,000**	2,100,000,000	2,100,000
	2,100,000,000	**2,100,000**	2,100,000,000	2,100,000

(b) Statutory reserve

In accordance with the Bank's Articles of Association and Article (239) of the UAE Federal Law No. (2) of 2015, the Bank transfers 10% of annual profits, if any, to the statutory reserve until it is equal to 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

22 Capital and reserves (continued)

(c) Contingency reserve

In accordance with the Articles of Association of the Bank a contingency reserve is calculated at 10% of the profit for the year to be transferred to a contingency reserve until this reserve becomes 50% of the issued and paid up capital.

(d) General reserve

Transfers to general reserve are made based on the discretion of the Board of Directors and is subject to the approval of the shareholders at the annual general meeting.

23 Earnings per share

Earnings per share are computed by dividing the profit for the year by the average number of shares outstanding during the year as follows:

Basic and diluted earnings per share	**2019**	2018
(Loss)/ profit attributable to owners of the Bank for the year (AED'000)	**(494,195)**	127,455
Weighted average number of ordinary shares:		
Ordinary shares at the beginning of the year	**2,100,000**	2,100,000
Effect of scrip dividend issued during the year	**-**	-
Weighted average number of shares outstanding during the year (in thousands shares)	**2,100,000**	2,100,000
Basic and diluted (loss)/ earnings per share (AED)	**(0.24)**	0.06

As at the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Group has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

24 Transactions with owners and directors of the Group

Bank of Sharjah

Dividends
At the Annual General Meeting of the shareholders held on 6 July 2019, the shareholders approved no cash dividends distribution (2017: no cash dividend distribution).

Directors' remuneration
At the Annual General Meeting of the shareholders held on 6 July 2019, the shareholders of the Bank approved Directors' remuneration of AED 7.5 million (2017: AED 7.5 million).

Charity donations
At the Annual General Meeting of the shareholders held on on 6 July 2019, the shareholders approved charitable donations of AED 7.5 million (2017: AED 7.5 million).

24 Transactions with owners and directors of the Group (continued)

Transfer to reserves
At the Annual General Meeting of the shareholders held on on 6 July 2019, the shareholders approved an appropriation of AED 40 million (2017: AED 40 million) to contingency reserves.

Emirates Lebanon Bank

Cash dividend
At the Annual General Meeting held on 23 February 2019 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved no cash dividend distribution (2017: no cash dividend distribution).

Directors' remuneration
At the Annual General Meeting held on 23 February 2019 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, approved Directors' remuneration of AED 3.3 million (2017: AED 3.9 million).

25 Commitments and contingent liabilities

	2019 AED'000	2018 AED'000
Financial guarantees for loans	**282,226**	338,716
Other guarantees	**2,581,167**	2,405,593
Letters of credit	**830,317**	1,092,173
	3,693,710	3,836,482
Irrevocable commitments to extend credit	**1,626,507**	1,577,285
	5,320,217	5,413,767

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.

Credit-related commitments include commitments to extend credit, standby letters of credit, and guarantees which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The bank and its subsidiaries are party to legal proceedings, including regulatory investigations, in the ordinary course of business. While there is inherent difficulty in predicting the outcome of these proceedings, management does not expect the outcome of any of these proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or the results of operations of the bank.

26 Cash and cash equivalents

	2019	2018
	AED'000	AED'000
Cash and balances with central banks (Note 6)	**5,808,927**	4,636,343
Deposits and balances due from banks (Note 7)	**350,287**	507,785
Reverse-repo placements (Note 8)	**457,291**	849,188
Deposits and balances due to banks (Note 18)	**(42,989)**	(304,931)
Repo borrowings (Note 19)	**(130,230)**	-
	6,443,286	5,688,385
Less: Deposits and balances due from banks - original maturity more than three months	**(1,324,042)**	(1,415,977)
Less: Statutory deposits with central banks (Note 6)	**(1,084,851)**	(1,069,087)
	4,034,393	3,203,321

27 Fiduciary assets

The Group holds investments amounting to AED 0.06 billion (31 December 2018: AED 0.6 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

28 Interest income

	2019	2018
	AED'000	AED'000
Loans and advances	**1,185,588**	1,055,553
Certificates of deposit and treasury bills with central banks and debt instruments	**68,896**	148,364
Net interest income on swaps	**17,892**	1,097
Placements with banks	**87,901**	28,150
Reverse-repo placements	**27,771**	35,725
	1,388,048	1,268,889

29 Interest expense

	2019	2018
	AED'000	AED'000
Customers' deposits	**783,964**	608,629
Issued bonds	**160,793**	139,647
Banks' deposits	**27,636**	7,890
	972,393	756,166

30 Net fee and commission income

	2019 AED'000	2018 AED'000
Corporate banking credit related fees	**86,000**	93,876
Trade finance activities	**37,444**	35,034
Letters of guarantee	**24,283**	41,870
Other	**12,096**	2,086
	159,823	172,866

31 Income on investments

	2019 AED'000	2018 AED'000
Dividends	**20,046**	15,091
Realized and unrealized gain on investments measured at FVTPL	**398**	17,145
Net trading gain/ (loss)	**1,296**	(933)
	21,740	31,303

32 Other income

	2019 AED'000	2018 AED'000
Rental income and others	**40,034**	15,292
	40,034	15,292

33 Net impairment loss on financial assets

	2019 AED'000	2018 AED'000
Impairment charge on financial assets	**313,529**	139,910
Impairment charge on credit impaired assets	**372,044**	237,308
Total charge for the year	**685,573**	377,218
Write backs on loans	**(191,818)**	(125,433)
Write backs on other financial assets	**(55,101)**	-
	438,654	251,785

34 General and administrative expenses

	2019 AED'000	2018 AED'000
Personnel expenses	**183,721**	197,723
Depreciation (Note 15)	**34,862**	27,915
Other expenses	**99,283**	91,762
	317,866	317,400

34 General and administrative expenses (continued)

*Others include an amount of AED 8.5 million (2018: AED 6.5 million) representing social contributions made during the year ended 31 December 2019.

35 Related party transactions

The Group enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.
Transactions within the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The related parties balances included in the consolidated statement of financial position and the significant transactions with related parties are as follows:

	2019 **AED'000**	2018 AED'000
Loans and advances	**638,554**	492,785
Letters of credit, guarantee and acceptances	**11,415**	120,140
	649,969	612,925
Collateral deposits	**7,170**	7,281
Net exposure	**642,799**	605,644
Other deposits	**158,669**	131,559

	2019 **AED'000**	2018 AED'000
Interest income	**51,187**	50,905
Interest expense	**12,005**	10,215

Compensation of Directors and key management personnel:

	2019 **AED'000**	2018 AED'000
Short term benefits	**16,410**	10,110
Directors fees	**7,500**	7,500
End of service benefits	**1,292**	5,489
Total compensation as at 31 December	**25,202**	23,099

No impairment loss has been recognised against balances outstanding with key management personnel and other related parties.

36 Segmental information

36.1 IFRS 8 *Operating Segments*

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

36.2 Products and services from which reportable segments derive their revenues

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focused on the type of business activities undertaken as a Group. For operating purposes, the Group is organised into two major business segments:

(i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
(ii) Investment Banking, which involves the management of the Group's investment portfolio.

The following table presents information regarding the Group's operating segments for the year ended 31 December 2019:

	Commercial banking AED'000	Investment banking AED'000	Unallocated* AED'000	Total AED'000
Operating income				
- Net interest income	374,031	41,624	-	415,655
- Net fee and commission income	159,823	-	-	159,823
- Exchange profit	11,532	-	-	11,532
- Investment income	-	21,740	-	21,740
- Revaluation loss on properties and shares	-	(84,677)	-	(84,677)
- Other income	41,034	(1,000)	-	40,034
Total operating income	**586,420**	**(22,313)**	**-**	**564,107**
Other material non-cash items				
- Net impairment charge on financial assets	(438,654)	-	-	(438,654)
- Goodwill impairment	(273,559)	-	-	(273,559)
- Depreciation of property and equipment	-	-	(34,862)	(34,862)
- General and administrative expenses	(240,554)	(42,450)	-	(283,004)
- Amortization of intangible assets	-	-	(5,910)	(5,910)
- Income tax expenses – overseas	-	-	(15,802)	(15,802)
Net loss for the year	**(366,347)**	**(64,763)**	**(56,574)**	**(487,684)**
Segment assets	**24,025,995**	**3,127,077**	**4,594,233**	**31,747,305**
Segment liabilities	**22,264,725**	**5,597,926**	**755,558**	**28,618,209**

** Unallocated items comprise mainly head office expenses and tax assets and liabilities of the overseas subsidiary*

36 Segmental information (continued)

36.2 Products and services from which reportable segments derive their revenues (continued)

The following table presents information regarding the Group's operating segments for the year ended 31 December 2018:

	Commercial banking AED'000	Investment banking AED'000	Unallocated* AED'000	Total AED'000
Operating income				
- Net interest income	461,292	51,431	-	512,723
- Net fee and commission income	172,866	-	-	172,866
- Exchange profit	14,928	-	-	14,928
- Investment income	-	31,303	-	31,303
- Revaluation loss on properties	-	(25,635)	-	(25,635)
- Other income	15,292	-	-	15,292
Total operating income	**664,378**	**57,099**	**-**	**721,477**
Other material non-cash items				
- Net impairment charge on financial assets	(251,785)	-	-	(251,785)
- Depreciation of property and equipment	-	-	(27,915)	(27,915)
- General and administrative expenses	(246,062)	(43,423)	-	(289,485)
- Amortization of intangible assets	-	-	(5,910)	(5,910)
- Income tax expenses – overseas	-	-	(16,680)	(16,680)
Net profit for the year	**166,531**	**13,676**	**(50,505)**	**129,702**
Segment assets	**22,409,335**	**3,157,551**	**3,556,611**	**29,123,497**
Segment liabilities	**21,157,023**	**3,589,972**	**597,587**	**25,344,582**

** Unallocated items comprise mainly head office expenses and tax assets and liabilities of the overseas subsidiary*

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2018: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for resource allocation purpose. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments except for property and equipment, goodwill and other intangibles and certain amounts included in other assets; and
- All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.

36 Segmental information (continued)

36.3 Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'Foreign Entity').

The Group's operating income and information about its non-current assets by geographical location are detailed below:

	Country of domicile	Foreign	Total
2019	**AED'000**	**AED'000**	**AED'000**
Operating income	**369,440**	**194,667**	**564,107**
Non-current assets	**5,126,776**	**431,299**	**5,558,075**
2018			
Operating income	597,414	124,063	721,477
Non-current assets	4,227,520	287,445	4,514,965

36.4 Information about major customers

In 2019, one customer accounted for more than 10% of the Group's net operating income each (2018: two customers accounted for more than 10% of the Group's net operating income).

37 Classification of financial assets and liabilities

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

	FVTPL	FVTOCI	Amortised cost	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets:				
Cash and balances with central banks	-	-	5,808,927	5,808,927
Deposits and balances due from banks	-	-	350,287	350,287
Reverse-repo placements	-	-	457,291	457,291
Loans and advances, net	-	-	17,735,756	17,735,756
Investments measured at fair value	159,284	460,194	-	619,478
Investments measured at amortised cost	-	-	452,219	452,219
Other assets	29,585	-	984,311	1,013,896
Total	188,869	460,194	25,788,791	26,437,854
Financial liabilities:				
Customers' deposits	-	-	21,326,234	21,326,234
Deposits and balances due to banks	-	-	42,989	42,989
Repo borrowings	-	-	130,230	130,230
Other liabilities	7,577	-	1,399,085	1,406,662
Issued Bonds	5,597,926	-	-	5,597,926
Total	5,605,503	-	22,898,538	28,504,041

37 Classification of financial assets and liabilities (continued)

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

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	4,636,343	4,636,343
Deposits and balances due from banks	-	-	507,785	507,785
Reverse-repo placements	-	-	849,188	849,188
Loans and advances, net	-	-	17,301,105	17,301,105
Investments measured at fair value	143,446	483,308	190,565	817,319
Investments measured at amortised cost	-	-	671,554	671,554
Other assets	3,590	-	1,852,664	1,856,254
Total	**147,036**	**483,308**	**26,009,204**	**26,639,548**
Financial liabilities:				
Customers' deposits	-	-	20,119,169	20,119,169
Deposits and balances due to banks	-	-	304,931	304,931
Other liabilities	62,808	-	1,125,814	1,188,622
Issued Bonds	3,589,972	-	-	3,589,972
Total	**3,652,780**	**-**	**21,549,914**	**25,202,694**

38 Risk management

The Group has Senior Management committees to oversee the risk management. The Executive Committee and the Board Risk Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit risk. It also sets policies, system and limits for interest rate risk, foreign exchange risk, and liquidity risk. The Group also has a Credit Risk function which independently reviews adherence to all risk management policies and processes. The Group's internal audit function, which is part of risk review, primarily evaluates the effectiveness of the controls addressing operational risk.

Starting from the last quarter of 2019, Lebanon has been facing a political and economic instability. In order to protect the system and to mitigate the risks of the crisis, Lebanese banks have reviewed the limits on withdrawing US dollars and restricted all international outgoing transfers to basic necessities. In addition to that, on 4 December 2019, the Central Bank of Lebanon issued a new circular which requires Lebanese banks to impose new caps on interest rates on deposits and pay depositors half the interest due on foreign currency holdings in Lebanese Lira. With a significant debt to GDP ratio, Lebanon's external debt has risen significantly and it is facing turmoil and there is no certainty to when the situation will correct. Credit rating agencies subsequent to year end downgraded the country's credit rating. As a result of the same, these financial statements have reflected adjustments including impairment of goodwill, and an increase in expected credit losses (and respective staging). The Group continues to monitor the situation closely and the subsidiary continues to operate, and has support from the Group.

38 Risk management (continued)

Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and by limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counter-parties to mitigate credit risk.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

Policies relating to credit are reviewed and approved by the Group's Executive Committee. All credit lines are approved in accordance with the Group's credit policy set out in the Credit Policy Manual. Credit and marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by economic and industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Risk and facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Group's Executive Committee and are monitored by the Senior Management on a daily basis.

The Executive Committee is responsible for setting credit policy of the Group. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality.

Commercial/Institutional lending underwriting

All credit applications for Commercial and Institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where industry knowledge specialisation is required. In addition, the Group sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Group are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Executive Committee or the Group's Executive Director and General Manager under the supervision of the Board. At least two signatures are required to approve any commercial or institutional credit application.

38 Risk management (continued)

Credit risk management (continued)

Credit review procedures and loan classification

The Group's Credit Risk department subjects the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and the Group's internal policies in order to assist in the early identification of accrual and potential performance problems. The Credit Risk department validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and industry and monitors observance of all approved credit policies, guidelines and operating procedures across the Group.

All commercial/institutional loan facilities of the Group are assigned one of ten risk ratings (1-10) where 1 is being excellent and 10 being loss with no reimbursement capacity and total provisioning.

If a Loan is impaired, interest will be suspended and not be credited to the consolidated statement of profit or loss. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

38 Risk management (continued)

Credit risk management (continued)

The Group also measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The carrying amount of financial assets represents the maximum credit exposure.

As of 31 December 2019	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	AED'000 Exposure	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**
Balances with central banks	6,034,553	297,731	-	-	-	-	6,034,553	297,731
Due from banks and financial institutions	360,050	10,653	907	17	-	-	360,957	10,670
Reverse repurchase agreements	457,713	422	-	-	-	-	457,713	422
Loans and advances	12,769,602	409,288	4,143,445	607,198	2,667,331	828,136	19,580,378	1,844,622
Debt securities at amortised cost	486,484	34,265	-	-	-	-	486,484	34,265
Unfunded exposure	4,627,673	23,419	14,181	2,811	701,927	95,590	5,343,781	121,820
	24,736,075	**775,778**	**4,158,533**	**610,026**	**3,369,258**	**923,726**	**32,263,866**	**2,309,530**

38 Risk management (continued)

Credit risk management (continued)

As of 31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Balances with central banks	4,587,581	8,382	-	-	-	-	4,587,581	8,382
Due from banks and financial institutions	467,988	880	40,678	1	-	-	508,666	881
Reverse repurchase agreements	849,534	346	-	-	-	-	849,534	346
Loans and advances	9,967,492	21,327	7,208,338	735,776	2,125,584	1,243,206	19,301,414	2,000,309
Debt securities at amortised cost	675,585	4,031	-	-	-	-	675,585	4,031
Unfunded exposure	4,192,454	1,404	1,110,367	22,173	531,798	93,152	5,834,619	116,729
	20,740,634	**36,370**	**8,359,383**	**757,950**	**2,657,382**	**1,336,358**	**31,757,399**	**2,130,678**

38 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk

2019

Loans and advances	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Grade 1	-	-	-	-
Grade 2	557,909	-	-	557,909
Grade 3	2,975,022	-	-	2,975,022
Grade 4	4,185,690	25,425	-	4,211,115
Grade 5	3,652,153	411,677	-	4,063,830
Grade 6	650,966	1,697,204	-	2,348,170
Grade 7	747,862	2,009,139	-	2,757,001
Default grades 8-10	-	-	2,667,331	2,667,331
Total gross carrying amount	**12,769,602**	**4,143,445**	**2,667,331**	**19,580,378**
Allowance for impairment losses	(409,288)	(607,198)	(828,136)	(1,844,622)
Net carrying amount	**12,360,314**	**3,536,247**	**1,839,195**	**17,735,756**

The Central Bank of the UAE classification of loans and advances

2019

Loans and advances	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Normal	6,827,348	352,846	18,836	**7,199,030**
Other loans exceptionally monitored	815,204	929,121	16,275	**1,760,600**
Substandard	3,820,410	1,597,567	-	**5,417,977**
Doubtful	299	370,040	2,168,027	**2,538,366**
Loss	60	125,402	310,601	**436,063**
Total gross carrying amount	**11,463,321**	**3,374,976**	**2,513,739**	**17,352,036**
Allowance for impairment losses	(382,689)	(531,681)	(745,592)	(1,659,962)
Net carrying amount	**11,080,632**	**2,843,295**	**1,768,147**	**15,692,074**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

38 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk (continued)

2018

Loans and advances	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Grade 1	85	-	-	85
Grade 2	329,887	-	-	329,887
Grade 3	2,065,637	-	-	2,065,637
Grade 4	5,251,069	98,498	-	5,349,567
Grade 5	2,249,385	998	-	2,250,383
Grade 6	71,277	3,369,578	-	3,440,855
Grade 7	152	3,739,264	-	3,739,416
Default grades 8-10	-	-	2,125,584	2,125,584
Total gross carrying amount	**9,967,492**	**7,208,338**	**2,125,584**	**19,301,414**
Allowance for impairment losses	(21,327)	(735,776)	(1,243,206)	(2,000,309)
Net carrying amount	**9,946,165**	**6,472,562**	**882,378**	**17,301,105**

The Central Bank of the UAE classification of loans and advances

2018

Loans and advances	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Normal	7,275,357	1,551,931	3,824	8,831,112
Other loans exceptionally monitored	2,439	278,629	10,499	291,567
Substandard	1,392,636	3,766,728	166,749	5,326,113
Doubtful	-	756,295	1,771,456	2,527,751
Loss	-	-	23,652	23,652
Total gross carrying amount	**8,670,432**	**6,353,583**	**1,976,180**	**17,000,195**
Allowance for impairment losses	(18,683)	(687,503)	(1,252,614)	(1,958,800)
Net carrying amount	**8,651,749**	**5,666,080**	**723,566**	**15,041,395**

38 Risk management (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Notes	**2019**	2018
		AED'000	AED'000
Balances with Central Banks	6	**5,808,927**	4,579,199
Deposits and balances due from banks	7	**350,287**	507,785
Reverse-repo placements	8	**457,291**	849,188
Loans and advances, net	9	**17,735,756**	17,301,105
Investments in debt securities	10	**452,219**	671,554
Other assets *(excluding prepayments& assets acquired in settlement of debts)*		**1,013,986**	882,393
Total		**25,818,466**	24,791,224
Letters of credit	25	**830,317**	1,092,173
Guarantees	25	**2,863,393**	2,744,309
Undrawn loan commitments	25	**1,626,507**	1,577,285
Total		**5,320,217**	5,413,767
Total credit risk exposure		**31,138,683**	30,204,991

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

Aging analysis of past due but not impaired loans per class of on-balance sheet financial assets

	Less than 30 days	**31 to 89 days**	**More than 90 days**	**Total**
	2019	**2019**	**2019**	**2019**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Loans and advances	**86,151**	**123,970**	**196,589**	**406,710**

	Less than 30 days	**31 to 89 days**	**More than 90 days**	**Total**
	2018	**2018**	**2018**	**2018**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Loans and advances	23,748	9,155	394,455	427,358

38 Risk management (continued)

Collaterals held against loans and advances

The fair value of the collateral that the Group held as at 31 December 2019 for past due but not impaired loans and advances to customers covers 207% (2018: 193%) of the outstanding balance. For each loan, the value of the disclosed collateral is capped to the nominal amount of the loan that is held against.

Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated

	2019	2018
	AED'000	AED'000
Loans and advances	**565,382**	1,099,323

Impaired loans

Impaired loans are loans for which the Group determines that it is likely the collectability of all principal and interest due according to the contractual terms of the loan/securities agreement(s) would be doubtful. These loans are graded 8 to 10 in the Group's internal credit risk grading system.

Write-off policy

The Group writes off a loan balance (and any related allowances for impairment losses) when the Group determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Group holds collateral against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Group accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. Management has estimated the fair value of collateral to be AED 11.6 billion (2018: AED 13.4 billion) out of which AED 1.2 billion is collateral held against stage 3 loans and advances (2018: AED 427 million). The fair value of the collateral includes cash deposits which are not under lien and the Group has right to set-off against the outstanding facilities.

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 measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Concentration of credit risk by industrial sector for loans and advances are presented in notes 9e and 9f. Concentration of credit risk by geographical distribution of loans and advances and financial investments is set out in note 9b and 10b.

Liquidity risk management

Executive Committee (EC) & Board Risk Committee (BRC)

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

38 Risk management (continued)

Liquidity risk management (continued)

In addition to its credit related activity, the Executive Committee along with the Board Risk Committee have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. The EC and BRC review liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The EC & BRC formulate liquidity risk management guidelines for the Group's operation on the basis of such review.

The Group's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The EC members comprise of the Chairman, four Board Members, in addition to the General Manager. The EC meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous.

The Group manages its liquidity in accordance with U.A.E. Central Bank requirements and the Group's internal guidelines. The U.A.E. Central Bank sets cash ratio requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. The U.A.E. Central Bank also imposes a mandatory 1:1 utilisation ratio, whereby; loans and advances (combined with inter-bank placements having a remaining term of 'greater than three months') should not exceed stable funds as defined by the U.A.E. Central Bank. Stable funds are defined by the U.A.E. Central Bank to mean free-own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Group diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash, cash equivalent, and readily marketable securities. The Board Risk Committee sets and monitors liquidity ratios and regularly revises and updates the Group's liquidity management policies to ensure that the Group would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Board Risk Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the Deputy General Manager and senior executives from treasury, finance, corporate credit, and investment departments.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Group's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of short-term liquid assets to ensure liquidity is maintained within the Group's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board Risk Committee. The Daily Position sheet, which reports the liquidity and exchange positions of the Group is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Board Risk Committee.

38 Risk management (continued)

Liquidity risk management (continued)

Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which is 80.26% as at 31 December 2019 (2018: 80.94%). In addition, the Group also uses the following ratios/information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Basel III ratios (including ASRR, ELAR, etc.) are also monitored internally and shared with the Board on quarterly basis.

38 Risk management (continued)

Liquidity risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2019 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
Assets					
Cash and balances with central banks	4,725,670	-	1,034,363	48,894	**5,808,927**
Deposits and balances due from banks	237,743	110,276	-	2,268	**350,287**
Reverse-repo placements	457,291	-	-	-	**457,291**
Loans and advances, net	8,384,776	1,775,597	7,575,383	-	**17,735,756**
Investments measured at fair value	159,284	-	-	460,194	**619,478**
Investments measured at amortised cost	43,880	1,572	406,767	-	**452,219**
Investment properties	-	-	-	756,037	**756,037**
Goodwill and other intangibles	-	-	-	136,587	**136,587**
Other assets	167,469	83,668	4,808,666	-	**5,059,803**
Property and equipment	-	-	-	370,920	**370,920**
Total assets	**14,176,113**	**1,971,113**	**13,825,179**	**1,774,900**	**31,747,305**
Liabilities and equity					
Customers' deposits	15,287,463	5,941,512	69,258	28,001	**21,326,234**
Deposits and balances due to banks	76,281	96,938	-	-	**173,219**
Other liabilities	1,461,505	59,325	-	-	**1,520,830**
Issued Bonds	-	712,989	4,884,937	-	**5,597,926**
Equity	-	-	-	3,129,096	**3,129,096**
Total liabilities and equity	**16,825,249**	**6,810,764**	**4,954,195**	**3,157,097**	**31,747,305**
Net liquidity gap	**(2,649,136)**	**(4,839,651)**	**8,870,984**	**(1,382,197)**	**-**

38 Risk management (continued)

Liquidity risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2018 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	**Over 3 months to 1 year AED'000**	**Over 1 year AED'000**	**Undated AED'000**	**Total AED'000**
Assets					
Cash and balances with central banks	3,199,111	36,730	1,379,245	21,257	4,636,343
Deposits and balances due from banks	495,708	12,077	-	-	507,785
Reverse-repo placements	849,188	-	-	-	849,188
Loans and advances, net	7,962,373	1,140,388	8,194,390	3,954	17,301,105
Investments measured at fair value	143,446	-	-	673,873	817,319
Investments measured at amortised cost	-	100,363	563,136	8,055	671,554
Investment properties	-	-	-	608,473	608,473
Goodwill and other intangibles	-	-	-	416,056	416,056
Other assets	891,172	321,538	1,798,387	-	3,011,097
Property and equipment	-	-	-	304,577	304,577
Total assets	13,540,998	1,611,096	11,935,158	2,036,245	29,123,497
Liabilities and equity					
Customers' deposits	15,044,791	4,819,063	225,315	30,000	20,119,169
Deposits and balances due to banks	259,004	-	45,927	-	304,931
Other liabilities	1,152,825	64,771	112,914	-	1,330,510
Issued Bonds	-	-	1,798,044	1,791,928	3,589,972
Equity	-	-	-	3,778,915	3,778,915
Total liabilities and equity	16,456,620	4,883,834	2,182,200	5,600,843	29,123,497
Net liquidity gap	(2,915,622)	(3,272,738)	9,752,958	(3,564,598)	-

38 Risk management (continued)

Market risk management

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading, or non-trading /banking book.

a) Market risk - trading book

The Executive Committee has set limits for acceptable level of risks in managing the trading book. The Group maintains a well-diversified portfolio. In order to manage the market risk in the trading book, the Group carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management. Proprietary trading for the account of the Group is managed by a proprietary trading limit with a stop-loss limit.

The Group's trading book mainly comprises of equity instruments in companies listed on the U.A.E. exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held in the trading book due to a reasonable possible change in U.A.E. equity indices, with all other variables held constant is as follows:

	31 December 2019		31 December 2018	
Market indices	**Change in equity price %**	**Effect on income AED'000**	Change in equity price %	Effect on income AED'000
Global Stock markets	**+1%**	**1,593**	+1%	1,434
Global Stock markets	**-1%**	**(1,593)**	-1%	(1,434)

b) Market risk - non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Group uses simulation-modelling tools to periodically measure and monitor interest rate sensitivity. The results are monitored and analysed by the Senior Management. Since most of the Group's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

Notes to the Consolidated Financial Statements for the year ended 31 December 2019 (continued)

38 Risk management (continued)

b) Market risk - non-trading or banking book (continued)

i) Interest rate risk (continued)

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2019 was as follows:

	Weighted Average Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	**1.71%**	2,696,903	-	954,906	2,157,118	**5,808,927**
Deposits and balances due from banks	**2.94%**	36,856	-	-	313,431	**350,287**
Reverse-repo placements	**2.09%**	457,291	-	-	-	**457,291**
Loans and advances, net	**6.69%**	14,918,486	56,827	225,647	2,534,796	**17,735,756**
Other financial assets - Equity instruments		43,857	72,954	36,131	466,536	**619,478**
Other financial assets - Debt securities	**5.26%**	205,737	1,572	244,910	-	**452,219**
Investment properties		-	-	-	756,037	**756,037**
Goodwill and other intangibles		-	-	-	136,587	**136,587**
Other assets		-	-	-	5,059,803	**5,059,803**
Property and equipment, net		-	-	-	370,920	**370,920**
Total assets		**18,359,130**	**131,353**	**1,461,594**	**11,795,228**	**31,747,305**
Liabilities and equity						
Customers' deposits	**3.25%**	11,439,493	5,692,676	69,428	4,124,637	**21,326,234**
Deposits and balances due to banks	**3.12%**	11,262	8,786	-	22,941	**42,989**
Reverse repo borrowings	**2.68%**	130,230	-	-	-	**130,230**
Other liabilities		2,264	-	-	1,518,566	**1,520,830**
Issued Bonds	**4.00%**	-	-	5,597,926	-	**5,597,926**
Equity		-	-	-	3,129,096	**3,129,096**
Total liabilities and equity		**11,583,249**	**5,701,462**	**5,667,354**	**8,795,240**	**31,747,305**
On statement of financial position gap		**6,775,881**	**(5,570,109)**	**(4,205,760)**	**2,999,988**	**-**
Cumulative interest rate sensitivity gap		**6,775,881**	**1,205,772**	**(2,999,988)**	**-**	**-**

Notes to the Consolidated Financial Statements for the year ended 31 December 2019 (continued)

38 Risk management (continued)

b) Market risk - non-trading or banking book (continued)

i) Interest rate risk (continued)

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2018 was as follows:

	Weighted Average Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	1.65%	2,346,281	22,781	910,196	1,357,085	4,636,343
Deposits and balances due from banks	3.81%	294,143	-	-	213,642	507,785
Reverse-repo placements	2.72%	849,188	-	-	-	849,188
Loans and advances, net	6.35%	15,046,105	59,170	319,032	1,876,798	17,301,105
Other financial assets - Equity instruments		-	45,026	160,252	612,041	817,319
Other financial assets - Debt securities	5.46%	268,803	55,337	344,030	3,384	671,554
Investment properties		-	-	-	608,473	608,473
Goodwill and other intangibles		-	-	-	416,056	416,056
Other assets		-	-	-	3,011,097	3,011,097
Property and equipment, net		-	-	-	304,577	304,577
Total assets		18,804,520	182,314	1,733,510	8,403,153	29,123,497
Liabilities and equity						
Customers' deposits	3.30%	12,202,370	4,479,672	251,454	3,185,673	20,119,169
Deposits and balances due to banks	2.46%	246,580	6,288	45,928	6,135	304,931
Other liabilities		2,341	-	-	1,328,169	1,330,510
Issued Bonds	3.80%	-	-	3,589,972	-	3,589,972
Equity		-	-	-	3,778,915	3,778,915
Total liabilities and equity		12,451,291	4,485,960	3,887,354	8,298,892	29,123,497
On statement of financial position gap		6,353,229	(4,303,646)	(2,153,844)	104,261	-
Cumulative interest rate sensitivity gap		6,353,229	2,049,583	(104,261)	-	-

Notes to the Consolidated Financial Statements for the year ended 31 December 2019 (continued)

38 Risk management (continued)

Market risk management (continued)

b) Market risk - non-trading or banking book (continued)

i) Interest rate risk (continued)

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest bearing items. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Group's consolidated statement of profit or loss or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2019, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate, including the effect of any associated hedges as at 31 December 2019 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.

2019 Currency	**Increase in basis**	**Sensitivity of interest income**	**Sensitivity of equity**
AED	**+200**	**38,072**	**38,072**
USD	**+200**	**(44,483)**	**(44,483)**
Others	**+200**	**(1,959)**	**(1,959)**
AED	**-200**	**(38,072)**	**(38,072)**
USD	**-200**	**44,483**	**44,483**
Others	**-200**	**1,959**	**1,959**

2018 Currency	Increase in basis	Sensitivity of interest income	Sensitivity of equity
AED	+200	68,761	68,761
USD	+200	(37,748)	(37,748)
Others	+200	(2,027)	(2,027)
AED	-200	(68,761)	(68,761)
USD	-200	37,748	37,748
Others	-200	2,027	2,027

38 Risk management (continued)

Market risk management (continued)

b) Market risk - non-trading or banking book (continued)

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group provides foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As at 31 December 2019, the Group's net currency position was not material, and all the positions were within limits approved by the Executive Committee.

As the UAE Dirham and other GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The table below shows the foreign currencies to which the Group has a significant exposure to:

	2019 AED'000 equivalent long (short)	2018 AED'000 equivalent long (short)
Euro	**25,222**	689

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the consolidated statement of profit or loss (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of profit or loss or equity; whereas a negative effect shows a potential net reduction in consolidated statement of profit or loss or equity.

(AED'000)

Currency exposure as at 31 December 2019	**Change in currency rate in %**	**Change on net profit**	**Change on Equity**
EUR	**+5%**	**1,261**	**1,261**
EUR	**-5%**	**(1,261)**	**(1,261)**

(AED'000)

Currency exposure as at 31 December 2018	Change in currency rate in %	Change on net profit	Change on Equity
EUR	+5%	34	34
EUR	-5%	(34)	(34)

38 Risk management (continued)

Market risk management (continued)

b) Market risk - non-trading or banking book (continued)

iii) Equity price risk

Equity price risk refers to the risk of a decrease in the fair value of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's quoted equity investments held as financial assets at FVTOCI due to reasonable possible change in equity prices, with all other variables held constant is as follows:

	31 December 2019		31 December 2018	
Market indices	**Change in equity price %**	**Effect on equity AED'000**	Change in equity price %	Effect on equity AED'000
Global stock markets	**+1%**	**1,272**	+1%	1,600
Global stock markets	**-1%**	**(1,272)**	-1%	(1,600)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, and may have legal or regulatory implications, or lead to financial losses. The Group would not be able to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group could minimise the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

39 Capital adequacy and capital management

Capital management process

The Group's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

39 Capital adequacy and capital management (continued)

Capital management process (continued)

The Group assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

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

- Common equity tier 1 (CET 1) capital, which includes ordinary share capital, legal reserve, general reserve and retained earnings; fair value reserves, after deductions for intangibles, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under "CBUAE" guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

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; and
- Collective provision shall not exceed 1.25% of total credit risk weighted assets.

The minimum capital adequacy requirements as set out by the Central Bank are as follows:

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

In addition to CET 1 ratio of 7% of RWAs, a capital conservation buffer (CCB) of 2.5% of RWAs shall be maintained in the form of CET 1.

Further, counter cyclical buffer (CCyB) requirement shall be met by using CET 1. The level of CCyB to be notified by 'the Central Bank'. There is no CCyB requirement during the current period.

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

39 Capital adequacy and capital management (continued)

Capital management process (continued)

Basel III

The capital adequacy ratio is computed based on circulars issued by the U.A.E. Central Bank:

	31 December 2019 AED'000 (audited)	31 December 2018 AED'000 (unaudited)
Capital base		
Common Equity Tier 1	**2,920,581**	3,312,548
Additional Tier 1 capital	**-**	-
Tier 1 capital	**2,920,581**	3,312,548
Tier 2 capital	**329,871**	294,292
Total capital base	**3,250,452**	3,606,840
Risk-weighted assets:		
Credit risk	**26,389,680**	23,543,342
Market risk	**360,838**	288,487
Operational risk	**1,290,982**	1,414,857
Total risk-weighted assets	**28,041,500**	25,246,686
Capital ratios		
Common equity Tier 1 capital ratio	**10.42%**	13.12%
Tier 1 capital ratio	**10.42%**	13.12%
Total capital ratio	**11.59%**	14.29%

40 Fair value of financial instruments

<u>Investments held at fair value through profit and loss</u>
Investments held for trading or designated at fair value through profit and loss represent investment securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Including in these investment listed equity securities for which the fair values are based on quoted prices at close of business as of 31 December 2019, and unlisted bonds for which the fair values are derived from internal valuation performed based on generally accepted pricing models, all inputs used for the valuation are supposed by observable market prices or rates.

<u>Unquoted investments held at fair value through other comprehensive income</u>
The consolidated financial statements include holdings in unquoted securities amounting to AED 209 million (2018: AED 323 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on comparable ratios backed by discounted cash flow analysis depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

40 Fair value of financial instruments (continued)

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/lower while all other variables were held constant, then the fair value of the securities would increase/decrease by AED 11 million (2018: AED 16 million).

The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair value in equity.

Fair value of financial instruments carried at amortised cost
Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

		2019		2018	
	Level	**Carrying amount AED'000**	**Fair value AED'000**	Carrying amount AED'000	Fair value AED'000
Financial assets					
- Other financial assets measured at amortised cost	**3**	**452,219**	**400,749**	671,554	663,231
- Loans and advances	**3**	**17,735,756**	**17,735,756**	17,301,105	17,301,105
Financial liabilities					
- Customers' deposits	**2**	**21,326,234**	**21,326,234**	20,119,169	20,119,169
- Issued Bonds	**2**	**3,024,000**	**3,019,861**	-	-

The fair value for other financial assets measured at amortised cost is based on market prices.

Fair value measurements recognised in the consolidated statement of financial position
The following table provides an analysis of financial instruments that are measured at fair value. They are banked into levels 1 to 3 based on the degree to which the fair value is observable.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2019 (continued)

40 Fair value of financial instruments (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2019				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	**159,284**	**-**	**-**	**159,284**
Investments measured at FVTOCI				
Quoted equity	**127,183**	**-**	**-**	**127,183**
Unquoted equity	**-**	**-**	**209,252**	**209,252**
Unquoted debt securities	**-**	**123,759**	**-**	**123,759**
Total	**286,467**	**123,759**	**209,252**	**619,478**
Other financial liabilities measured at fair value				
Issued bonds measured at FVTPL				
Quoted debt securities	**2,578,066**	**-**	**-**	**2,578,066**
Other assets /liabilities				
Positive fair value of derivatives	-	**20,400**	-	**20,400**
Negative fair value of derivatives	-	**(7,577)**	-	**(7,577)**
At 31 December 2018				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	143,446	-	-	143,446
Investments measured at FVTOCI				
Quoted equity	160,069	-	-	160,069
Unquoted equity	-	-	323,239	323,239
Unquoted debt securities	-	190,565	-	190,565
Total	303,515	190,565	323,239	817,319
Other financial liabilities measured at fair value				
Issued bonds measured at FVTPL				
Quoted debt securities	3,589,972	-	-	3,589,972
Other assets /liabilities				
Positive fair value of derivatives	-	3,590	-	3,590
Negative fair value of derivatives	-	(62,808)	-	(62,808)

There were no transfers between Level 1 and Level 2 during the current year.

40 Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurements of other financial assets measured at FVTOCI:

	2019 AED'000	2018 AED'000
Opening balance	**323,239**	564,417
Losses recognised in other comprehensive income	**(113,987)**	(241,178)
Closing balance	**209,252**	323,239

Unobservable inputs used in measuring fair value

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, 10% change in the underlying value of these investments would have the following effects.

	Effect on OCI	
31 December 2019	**Favorable**	**Unfavorable**
	+20,925	**-20,925**

	Effect on OCI	
31 December 2018	Favorable	Unfavorable
	+32,324	-32,324

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

Financial Instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with Central Banks, due from banks and financial institutions, loans and advances, net, other assets (excluding prepayments), due to banks, customers' deposits and other liabilities that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

40 Fair value of financial instruments (continued)

Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

41 Comparative figures

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

42 Post balance sheet event

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across the globe causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Group’s IFRS 9 estimates of expected credit loss provisions and deferred tax estimates of temporary differences in 2020.

43 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 8 July 2020.