Bank of Sharjah P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2020

Bank of Sharjah P.J.S.C.

Consolidated Financial Statements
for the year ended 31 December 2020

Table of contents	**Pages**
Board of Directors' report	**1 -2**
Independent auditor's report	**3 -12**
Consolidated statement of financial position	**13**
Consolidated statement of profit or loss	**14**
Consolidated statement of comprehensive income	**15**
Consolidated statement of changes in equity	**6**
Consolidated statement of cash flows	**17**
Notes to the consolidated financial statements	**18 - 118**

Board of Directors' report

The Board has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2020.

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 Group has applied for the first time IAS 29 *Financial Reporting in Hyperinflationary Economies* to its subsidiary, Emirates Lebanon Bank SAL from 1 January 2020 and for financial reporting purposes for the year ended 31 December 2020.

The gain or loss on the net monetary position which has been derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of comprehensive income is recognised in the consolidated statement of profit or loss. During 2020, the resulting loss on the net monetary position for Emirates Lebanon Bank SAL was AED 577 million.

As a result, the loss for the year ended 31 December 2020 amounted to AED 666 million (2019: AED 488 million). The total comprehensive loss for the year ended 31 December 2020 amounted to AED 724 million (2019: AED 635 million) after taking into consideration the unrealised losses on revaluation of financial assets and financial liabilities measured at fair value through other comprehensive income and through profit or loss due to credit risk, respectively, amounting to AED 58 million (2019: AED 147 million). However, the Group's total equity reached AED 3.2 billion as of 31 December 2020 compared to AED 3 billion as of 31 December 2019 after restatement and AED 3.1 billion before restatement.

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 2020.

TRANSACTIONS WITH RELATED PARTIES

The consolidated financial statements disclose related party transactions and balances in note 37. All transactions are carried out as part of our normal course of business and in compliance with applicable laws and regulations.

AUDITORS

Deloitte & Touche (M.E.) were appointed as external auditors for the Group for the year ended 31 December 2020. Deloitte & Touche (M.E.) have expressed their willingness to continue in office. A shareholder resolution for the reappointment of Deloitte & Touche (M.E.) is proposed and to absolve them of their responsibility for the year ended 31 December 2020.

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
11. Mr. Amer Abdulaziz Khansaheb

On behalf of the Board

Mohammed Bin Saud Al Qasimi
Chairman

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax:+971 (0) 4 376 8899
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Bank of Sharjah PJSC
Sharjah
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Bank of Sharjah PJSC** (the "Bank") **and its subsidiaries** (together the "Group"), **Sharjah, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities. 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.

Cont'd…

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Bank of Sharjah PJSC (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Accuracy of the hyperinflation accounting for the results of Emirates Lebanon Bank</td></tr>
<tr><td>As disclosed in note 46 to the consolidated financial statements, the economy of the Republic of Lebanon was deemed a hyperinflationary economy in accordance with the requirements of IAS 29 Financial Reporting in Hyperinflationary Economies ("IAS 29").

The Group performed the hyperinflation calculations which included utilizing the consumer price indices used as a basis for hyperinflation. The restated financial results of the Group's Lebanese operations are translated to the Group's reporting currency, AED, using the official exchange rate published by the Central Bank of Lebanon.

In an efficient market, the change in an exchange rate between two economies is reflective of the long-term inflation differential between those same two economies. In the current year this relationship between the exchange rates and the relative inflation rates was not consistent with this principle. This anomaly has made the Lebanese results difficult to compare with the rest of the Group' s operations.

The loss on the monetary position is calculated as the difference resulting from the restatement of non-monetary assets, equity and items in the statement of profit or loss and other comprehensive income, and adjustment of index linked assets and liabilities. The application of IAS 21 The Effects of Changes in Foreign Exchange Rates in conjunction with the initial adoption of IAS 29 resulted in a net monetary adjustment of AED 577 million being recognized in the operating loss for the year.

The application of the requirements of IFRSs relative to hyperinflation and the assessment of the rate sensitivities disclosure were areas that required significant auditor attention. Given the significance of the quantitative impact, the complexities associated with hyperinflationary accounting and the extent of audit effort required, the application of hyperinflation accounting for the Group' s operations located in the Republic of Lebanon and the related sensitivity disclosures were deemed to be a Key Audit Matter.</td>
<td>Our audit procedures included, but were not limited to, the following:

• We utilized our internal IFRS accounting specialists to conclude on the appropriate application of IAS 21 and IAS 29;

• We assessed the inputs into the hyperinflation calculations with specific emphasis on the consumer price indices used;

• We reperformed the mathematical accuracy of the hyperinflation adjustments;

• We reperformed the mathematical accuracy of the calculations to determine the disclosure of sensitivities;

• We determined if the exchange rates used to translate the hyper inflated statements of financial position, profit or loss and other comprehensive income and cash flows were in agreement with the official exchange rate at year end and that the average exchange rate for the year had been determined in accordance with the requirements of IFRSs; and

• We assessed the disclosure in the consolidated financial statements relating to this area against the requirements of IFRSs.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Bank of Sharjah PJSC (continued)

Key Audit Matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Loan loss impairments – Estimation uncertainty with respect to expected credit losses for loans and advances to customers	
The assessment of the Bank's determination of impairment allowances for loans and advances to customers require management to make judgements over the staging of financial assets and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality of the loans and advances to customers (representing 54.0% of total assets) and the complexity of the judgements, assumptions and estimates used in the ECL models especially in light of the uncertain outlook caused by the impact of the Covid-19 pandemic. Refer to Note 4 to the consolidated financial statements for the accounting policy and Note 40 for the risk management disclosure. The material portion of the non-retail portfolio of loans and advances is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging movements as per the Bank's policies. The measurement of ECL amounts for retail and non-retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention. It is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and are subject to a validation process by an independent reviewer. The impact of the Covid-19 pandemic and the resulting economic support and relief measurement programmes of governments and central banks have been incorporated in the Bank's measurement of ECL. The Bank has updated its macro-economic forecasts and has applied portfolio-level ECL adjustments to wholesale and retail portfolios based upon affected portfolios and sectors.	We have gained an understanding of the loan origination process, credit risk management process and the estimation process of determining impairment allowances for loans and advances to customers and tested the operating effectiveness of relevant controls within these processes. We understood and evaluated the theoretical soundness of the ECL model by involving our subject matter experts to ensure its compliance with the requirements of IFRS 9. We tested the mathematical integrity of the ECL model by performing recalculations. We assessed the consistency of various inputs and assumptions used by the Group's management to determine impairment. On a sample basis, we selected individual loans and performed a detailed credit review and challenged the Banks's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions underlying the impairment allowance calculation, such as estimated future cash flows, collateral valuations and estimates of recovery. We evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for loan impairment allowances. We evaluated key assumptions such as thresholds used to determine SICR and forward looking macroeconomic scenarios including the related weighting. For loans tested collectively, we evaluated controls over the modelling process, including model inputs, monitoring, validation and approval. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data. We tested the IT application used in the credit impairment process and verified the integrity of data used as input to the models including the transfer of data between source systems and the impairment models. We evaluated system-based and manual controls over the recognition and measurement of impairment allowances.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Loan loss impairments – Estimation uncertainty with respect to expected credit losses for loan and advances to customers (continued)	
	We have evaluated the approach employed by the Bank to measure the impact of Covid-19 on ECL – we evaluated controls over the IFRS 9 governance process that reviews and approves all stage migrations, management overlays to ECL estimates, and macro-economic scenarios and weightings. We have tested the impact on individual loans through our detailed credit reviews referenced above. We evaluated other post model adjustments and management overlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses. The Bank appointed an external expert to perform the validation of the PD and LGD models including macro-economic model during the reporting period. We considered the process of this external validation of the models and its impact on the results of the impairment estimate. Finally, we have updated our assessment of the methodology and framework designed and implemented by the Bank as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the forecasts used by the Bank to determine future economic conditions at the reporting date. We have assessed the adequacy of the Group's disclosure in relation to the requirements of the relevant accounting standards.

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Exposure to Lebanese government bonds and Banque Du Liban ("BDL")</td></tr>
<tr><td>As a result of the significant levels of uncertainty and volatility that has been, and continues to be, experienced in the Lebanese Republic, the carrying values of the Group's exposures to Lebanese government bonds and BDL was identified as a key audit matter. Political unrest and breakdown in the Lebanese government, among other factors, resulted in the prices of these government bonds experiencing a sharp decline in the last quarter of 2019. Furthermore, the sovereign credit risk rating started to witness consecutive downgrading by all major rating agencies to reach the level of default on 7 March 2020.

The Group's exposure to BDL is carried in the statement of financial position at amortized cost , net of an allowance for Expected Credit Losses ("ECL") which is determined in accordance with the requirements of IFRS 9 Financial Instruments. The Group's exposure to Lebanese Government bonds are carried either at amortized cost or at FVTOCI, net of ECL.

Due to the fact that the fair values of Lebanese government bonds were significantly below par as at 31 December 2020, and due to the difficulty in accessing foreign currencies among other factors and their effect on the impairment of the foreign currency with BDL exposures, judgement was required in respect of whether an additional adjustment was required to the standard ECL methodology.

Whilst the fair values of bonds can be driven by a number of factors, management concluded that in this scenario, the fair values provided an indication of probability of default and loss given default expectations. As a result the carrying values were written down to their fair values as at 31 December 2020.

Refer to note 40 to the consolidated financial statements for more details relating to this matter.</td><td>We performed the following procedures, amongst others, in relation to the Lebanese government bond and BDL carrying amounts:

We obtained an understanding of the relevant controls over management's treasury and operations business cycles;

We assessed the design and implementation of controls over the determination of the carrying amount of the Lebanese government bond and Bank Du Liban carrying amounts;

We obtained an understanding of the ECL raised, including the determination of a post model adjustment applied by management;

We reperfomed the mathematical accuracy of management's determination of fair value of the Lebanese government bonds;

We assessed the forward looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses.
We agreed the results of management's determination of the fair valuation of Lebanese government bonds presented in the financial statements;

We performed an independent valuation of the Group's exposures to Lebanese government bonds using observable market prices, to challenge the ECL calculation computed by management; and

We assessed the disclosure in the consolidated financial statements, relating to this matter, against the requirements of IFRSs.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Bank of Sharjah PJSC (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of level 3 financial instruments	
Level 3 financial instruments represented 0.5% of the total assets as at 31 December 2020. These instruments are classified as financial assets at fair value through other comprehensive income and are measured at fair value with the corresponding fair value change recognized in other comprehensive income. The Group uses an external expert to assist in determining the fair value of these investments. As disclosed in Note 43 the valuation of level 3 financial instruments uses inputs other than observable market data and therefore are inherently subjective. It also requires significant judgement by management in determining the appropriate valuation methodology and use of various assumptions like cash flows, discount rates, market information, market risk adjustments etc. Given the inherent subjectivity and judgement required in the valuation of such unquoted instruments, we determined this to be a key audit matter.	We obtained an understanding of the controls over the identification, measurement and management of valuation risk, and tested the design and implementation of these controls. We assessed the competence, skills, qualifications and objectivity of the independent external valuers. We reviewed the scope of the engagement between the external valuer and the Group to determine if this was sufficient for audit purposes We evaluated the methodologies, reasonableness of inputs and assumptions used by the Group in determining fair values. Where necessary, we involved a specialist in assessing, for a sample selection of investments, key inputs, assumptions used by management, their external expert and supporting key factors. We re-performed the mathematical accuracy of the valuations. We agreed the results of the valuations to the amounts recorded in the financial statements. We assessed the adequacy of the Group's disclosure in the consolidated financial statements relating to this matter against the requirements of IFRSs.

Key Audit Matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Valuation of the investment properties and real estate assets acquired in satisfaction of loans	
The valuation of the investment properties and real estate assets acquired in settlement of debt is a significant judgement 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 a misstatement of consolidated profit or loss for the year. Valuations of investment properties and real estate assets acquired in settlement of debt are carried out by third party valuer in accordance with IFRSs and take into account, where available, discounted cash flows and evidence of market transactions for properties and locations comparable to those of the Group's properties. Economic slowdown due to Covid-19 has created significant uncertainty for the future real estate properties market and for the economy as a whole. Given the market conditions that existed at 31 December 2020, the external valuer has included a "material valuation uncertainty" paragraph in the valuation report and noted that, as a result, less certainty and a higher degree of caution should be attached to the valuation. Refer to notes 11 and 13 for more details relating to investment properties and real estate assets acquired in settlement of debt, respectively.	We obtained an understanding of the process of determining the fair value of the investment properties and real estate assets acquired in settlement of debt. We assessed the controls over the determination of the fair values to determine if they had been appropriately designed and implemented. We assessed the competence, independence and integrity of the external valuer 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. We obtained the external valuation reports for all properties and confirmed, on a sample basis, that the valuation approach used is in accordance with the international standards and suitable for use in determining the carrying value in the consolidated statement of financial position. We involved a specialist to carry out procedures on selected samples, to assess key valuation assumptions, such as market rent, sales prices, discount rates and capitalisation rates and to test the accuracy of these assumptions adopted by the valuer. These assumptions were considered on the basis of a COVID-19 economic environment. We also discussed the "material valuation uncertainty" paragraph included in the valuation report with the specialist to determine the impact on the valuation We met with the external valuer to understand the valuation process adopted and identified and challenged the methodology and critical judgment areas in the valuation model. We re-performed the mathematical accuracy of the valuations. We agreed the results of the valuations to the amounts recorded in the financial statements. We assessed the adequacy of the Group's disclosure in the consolidated financial statements including specific uncertainties that arise as a result of Covid-19.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
IT systems and controls over financial reporting	
We identified IT systems and controls over financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Group and rely on the effective operation of automated and IT dependent manual controls. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.	We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications. We tested IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data center and network operations. We examined computer generated information used in financial reports from relevant applications and key controls over their report logics. We performed testing on the key automated controls on significant IT systems relevant to business processes.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 8 July 2020.

Other information

The Board of Directors is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Board of Directors' report of the annual report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls 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 internal controls.
- 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Bank of Sharjah PJSC (continued)

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

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

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

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

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. (2) of 2015 as amended, we report that for the year ended 31 December 2020:

- We have obtained all the information we considered necessary for the purposes of our audit;
- 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;
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- Note 10 to the consolidated financial statements discloses the Bank's purchases or investments in shares during the year ended 31 December 2020;
- Note 37 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2020; and
- Note 35 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2020.

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

Deloitte & Touche (M.E.)

Akbar Ahmad
Registration No. 1141
2 May 2021
Dubai
United Arab Emirates

Consolidated Statement of Financial Position
As at 31 December

	Notes	2020 AED'000	2019 AED'000 Restated	1 January 2019 AED'000 Restated
ASSETS				
Cash and balances with central banks	6	**5,534,099**	5,851,994	4,636,343
Deposits and balances due from banks	7	**129,046**	350,287	507,785
Reverse-repo placements	8	**114,234**	457,291	849,188
Loans and advances, net	9	**19,455,607**	17,735,756	17,301,105
Investments measured at fair value	10	**420,978**	619,478	817,319
Investments measured at amortised cost	10	**4,240,833**	452,219	671,554
Investment properties	11	**767,594**	756,037	608,473
Goodwill and other intangibles	12	**40,370**	25,861	305,330
Assets acquired in settlement of debt	13	**4,020,165**	4,044,572	2,113,117
Other assets	13	**868,248**	1,003,811	894,390
Derivative assets held for risk management	14	**49,730**	20,400	3,590
Property and equipment	15	**502,586**	370,920	304,577
Total assets		**36,143,490**	31,688,626	29,012,771
LIABILITIES AND EQUITY				
Liabilities				
Customers' deposits	17	**23,672,584**	21,326,234	20,119,169
Deposits and balances due to banks	18	**240,915**	42,989	304,931
Repo borrowings	19	**2,438,842**	130,230	-
Other liabilities	20	**1,655,840**	1,565,300	1,267,702
Derivative liabilities held for risk management	14	**15,941**	7,577	62,808
Issued bonds	21	**4,953,951**	5,597,926	3,589,972
Total liabilities		**32,978,073**	28,670,256	25,344,582
Equity				
Capital and reserves				
Share capital	22 (a)	**2,100,000**	2,100,000	2,100,000
Statutory reserve	22 (b)	**1,050,000**	1,050,000	1,050,000
Contingency reserve	22 (c)	**640,000**	640,000	600,000
General and impairment reserve	9 (c) & 22 (d)	**288,962**	293,109	250,257
Investment fair value reserve		**(740,095)**	(682,249)	(535,375)
Accumulated losses		**(182,157)**	(402,710)	189,598
Equity attributable to equity holders of the Bank		**3,156,710**	2,998,150	3,654,480
Non-controlling interests		**8,707**	20,220	13,709
Total equity		**3,165,417**	3,018,370	3,668,189
Total liabilities and equity		**36,143,490**	31,688,626	29,012,771

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 2020.

Mohammed Bin Saud Al Qasimi
Chairman

Varouj Nerguizian
General Manager

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

	Notes	2020 AED'000	2019 AED'000
Interest income	28	**1,430,779**	1,388,048
Interest expense	29	**(861,283)**	(972,393)
Net interest income		**569,496**	415,655
Net fee and commission income	30	**106,438**	159,823
Exchange profit	31	**155,999**	11,532
(Loss)/income on investments	32	**(20,415)**	21,740
Revaluation loss on properties	11, 13	**(191,187)**	(84,677)
Other income	33	**42,639**	40,034
Operating income		**662,970**	564,107
Net impairment loss on financial assets	34	**(744,459)**	(438,654)
Goodwill impairment	12	**-**	(273,559)
Net operating loss		**(81,489)**	(148,106)
Other non-operating income	33	**449,338**	-
Personnel expenses	35	**(217,742)**	(183,721)
Depreciation	35	**(65,219)**	(34,862)
Other expenses	35	**(118,101)**	(99,283)
Amortisation of intangible assets	12	**(4,401)**	(5,910)
Loss on monetary position	46	**(577,037)**	-
Loss before taxes		**(614,651)**	(471,882)
Income tax expense – overseas	36	**(51,745)**	(15,802)
Net loss for the year		**(666,396)**	(487,684)
Attributable to:			
Equity holders of the Bank		**(654,883)**	(494,195)
Non-controlling interests		**(11,513)**	6,511
Net loss for the year		**(666,396)**	(487,684)
Basic and diluted loss per share (AED)	23	**(0.31)**	(0.24)

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

Consolidated Statement of Comprehensive Income
for the year ended 31 December

	2020 AED'000	2019 AED'000
Net loss for the year	**(666,396)**	(487,684)
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	**(58,546)**	(104,488)
Net changes in fair value of own credit risk on financial liabilities designated at fair value through profit or loss	**700**	(42,386)
Other comprehensive loss for the year	**(57,846)**	(146,874)
Total comprehensive loss for the year	**(724,242)**	(634,558)
Attributable to:		
Equity holders of the Bank	**(712,729)**	(641,069)
Non-controlling interests	**(11,513)**	6,511
Total comprehensive loss for the year	**(724,242)**	(634,558)

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

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 impairment reserve AED'000	Investment fair value reserve AED'000	Accumulated losses AED'000	Equity attributable to equity holders of the bank AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2019	**2,100,000**	**1,050,000**	**600,000**	**250,257**	**(535,375)**	**300,324**	**3,765,206**	**13,709**	**3,778,915**
Restatement (Note 44)	-	-	-	-	-	(110,726)	(110,726)	-	(110,726)
Balance at 1 January 2019 - restated	**2,100,000**	**1,050,000**	**600,000**	**250,257**	**(535,375)**	**189,598**	**3,654,480**	**13,709**	**3,668,189**
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	-	-	-	-	-	(3,874)	(3,874)	-	(3,874)
Transfer to impairment reserve [Note 9(c)]	-	-	-	42,852	-	(42,852)	-	-	-
Transfer to contingency reserve	-	-	40,000	-	-	(40,000)	-	-	-
Directors' remuneration (Note 24)	-	-	-	-	-	(10,806)	(10,806)	-	(10,806)
Charity donations (Note 24)	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Balance at 31 December 2019 - Restated	**2,100,000**	**1,050,000**	**640,000**	**293,109**	**(682,249)**	**(402,710)**	**2,998,150**	**20,220**	**3,018,370**
Net loss for the year	-	-	-	-	-	(654,883)	(654,883)	(11,513)	(666,396)
Other comprehensive loss	-	-	-	-	(57,846)	-	(57,846)	-	(57,846)
Total comprehensive loss for the year	-	-	-	-	**(57,846)**	**(654,883)**	**(712,729)**	**(11,513)**	**(724,242)**
Hyperinflation impact (Note 46)	-	-	-	-	-	878,774	878,774	-	878,774
Transactions with owners of the Group									
Disposal of FVOCI investment	-	-	-	-	-	15	15	-	15
Transfer to impairment reserve [Note 9(c)]	-	-	-	(4,147)	-	4,147	-	-	-
Charity donations (Note 24)	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Balance at 31 December 2020	**2,100,000**	**1,050,000**	**640,000**	**288,962**	**(740,095)**	**(182,157)**	**3,156,710**	**8,707**	**3,165,417**

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

Consolidated Statement of Cash Flows
for the year ended 31 December

	2020 AED'000	2019 AED'000
Cash flows from operating activities		
Net loss before tax for the year	**(614,651)**	(471,882)
Adjustments for:		
Depreciation of property and equipment	**65,219**	34,862
Amortisation of other intangible assets	**4,401**	5,910
Amortisation of premium on debt instruments	**627**	621
Loss on sale of investment properties	**-**	1,000
Gain on sale on assets acquired in settlement of debts	**-**	(22,547)
Gain on sale on fixed assets	**(1,073)**	-
Net fair value loss on issued debt securities	**23,837**	2,534
Net fair value gain on interest rate swaps	**(23,837)**	(2,534)
Net fair value loss/(gain) on other financial assets	**37,952**	(398)
Fair value loss/(gain) on revaluation of investment properties	**107,524**	(17,353)
Unrealized loss on assets acquired in settlement of debts	**83,663**	100,676
Net impairment loss on financial assets	**744,459**	438,654
Dividends income	**(16,187)**	(20,047)
Goodwill impairment	**-**	273,559
Loss on monetary position	**577,037**	-
Operating profit before changes in operating assets and liabilities	**988,971**	323,055
Changes in		
Deposits and balances due from banks maturing after three months	**-**	91,935
Statutory deposits with central banks	**(43,415)**	(15,763)
Loans and advances	**(2,060.256)**	(574,091)
Other assets	**86,258**	(2,145,882)
Customers' deposits	**2,346,350**	1,207,065
Other liabilities	**125,560**	200,201
Cash generated from/(used in) operations	**1,443,468**	(913,480)
Payment of directors' remuneration and charity donations	**(7,500)**	(18,306)
Net cash generated from/(used in) operating activities	**1,435,968**	(931,786)
Cash flows from investing activities		
Purchase of property and equipment	**(9,882)**	(20,281)
Proceeds from sale of property and equipment	**10,210**	26,491
Purchase of other financial assets	**(3,868,406)**	(62,281)
Additions to investment properties	**(119,082)**	(130,211)
Proceeds from sale of other financial assets	**243,672**	374,745
Dividends received	**16,187**	20,047
Net cash (used in)/generated from investing activities	**(3,727,301)**	208,510
Cash flows from financing activities		
Issued bonds	**-**	3,023,560
Partial settlement of bonds	**(721,539)**	(1,126,931)
Payment of lease liabilities	**(15,220)**	-
Net cash (used in)/generated from financing activities	**(736,759)**	1,896,629
Net (decrease)/increase in cash and cash equivalents	**(3,028,092)**	1,173,353
Cash and cash equivalents at the beginning of the year	**4,386,283**	3,212,930
Cash and cash equivalents at the end of the year (Note 26)	**1,358,191**	4,386,283

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

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 Standards

2.1 New and amended IFRSs that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these consolidated financial statements.

In the current year, the Group has applied a number of amendments to IFRSs and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2020.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

New and revised IFRS	Summary
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments Disclosures* relating to interest rate benchmark reform	The changes ➢ modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform; ➢ are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform; ➢ are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and ➢ require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

2. Adoption of new and revised Standards (continued)

2.1 New and amended IFRSs that are effective for the current year (continued)

New and revised IFRS	Summary
Amendment to IFRS 3 *Business Combinations* relating to definition of a business	The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They: ➢ clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; ➢ narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; ➢ add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; ➢ remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and ➢ add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2 *Share-based payment*, IFRS 3 *Business Combinations*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IFRS 14 *Regulatory Deferral Accounts*, IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IAS 34 *Interim Financial Reporting*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IAS 38 *Intangible Assets*, IFRIC 12 *Service Concession Arrangements*, IFRIC 19 *Extinguishing of Financial Liabilities with Equity Instruments*, IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*, IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, and SIC-32 *Intangible Assets – Web Site Costs* to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	The Group has adopted the amendments to IFRS 2, IFRS 6, IFRS 15, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC 21 in the current year.

2. Adoption of new and revised Standards (continued)

2.1 New and amended IFRSs that are effective for the current year (continued)

New and revised IFRS	Summary
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* relating to definition of material	Three new aspects of the new definition should especially be noted: ➢ Obscuring. The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A). ➢ Could reasonably be expected to influence. The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote. ➢ Primary users. The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.
Amendments to IFRS 16 *Leases* relating to Covid-19-Related Rent Concessions	The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

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 2020.

2. Adoption of new and revised Standards (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*) The amendments in Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.	1 January 2021
Amendments to IFRS 3 *Business Combinations* relating to Reference to the Conceptual Framework The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment* relating to Proceeds before Intended Use The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* relating to Onerous Contracts - Cost of Fulfilling a Contract The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).	1 January 2022

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

2. Adoption of new and revised Standards (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2018 – 2020 Makes amendments to the following standards: • IFRS 1 *First-Time Adoption of International Financial Reporting Standards* – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. • IFRS 9 *Financial Instruments* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. • IFRS 16 *Leases* – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. • IAS 41 *Agriculture* – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.	1 January 2022
Amendments to IAS 1 *Presentation of Financial Statements* relating to Classification of Liabilities as Current or Non-Current The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.	1 January 2023
Amendments to IFRS 4 *Insurance Contracts* Extension of the Temporary Exemption from Applying IFRS 9 The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.	1 January 2023

2. Adoption of new and revised Standards (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.	1 January 2023
Amendments to IFRS 17 *Insurance Contracts* Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The main changes are: • Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023. • Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk. • Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination. • Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level. • Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements. • Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives. • Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held. • Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts. • Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.	1 January 2023

2. Adoption of new and revised Standards (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures (2011)* relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	Effective date deferred indefinitely. Adoption is still permitted.

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

3. 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., including the UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") as amended by the Federal Decretal Law No. 26 of 2020 issued on 27 September 2020, for certain provisions which will take effect on 02 January 2021, and the Decretal Federal Law No. (14) of 2018.

3.2 Basis of measurement

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

The Lebanese economy is considered to be hyperinflationary. Accordingly, the results, cash flows and the financial position of the Emirates Lebanon Bank SAL have been expressed in terms of the measuring unit current at the reporting date.

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.

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, or 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)

4.4.2 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.

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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.2 Classification of financial assets (continued)

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.

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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.2 Classification of financial assets (continued)

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.

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).

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 (continued)

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.

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

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.

4. Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

4.4.3 Measurement of ECL (continued)

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 a downside 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.

The economic scenarios used as at 31 December 2020 included the following key indicators for the years ending 31 December 2021 to 2025.

	Macro Variable	**Scenario**	**2021**	**2022**	**2023**	**2024**	**2025**
UAE	**Oil Price**	Base	12.10%	22.62%	7.99%	2.53%	3.00%
		Upside	23.88%	22.44%	7.51%	2.45%	2.92%
		Downside	-29.97%	-7.69%	52.56%	19.80%	9.71%
	GDP	Base	1.79%	2.72%	2.25%	2.43%	2.68%
		Upside	6.29%	5.34%	1.99%	1.96%	2.39%
		Downside	-7.96%	-1.83%	3.80%	5.05%	4.95%
Lebanon	**GDP**	Baseline	9%	5%	5%	6%	6%
		Upside	11%	5%	6%	6%	6%
		Downside	2%	4%	7%	7%	6%
	Equity Index	Baseline	-4%	35%	14%	9%	2%
		Upside	17%	37%	12%	8%	0%
		Downside	-31%	30%	19%	13%	4%

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

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.

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. Subsequently, the real estate are measured at acquisition value, less impairment losses, if any. 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 recognized 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 recognized 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.

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 weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position is 4.23% (2019: 4.23%)

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)

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.

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.

4. Summary of significant accounting policies (continued)

4.23 Revenue and expense recognition (continued)

4.23.1 Interest income and expense (continued)

Effective interest rate

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

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

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

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.

4. Summary of significant accounting policies (continued)

4.23 Revenue and expense recognition (continued)

4.23.2 Fees and commission (continued)

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'.

4.23.3 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 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 as cash flows hedges of variability in interest cash flows; in the same period as the hedged cash flows affect interest income/ expense

4. Summary of significant accounting policies (continued)

4.23 Revenue and expense recognition (continued)

4.23.3 Dividend income (continued)

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.

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

Group companies

The results and financial position of foreign operations that have a functional currency that is different from the group's presentation currency are translated into the group's presentation currency as follows:

- assets and liabilities (including goodwill, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate at the reporting date
- income and expenses are translated at average exchange rates for each month; and
- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the group's FCTR.

Transactions and balances

Foreign currency transactions are translated into the respective group entities' functional currencies at exchange rates prevailing at the date of the transactions (in certain instances a rate that approximates the actual rate at the date of the transactions is utilised, for example an average rate for a month). Foreign exchange gains and losses resulting from the settlement of such transaction and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges).

4. Summary of significant accounting policies (continued)

4.25 Foreign operations (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Foreign exchange gains and losses on equities (debt) classified as fair value through OCI are recognised in the fair value through OCI reserve in OCI (trading revenue) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (trading revenue) in profit or loss.

Foreign currency gains and losses on intragroup loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases, the foreign currency gains and losses are recognised in the group’s FCTR.

The results, cash flows and financial position of group entities which are accounted for as entities operating in hyperinflationary economies and that have functional currencies different from the presentation currency of the group are translated into the presentation currency of its parent at the exchange rate at the reporting date. These foreign exchange gains and losses on a hyperinflationary foreign operation are presented in OCI.

Subsidiaries in hyperinflationary economies

The results and financial position of the group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit at the end of the reporting year following the historic cost approach.

However, as the presentation currency of the group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the index in the current year. Differences between these comparative amounts and current year hyperinflation adjusted are recognised directly in equity.

The carrying amounts of non-monetary assets and liabilities are adjusted to reflect the change in the general price index from the date of acquisition to the end of the reporting year. On initial application of hyperinflation, prior year gains and losses are recognised directly in equity. Gains or losses on the net monetary position are recognised in profit or loss. All items recognised in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

At the beginning of the first year of application, the components of equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. These restatements are recognised directly in equity as an adjustment to opening retained earnings. Restated retained earnings are derived from all other amounts in the restated statement of financial position. At the end of the first year and in subsequent years, all components of equity are restated by applying a general price index from the beginning of the year or the date of contribution, if later. All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting year.
Results, cash flows and the financial position of the group's subsidiaries which have been classified as hyperinflationary have been expressed in terms of the measuring unit current at the reporting date. For further details, refer to Note 46.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

4.25 Foreign operations (continued)

Subsidiaries in hyperinflationary economies (continued)

The International Practices Task Force (IPTF) of the Center of Audit Quality (CAQ) in its discussion document for the 10 November 2020 meeting stated Lebanon as one of the countries with three-year cumulative inflation rates exceeding 100%. In addition, applying the October 2020 International Monetary Fund (IMF) information and the indicators laid out in IAS29, the Lebanese economy was considered as hyperinflationary during 2020. Accordingly, the results and financial position of the Group's subsidiary – Emirates Lebanon Bank SAL expressed in terms of the measuring unit current at the reporting date. For further details, refer to note 46.

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.

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.

4. Summary of significant accounting policies (continued)

4.29 Deferred tax (continued)

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 derecognized 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.

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.

5 Use of estimates and judgements (continued)

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

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.

Impairment of assets and goodwill

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.

Hyperinflation

The group exercises significant judgement in determining the onset of hyperinflation in respect of its operations in Lebanon. Various characteristics of the economic environment of Lebanon are taken into account. These characteristics include, but are not limited to, whether:

- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- prices are quoted in a relatively stable foreign currency;
- sales or purchase prices take expected losses of purchasing power during a short credit period into account;
- prices are linked to a price index; and
- the cumulative inflation rate over three years is approaching, or exceeds, 100%.

5 Use of estimates and judgements (continued)

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

Lebanese Pound exchange rate

The economic and political situation in Lebanon, and the difficulty in accessing foreign currencies led to the emergence of a parallel market to the official peg whereby the price to access foreign currencies increased, deviating significantly from the official peg of 1507.5 LBP/USD. This has resulted in an uncontrolled rise in prices driving high inflation and rise in the consumer price index.

Several exchange rates have emerged that vary significantly among each other and from the official exchange rate (refer to note 46). In the absence of any formal communication from the Central Bank of Lebanon, management has elected to use the official exchange rate for the conversion of the financial statements of Emirates Lebanon Bank SAL to include them in the consolidated financial statements of the Group.

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 43 for more details on fair value measurement.
- The determination of the Group's lease liability depends on certain assumptions, including selection of appropriate discount rate. The determination of discount rate is considered to be a key source of estimation uncertainty as relatively small changes in discount rate may have a significant effect on the carrying amounts of lease liabilities and right of use asset.
- The fair value of the Group's investment properties is estimated using sales comparison, income capitalisation, residual approach and discounted cash flow method, considering the property being valued. In estimating the fair value of the properties, the highest and best use of the properties is their current use. Refer to note 11 for more details on fair value measurement.
- The realisable values of real estate acquired in settlement of debt are determined by the management on valuations performed by qualified and independent chartered surveyors and property consultants. These valuations have been prepared in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors (RICS), and are reflective of the economic conditions prevailing as at the reporting date.

6. Cash and balances with central banks

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

	2020 AED'000	2019 AED'000
Cash on hand	**163,768**	72,105
Statutory deposits (note 6.1)	**1,128,266**	1,084,851
Current accounts	**3,720,562**	2,464,646
Certificates of deposits	**1,231,611**	2,528,123
	6,244,207	6,149,725
Expected credit loss including overlays	**(710,108)**	(297,731)
	5,534,099	5,851,994

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

	2020 AED'000	2019 AED'000
Banks abroad	**4,056,630**	2,648,408
Banks in the U.A.E.	**2,187,577**	3,501,317
	6,244,207	6,149,725
Expected credit loss including overlays	**(710,108)**	(297,731)
	5,534,099	5,851,994

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 2020, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 434 million (31 December 2019: AED 421 million).

7. Deposits and balances due from banks

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

	2020 AED'000	2019 AED'000
Demand	**123,631**	206,065
Time	**7,032**	154,892
	130,663	360,957
Expected credit loss	**(1,617)**	(10,670)
	129,046	350,287

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

7. Deposits and balances due from banks (continued)

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

	2020 AED'000	2019 AED'000
Banks abroad	**114,563**	321,711
Banks in the U.A.E.	**16,100**	39,246
	130,663	360,957
Expected credit loss	**(1,617)**	(10,670)
	129,046	350,287

8. Reverse-repo placements

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

	2020 AED'000	2019 AED'000
Banks in the U.A.E.	**115,386**	457,713
	115,386	457,713
Expected credit loss	**(1,152)**	(422)
	114,234	457,291

The Group entered into reverse-repo agreements under which bonds with fair value of AED 113 million (2019: AED 460 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:

	2020 AED'000	2019 AED'000
Overdrafts	**5,797,403**	7,301,407
Commercial loans	**11,487,866**	8,731,786
Bills discounted	**2,399,631**	1,977,841
Other advances	**1,714,660**	1,569,344
Gross amount of loans and advances	**21,399,560**	19,580,378
Less: Allowance for impairment	**(1,943,953)**	(1,844,622)
Net loans and advances	**19,455,607**	17,735,756

9. Loans and advances, net (continued)

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

	2020 AED'000	2019 AED'000
Loans and advances resident in the U.A.E.	**18,502,625**	16,307,624
Loans and advances non-resident in Lebanon	**1,666,555**	2,212,732
Loans and advances non-resident others	**1,230,380**	1,060,022
	21,399,560	19,580,378

(c) **Impairment 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 impairment reserve. The details of the same are below:

	Bank 2020 AED'000	Bank 2019 AED'000
Impairment reserve – Specific		
Specific provisions and interest in suspense under Circular 28/2010 of CBUAE	**1,459,501**	1,482,602
Stage 3 provisions under IFRS 9 *	**1,756,299**	1,559,341
Specific provision transferred to the impairment reserve	**-**	-

	Bank 2020 AED'000	Bank 2019 AED'000
Impairment reserve – Collective		
Collective provisions under Circular 28/2010 of CBUAE	**317,264**	293,729
Stage 1 and Stage 2 provisions under IFRS 9 *	**128,302**	100,620
Collective provision transferred to the impairment reserve	**188,962**	193,109

As at 31 December 2020, AED 4.1 million are transferred from impairment reserve to retained earnings (2019: AED 42.8 million were transferred from retained earnings to impairment reserve).

* Provisions in accordance with IFRS 9, are determined based on CB UAE classification of loans and advances.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

9. Loans and advances, net (continued)

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

	2020	2019
	AED'000	AED'000
Economic sector		
Trading	**4,686,360**	4,931,417
Services	**4,494,419**	3,565,954
Manufacturing	**3,100,690**	2,813,336
Government related entities	**2,746,418**	2,287,693
Personal loans	**2,321,028**	2,686,974
Construction	**1,226,250**	1,132,253
Mining and quarrying	**905,043**	698,298
Financial institutions	**867,598**	259,792
Transport and communication	**347,693**	330,665
Government	**223,560**	577,119
Agriculture	**43,581**	78,754
Other	**436,920**	218,123
	21,399,560	19,580,378
Less: Allowance for impairment	**(1,943,953)**	(1,844,622)
	19,455,607	17,735,756

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

	2020	2019
	AED'000	AED'000
Economic sector		
Trading	**1,485,250**	1,454,327
Manufacturing	**983,071**	917,970
Services	**164,412**	163,257
Construction	**48,229**	55,419
Personal loans for commercial purposes	**30,775**	50,224
Transport and communication	**1,318**	7,248
Financial institutions	**91**	18,886
Others	**102**	-
Total non-performing loans	**2,713,248**	2,667,331

10. Investments measured at fair value and amortised cost

(a) The analysis of the Group's investments measured at fair value and amortised cost is as follows:

	2020 AED'000	2019 AED'000
Investments measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	**121,760**	159,284
	121,760	159,284
(ii) Investments measured at FVTOCI		
Quoted equity	**94,818**	127,183
Unquoted equity	**175,042**	209,252
Debt Securities	**99,680**	123,759
Expected credit losses	**(70,322)**	-
	299,218	460,194
Total investments measured at fair value	**420,978**	619,478
Investments measured at amortised cost		
Debt securities	**4,354,187**	486,484
Expected credit losses	**(113,354)**	(34,265)
Total investments measured at amortised cost	**4,240,833**	452,219
Total investments	**4,661,811**	1,071,697

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

Included in the debt securities measured at amortised cost are sukuk with the fair value of AED 2,997 million (2019: AED 130 million) given as collateral against borrowings under repo agreements (Note 19).

(b) The composition of investments by geography is as follows:

	2020 AED'000	2019 AED'000
United Arab Emirates	**4,402,156**	586,962
Middle East (other than G.C.C. countries)	**425,720**	478,358
Europe	**17,611**	40,642
	4,845,487	1,105,962
Expected credit losses	**(183,676)**	(34,265)
	4,661,811	1,071,697

(c) Investments measured at FVTOCI 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 or loss.

During the year ended 31 December 2020, 600 thousand shares of equity securities were acquired at an amount of AED 8.1 million (2019: 13.8 million shares of equity securities were acquired at an amount of AED 22 million).

10. Investments measured at fair value and amortised cost (continued)

(d) During the year ended 31 December 2020, dividends received from financial assets measured at FVTOCI and FVTPL amounting to AED 16 million (2019: AED 20 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 2019	**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**
Decrease in fair value during the year	(629)	(106,895)	(107,524)
Additions during the year	-	119,081	119,081
Fair value at 31 December 2020	**26,900**	**740,694**	**767,594**

The fair value of the Group's investment properties is estimated using sales comparison, income capitalisation, residual approach and discounted cash flow method, considering the property being valued.

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

As at 31 December 2020, 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.

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.

The valuation of investment properties performed by external valuer at 31 December 2020 is based on the information available to them at the time of the valuation and relies on several inputs. Given the current situation with COVID-19 there is an increase in the estimation uncertainty in determining the fair value of investment property at 31 December 2020 compared to previous years. External valuer has noted that it is difficult to determine the effect that Covid-19 will have on the investment properties. The valuer has reported on the basis of 'material valuation uncertainty' and therefore less certainty and a higher degree of caution is attached to the valuation than would normally be the case.

11. Investment properties (continued)

Description of valuation techniques used and key inputs to valuation on investment properties as at 31 December 2020:

Valuation technique	Nature of property	Significant unobservable inputs
Income Capitalization Approach	Building	Capitalisation rate 7.5%
Discounted Cash Flow Approach	Properties under development	Discount rate 10% Capitalisation rate 8% Stabilised occupancy rate 95%
Sales Comparison Method	Land and building	Comparable transactions

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 Pound.

During the prior year, as a result of the political uncertainty in Lebanon, the Group recorded an impairment of AED 185 million to Goodwill.

	2020 AED'000	2019 AED'000
Goodwill	**-**	184,733
Impairment	**-**	(184,733)
Total	**-**	-

	2020 AED'000	2019 AED'000
Other intangibles		
Banking license	**18,365**	18,365
Customer base	**22,005**	7,496
Total	**40,370**	25,861

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.

12. Goodwill and other intangibles (continued)

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 2019	**18,365**	**4,299**	**8,742**	**365**	**31,771**
Amortisation during the year	-	(4,299)	(1,246)	(365)	(5,910)
Balance as at 31 December 2019	**18,365**	**-**	**7,496**	**-**	**25,861**
Adjustment due to hyperinflation	**-**	**-**	18,910	**-**	18,910
Amortisation during the year	-	-	(4,401)	-	(4,401)
Balance as at 31 December 2020	**18,365**	**-**	**22,005**	**-**	**40,370**

Muwaileh Capital FZC

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 of 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.

Muwaileh Capital FZC is developing a project known as Muwaileh Community in Emirate of Sharjah. According to the proposed development plan, the Muwaileh Community consists of a total of 39 buildings, 1 community centre and 1 vacant land.

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.

During the year, the Group determined that the goodwill impairment of AED 110.73 million was not recognised in the consolidated financial statements of the Group for the year ended 31 December 2018. This has been rectified retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* Accordingly, the consolidated financial statements of the Group are restated to recognize the goodwill impairment (Note 44).

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

12. Goodwill and other intangibles (continued)

El Capital FZC

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.

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 out of which 40.23% related to some Bank of Sharjah board members and 7.54% related to some Bank of Sharjah management.

During the prior year, as a result of the political uncertainty in Lebanon, the Group recorded an impairment of AED 88.83 million to Goodwill.

The transaction has been accounted for as follows:

	2020	2019
	AED'000	AED'000
Goodwill	**-**	88,826
Impairment	**-**	(88,826)
Total	**-**	-

13. Other assets

	2020	2019
	AED'000	AED'000
Acceptances – contra (Note 20)	**674,155**	765,271
Interest receivable	**41,150**	37,616
Prepayments	**10,580**	10,521
Clearing receivables	**9,623**	72,473
Receivable from sale of property	**-**	71,220
Others	**132,740**	51,990
	868,248	1,009,091
Expected credit losses	**-**	(5,280)
	868,248	1,003,811

Assets acquired in settlement of debt

	2020	2019
	AED'000	AED'000
Real estate properties	**4,010,980**	4,035,387
Investment securities	**9,185**	9,185
	4,020,165	4,044,572

Real estate properties represent properties and plots of lands acquired in settlement of debt. During the year, net unrealised losses of AED 84 million (2019: AED 101 million) are recognised in the consolidated statement of profit or loss on real estate properties. Realisable values 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 these properties and plots of land as at 31 December 2020 amounted to AED 4,011 million (2019: AED 4,035 million).

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

13. Other assets (continued)

Assets acquired in settlement of debt (continued)

Description of valuation techniques and key inputs used to determine the realisable values of real estate properties acquired in settlement of debt as at 31 December 2020:

Valuation technique	Nature of property	Significant unobservable inputs
Residual value approach	Land	Discount rate 15% - 20%
Discounted Cash Flow Approach	Residential and commercial buildings and land	Discount rate 8% - 15% Capitalisation rate 8%
Income capitalisation approach	Building and villas	Capitalisation rate 6% - 8%
Sales comparison approach	Building and land	Comparable transactions

The assessment of realisable values performed by external valuer at 31 December 2020 is based on the information available to them at the time of assessment and relies on several inputs. Given the current situation with COVID-19 there is an increase in the estimation uncertainty in determining the realisable values at 31 December 2020 compared to previous years. External valuer has noted that it is difficult to determine the effect that Covid-19 will have on real estate properties. The valuer has reported on the basis of 'material valuation uncertainty' and therefore less certainty and a higher degree of caution is attached to the assessment than would normally be the case.

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.

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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

14. Derivative financial instruments (continued)

			Notional amounts by term to maturity			
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount AED'000**	**Within 3 months AED'000**	**3-12 months AED'000**	**1-5 years AED'000**
2020						
Interest rate swaps	38,723	(14,886)	1,949,261	-	-	1,949,261
Currency swaps	11,007	(1,055)	4,410,156	4,387,101	23,055	-
Forward foreign exchange contracts	-	-	5,721	5,721	-	-
Total	**49,730**	**(15,941)**	**6,365,138**	**4,392,822**	**23,055**	**1,949,261**
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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

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 2019	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
Additions	-	5,589	3,946	347	9,882
Disposals	(9,888)	(1,230)	-	-	(11,118)
Adjustment due to hyperinflation	171,913	127,509	108,361	3,251	411,034
At 31 December 2020	**573,359**	**271,796**	**227,335**	**8,969**	**1,081,459**
Accumulated depreciation					
At 1 January 2019	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
Charge for the year	30,442	20,393	13,337	1,047	65,219
Disposals	(788)	(1,193)	-	-	(1,981)
Adjustment due to hyperinflation	53,892	89,622	68,790	2,590	214,894
At 31 December 2020	**182,533**	**227,129**	**161,289**	**7,922**	**578,873**
Net book value:					
At 31 December 2020	**390,826**	**44,667**	**66,046**	**1,047**	**502,586**
At 31 December 2019	312,347	21,621	35,866	1,086	370,920

16. Subsidiaries

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

Name of Subsidiary	Proportion of ownership interest 2020	Proportion of ownership interest 2019	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 2020 and 2019:

	2020 AED'000	2019 AED'000
Statement of financial position		
Total assets	**5,732,546**	5,313,495
Total liabilities	**4,125,186**	4,761,811
Equity	**1,607,360**	551,684
Dividends paid to non-controlling interests	**0**	0
Statement of comprehensive income		
Interest income	**373,302**	366,951
Loss for the year	**(775,393)**	(561,258)
Total comprehensive loss	**(774,670)**	(559,225)

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

16. Subsidiaries (continued)

	2020 AED'000	2019 AED'000
Statement of cash flows		
Net cash flows (used in)/generated from operating activities	**(405,308)**	540,587
Net cash flows generated from investing activities	**113,022**	99,779
Net cash flows generated from financing activities	**952,417**	69,048
Net increase in cash flows during the year	**660,131**	709,414

17. Customers' deposits

The analysis of customers' deposits is as follows:

	2020 AED'000	2019 AED'000
Current and other accounts	**4,619,779**	3,878,614
Saving accounts	**897,183**	1,424,628
Time deposits	**18,155,622**	16,022,992
	23,672,584	21,326,234

18. Deposits and balances due to banks

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

	2020 AED'000	2019 AED'000
Demand	**65,915**	32,307
Time	**175,000**	10,682
	240,915	42,989

Due to banks represent due to:

	2020 AED'000	2019 AED'000
Banks in the U.A.E.	**237,614**	32,285
Banks abroad	**3,301**	10,704
	240,915	42,989

19. Repo borrowings

The analysis of the repo borrowing agreements is as follows:

	2020 AED'000	2019 AED'000
Banks in the U.A.E.	**2,438,842**	130,230
	2,438,842	130,230

The Group entered into repo agreements under which bonds with fair value of AED 2,997 million (31 December 2019: AED 130 million) were given as collateral against borrowings [Note 10(a)]. The risks and rewards relating to these bonds remain with the Group.

20. Other liabilities

	2020 AED'000	2019 AED'000
Acceptances – contra (Note 13)	**674,155**	765,271
Interest payable	**233,450**	251,915
ECL on unfunded exposure	**131,529**	121,820
Lease liabilities	**86,700**	98,470
Clearing balances	**72,623**	52,048
Unearned income	**54,505**	68,587
Provision for employees' end of service benefits (Note 20.1)	**48,056**	45,577
Deferred tax liability	**41,697**	-
Managers' cheques	**19,231**	51,261
Accrued expenses	**7,522**	14,738
Others	**286,372**	95,613
	1,655,840	1,565,300

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

	2020 AED'000	2019 AED'000
At 1 January	**45,577**	44,808
Charged during the year	**7,809**	8,411
Write back to profit or loss	**(2,402)**	-
Payments during the year	**(2,928)**	(7,642)
At 31 December	**48,056**	45,577

21. Issued bonds

Issue date	Maturity	Currency	Face value million	**2020 Carrying value AED' 000**	2019 Carrying value AED' 000
8 June 2015	Jun-20	USD	500	**-**	712,988
28 February 2017	Feb-22	USD	500	**1,896,682**	1,865,077
8 August 2019	Aug-22	USD	120	**437,986**	437,488
8 September 2019	Sep-24	USD	600	**2,202,399**	2,202,324
29 November 2019	Nov-23	CHF	100	**416,884**	380,049
				4,953,951	5,597,926

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 were fully guaranteed by the Bank, carry a fixed interest rate of 3.374% per annum payable semi-annually and were 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. On 8 June 2020, the remaining bonds have matured and were fully redeemed.

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 points, to yield 4.23%. The Notes were issued under the Bank's Euro Medium Term Note ("EMTN") Programme which is listed on the Irish Stock Exchange.

On 8 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 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 points, to yield 4.015%, classified at amortized cost. The Notes were issued under the Bank's EMTN Programme which is listed on the Irish Stock Exchange.

On 29 November 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling CHF 100 million (equivalent to AED 415 million) for a four-year maturity at mid swaps plus 205 basis points, to yield 1.4575%, classified at amortized cost. The Notes are listed on the SIX Swiss Exchange and were issued under the Bank's EMTN Programme.

The General Assembly on 5 August 2020, authorised an update of the Bank's EMTN programme and approved an increase in its global size from USD 1.5 billion to USD 2.5 billion.

21. Issued bonds (continued)

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 2020 AED'000	31 December 2019 AED'000
Fair value of issued bond	**5,064,285**	5,597,926
Changes in fair value of issued bond not attributable to changes in market conditions	**700**	(42,386)
Difference between carrying amount and amount contractually required to be paid at maturity	**73,591**	27,857

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

	2020		2019	
	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.

(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.

(e) Impairment 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 impairment reserve.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

23. Loss per share

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

Basic and diluted losses per share	**2020**	2019
Loss attributable to owners of the Bank for the year (AED'000)	**(654,883)**	(494,195)
Weighted average number of ordinary shares:		
Ordinary shares at the beginning of the year	**2,100,000**	2,100,000
Weighted average number of shares outstanding during the year (in thousands shares)	**2,100,000**	2,100,000
Basic and diluted loss per share (AED)	**(0.31)**	(0.24)

As at the reporting date, the diluted loss per share is equal to the basic loss per share as the Group has not issued any financial instruments that should be taken into consideration when the diluted loss 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 to approve the consolidated financial statements of 31 December 2019, held on 5 August 2020, the shareholders approved no cash dividends distribution (2018: no cash dividend distribution).

Directors' remuneration
At the Annual General Meeting of the shareholders to approve the consolidated financial statements of 31 December 2019, held on 5 August 2020, the shareholders of the Bank approved no Directors' remuneration (2018: AED 10.8 million).

Charity donations
At the Annual General Meeting of the shareholders to approve the consolidated financial statements of 31 December 2019, held on 5 August 2020, the shareholders approved charitable donations of AED 7.5 million (2018: AED 7.5 million).

Transfer to reserves
At the Annual General Meeting of the shareholders to approve the consolidated financial statements of 31 December 2019, held on 5 August 2020, the shareholders approved no appropriation to contingency reserves (2018: AED 40 million).

Emirates Lebanon Bank

Cash dividend
At the Annual General Meeting for approval of the financial statements of 31 December 2019, held on 21 August 2020 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved no cash dividend distribution (2018: no cash dividend distribution).

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

Emirates Lebanon Bank (continued)

Directors' remuneration
At the Annual General Meeting for approval of the financial statements of 31 December 2019, held on 29 February 2020 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, approved Directors' remuneration of AED 3.3 million (2018: AED 3.3 million).

25. Commitments and contingent liabilities

	2020	2019
	AED'000	AED'000
Financial guarantees for loans	**295,439**	282,226
Other guarantees	**2,277,640**	2,581,167
Letters of credit	**1,375,540**	830,317
	3,948,619	3,693,710
Irrevocable commitments to extend credit	**1,454,998**	1,626,507
	5,403,617	5,320,217

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.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

26. Cash and cash equivalents

	2020 **AED'000**	2019 AED'000
Cash and balances with central banks (Note 6)	**6,244,207**	6,149,725
Deposits and balances due from banks (Note 7)	**130,663**	360,957
Reverse-repo placements (Note 8)	**115,386**	457,713
Deposits and balances due to banks (Note 18)	**(240,915)**	(42,989)
Repo borrowings (Note 19)	**(2,438,842)**	(130,230)
	3,807,730	6,795,176
Less: Deposits and balances with central banks - original maturity more than three months	**(1,324,042)**	(1,324,042)
Less: Statutory deposits with central banks (Note 6)	**(1,128,266)**	(1,084,851)
	1,358,191	4,386,283

27. Fiduciary assets

The Group holds investments amounting to AED 0.05 billion (31 December 2019: AED 0.06 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

28. Interest income

	2020 **AED'000**	2019 AED'000
Loans and advances	**1,212,341**	1,185,588
Certificates of deposit and treasury bills with central banks and debt instruments	**147,598**	68,896
Net interest income on swaps	**46,205**	17,892
Placements with banks	**21,790**	87,901
Reverse-repo placements	**2,845**	27,771
	1,430,779	1,388,048

29. Interest expense

	2020 **AED'000**	2019 AED'000
Customers' deposits	**648,185**	783,964
Issued bonds	**195,565**	160,793
Banks' deposits	**17,533**	27,636
	861,283	972,393

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

30. Net fee and commission income

	2020 **AED'000**	2019 AED'000
Trade finance activities	**32,673**	37,444
Letters of guarantee	**29,665**	24,283
Corporate banking credit related fees	**33,236**	86,000
Others	**10,864**	12,096
	106,438	159,823

31. Exchange profit

Exchange profit includes AED 139 million resulting from a transaction in Lebanon.

32. (Loss)/income on investments

	2020 **AED'000**	2019 AED'000
Dividends	**16,210**	20,046
Net trading gain	**1,327**	1,296
Realized and unrealized (loss)/gain on investments measured at FVTPL	**(37,952)**	398
	(20,415)	21,740

33. Other income

	2020 **AED'000**	2019 AED'000
Rental income and others	**42,639**	40,034
	42,639	40,034

Other non-operating income

Other non-operating income represents the income generated from limited number of transactions with customers of the Group through its subsidiary in Lebanon that are infrequent and non-recurring in nature.

34. Net impairment loss on financial assets

	Opening balance AED'000	Net charge / (reversal) during the period AED'000	Recoveries net of write off during the period AED'000	Closing balance AED'000	Net charge during the year ended 31 December 2019 AED'000
Cash and balances with central banks	**297,731**	**412,377**	**-**	**710,108**	289,349
Deposits and balances due from banks	**10,670**	**(9,053)**	**-**	**1,617**	9,788
Reverse-repo placements	**422**	**730**	**-**	**1,152**	76
Loans and advances	**1,844,622**	**131,396**	**(32,065)**	**1,943,953**	75,862
Investments	**34,265**	**149,411**	**-**	**183,676**	30,236
Unfunded exposure	**121,820**	**9,709**	**-**	**131,529**	5,091
Other assets	**5,280**	**(5,280)**	**-**	**-**	5,280
Others	**-**	**(5,174)**	**-**	**(5,174)**	22,972
	2,314,810	**684,116**	**(32,065)**	**2,966,861**	438,654
Hyperinflation effect		**60,343**			
Total after hyperinflation effect		**744,459**			

35. General and administrative expenses

	2020 AED'000	2019 AED'000
Personnel expenses	**217,742**	183,721
Depreciation (Note 15)	**65,219**	34,862
Other expenses*	**118,101**	99,283
	401,062	317,866

*Other expenses include an amount of AED 13.9 million (2019: AED 8.5 million) representing social contributions made during the year ended 31 December 2020.

36 Taxation

Income expense represents the income tax expense incurred in Lebanon by Emirates Lebanon Bank S.A.L. The enacted income tax rate in Lebanon is 17% (2019: 17%). Effective tax rate reconciliation is not material in relation to the consolidated financial statements as tax charge relates to an overseas subsidiary only.

37 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:

	2020 **AED'000**	2019 AED'000
Loans and advances	**704,331**	638,554
Letters of credit, guarantee and acceptances	**4,023**	11,415
	708,354	649,969
Collateral deposits	**15,500**	7,170
Net exposure	**692,854**	642,799
Other deposits	**3,136,976**	158,669

	2020 **AED'000**	2019 AED'000
Interest income	**53,028**	51,187
Interest expense	**17,230**	12,005

Compensation of Directors and key management personnel:

	2020 **AED'000**	2019 AED'000
Short term benefits	**16,560**	16,410
Directors fees	**-**	7,500
End of service benefits	**1,940**	1,292
Total compensation as at 31 December	**18,500**	25,202

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

38. Segmental information

38.1 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.

38.2 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 2020:

	Commercial banking AED'000	Investment banking AED'000	Unallocated* AED'000	Total AED'000
Operating income				
- Net interest income	**534,003**	**35,493**	**-**	**569,496**
- Net fee and commission income	**106,438**	**-**	**-**	**106,438**
- Exchange profit	**155,999**	**-**	**-**	**155,999**
- Loss on investments	**-**	**(20,415)**	**-**	**(20,415)**
- Revaluation loss on properties	**-**	**(191,187)**	**-**	**(191,187)**
- Other income	**42,639**	**-**	**-**	**42,639**
Total operating income	**839,079**	**(176,109)**	**-**	**662,970**
Other material non-cash items				
- Net impairment charge on financial assets	**(89,335)**	**(655,124)**	**-**	**(744,459)**
- Depreciation	**-**	**-**	**(65,219)**	**(65,219)**
- Other non-operating income	**-**	**449,338**	**-**	**449,338**
- Loss on monetary position	**-**	**-**	**(577,037)**	**(577,037)**
- General and administrative expenses	**(285,939)**	**(49,904)**	**-**	**(335,843)**
- Amortization of intangible assets	**-**	**-**	**(4,401)**	**(4,401)**
- Income tax expenses – overseas	**-**	**-**	**(51,745)**	**(51,745)**
Net loss for the year	**463,805**	**(431,799)**	**(698,402)**	**(666,396)**
Segment assets	**25,426,008**	**5,950,908**	**4,766,574**	**36,143,490**
Segment liabilities	**27,026,496**	**4,953,950**	**997,627**	**32,978,073**

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

38. Segmental information (continued)

38.2 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 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
- Income on investments	-	21,740	-	21,740
- Revaluation loss on properties and shares	-	(84,677)	-	(84,677)
- Other income/(loss)	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	(119,071)	(319,583)	-	(438,654)
- Goodwill impairment	(273,559)	-	-	(273,559)
- Depreciation	-	-	(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	(46,764)	(384,346)	(56,574)	(487,684)
Segment assets	24,256,066	2,829,348	4,603,212	31,688,626
Segment liabilities	22,264,725	5,597,926	807,605	28,670,256

** 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 (2019: 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.

38. Segmental information (continued)

38.3 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 AED'000	Foreign AED'000	Total AED'000
2020			
Operating income	**376,615**	**286,355**	**662,970**
2019			
Operating income	369,440	194,667	564,107

38.4 Information about major customers

In 2020, one customer accounted for more than 10% of the Group's operating income (2019: one customer accounted for more than 10% of the Group's operating income).

39. 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 2020:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	**-**	**-**	**5,534,099**	**5,534,099**
Deposits and balances due from banks	**-**	**-**	**129,046**	**129,046**
Reverse-repo placements	**-**	**-**	**114,234**	**114,234**
Loans and advances, net	**-**	**-**	**19,455,607**	**19,455,607**
Investments measured at fair value	**121,760**	**299,218**	**-**	**420,978**
Investments measured at amortised cost	**-**	**-**	**4,240,833**	**4,240,833**
Other assets	**58,915**	**-**	**857,667**	**916,582**
Total	**180,675**	**299,218**	**30,331,486**	**30,811,379**
Financial liabilities:				
Customers' deposits	**-**	**-**	**23,672,584**	**23,672,584**
Deposits and balances due to banks	**-**	**-**	**240,915**	**240,915**
Repo borrowings	**-**	**-**	**2,438,842**	**2,438,842**
Other liabilities	**15,941**	**-**	**1,553,279**	**1,569,220**
Issued Bonds	**1,896,682**	**-**	**3,057,269**	**4,953,951**
Total	**1,912,623**	**-**	**30,962,889**	**32,875,512**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

39. 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 2019:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	5,851,994	5,851,994
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	-	993,292	1,022,877
Total	188,869	460,194	25,840,839	26,489,902
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	-	1,451,133	1,458,710
Issued Bonds	2,578,065	-	3,019,861	5,597,926
Total	2,585,642	-	25,970,447	28,556,089

40. 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 Pound. With a significant debt to GDP ratio, Lebanon's external debt has risen significantly, and it is facing turmoil. The sovereign credit risk rating started to witness consecutive downgrading by all major rating agencies to reach the level of default on 7 March 2020, when the Lebanese Government announced that it will withhold payment on the bonds due on 9 March 2020, followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US Dollars denominated Eurobonds. This led to a further deterioration in the market value of Lebanese Government bonds to reach junk status. The market value of all the other financial assets has also been adversely impacted.

40. Risk management (continued)

Furthermore, sharp fluctuation in the foreign currency exchange rate and the creation of parallel markets with a wide range of price variances were witnessed in comparison to the official peg of LBP1,507.50 to the US Dollar.

During 2020, the limitation on the USD Dollars have evolved whereby:

- These electronic dollars, being the pre-crisis dollar deposits in commercial banks, are restricted and non-transferable, and are subject to severe capital controls and can only be withdrawn in Lebanese Pounds at the e-board rate and in limited quantities; transferred within the domestic banking system.
- The dollar banknote and new dollar deposits (fresh dollars) are non-restricted and transferable. Most businesses need to access this dollar in order to import consumption and capital goods.

As a result of the above, these consolidated financial statements have reflected adjustments including 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.

Sensitivity of consolidated financial statements to LBP exchange rates

As explained above, assets and liabilities of Emirates Lebanon Bank S.A.L. as of 31 December 2020 and 2019 are included in the consolidated financial statements of the Group and converted into the AED, which is pegged to the USD, at the official exchange rate of USD1 = LBP1,507.5 which significantly varies from the Central Bank of Lebanon ("BDL") platform rate of USD1 =LBP3,900 (not widely used) or exchange rates in the parallel markets (available via various mechanisms) which amounted to USD1 =LBP8,412.5 as at 31 December 2020.

Below is a sensitivity analysis showing the effect on the consolidated financial statements of the Group of converting the assets, liabilities and items of profit or loss of Emirates Lebanon Bank S.A.L. as at and for the year ended 31 December 2020 at the BDL Platform rate and parallel markets rate as of year-end.

Exchange rate applied	**Change in Total assets AED' 000**	**Change in Total liabilities AED' 000**	**Change in net profit AED' 000**	**Change in Equity AED' 000**
USD1 = LBP3,900	(772,836)	(378,125)	343,079	(394,712)
USD1 = LBP8,412.5	(1,034,043)	(505,925)	459,034	(528,118)

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.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

40. Risk management (continued)

Credit risk management (continued)

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.

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.

40. Risk management (continued)

Credit risk management (continued)

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.

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.

Credit risk management at the level of the Lebanese subsidiary

Measurement uncertainty and sensitivity analysis of Sovereign and Central Bank of Lebanon ECL estimates

Due to the current and economic financial crisis prevailing in the country, the recognition and measurement of ECL involves the use of significant judgement and estimation. The subsidiary's management forms three economic scenarios, which is in line with best market practices, based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

1) Methodology

The high degree of uncertainty surrounding the Lebanese banking sector and the Lebanese economy as a whole has been triggered by the following events:

- business disruption since the last quarter of 2019;
- a series of Lebanese sovereign credit risk downgrades which started to deteriorate since the last quarter of 2019 and reached a default credit risk rating by all major rating during 2020, after years of a stable credit risk rating at "B" category;
- restrictions on the movement and withdrawal of funds in foreign currencies;
- the inability to transfer foreign currency funds outside Lebanon;
- the sharp fluctuation in the foreign currency exchange rates and creation of parallel markets with a wide range of price variances;
- on March 7, 2020, the Lebanese Government announced its decision to default on the 6.375% US$1,200,000,000 bonds due on March 9, 2020;
- an announcement on March 23, 2020 by the Lebanese Government to discontinue payments on all of its US Dollars denominated Eurobonds;
- further deterioration in the market value of Lebanese Government bonds to junk status, resulting in the majority of the valuation of financial assets being adversely impacted in Lebanon;
- prolonged severe inactivity in capital markets rendering markets illiquid.

The subsidiary's management assessed whether financial assets are credit impaired and considered factors mentioned above such as credit ratings and the ability of the borrower to raise funding and in turn classified all exposures held with the Central Bank of Lebanon and the Lebanese Government under stage 3.

The three economic scenarios as at 31 December 2020 and their likely outcomes are referred to as the Baseline, Optimistic and Downside scenarios. The Optimistic and Downside scenarios are consistent with a probability weighting of 15% and 35%, respectively, while the Base scenario is assigned the remaining 50% during 2020. Although there is no scientific approach behind the weights of each scenario, Bank's management believes that each scenario fairly represents the risk assigned to it. Hence, the subsidiary's

40. Risk management (continued)

Credit risk management (continued)

Credit risk management at the level of the Lebanese subsidiary (continued)

Measurement uncertainty and sensitivity analysis of Sovereign and Central Bank of Lebanon ECL estimates (continued)

1) Methodology (continued)

management concluded that this weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances.

The subsidiary's management notes that there is a great difficulty in the determination of expected credit losses given the absence of publicly available supporting data. With a probability of default of 100% on all instruments, the key determinant of the ECL is the Loss Given Default (LGD) per instrument type. Management considered the LGD using available assumptions. The rationale behind the LGD per instrument is correlated to with whom will suffer a greater haircut in potential Central Bank of Lebanon (BDL) recapitalization. Specifically, the moving from the Optimistic, to Base and Downside scenario, the impact from the recapitalization shifts from the Lebanese Government (and therefore requiring to haircut its bonds by a higher percentage) to the BDL's depositors in foreign currency (FCY). At the reporting date, a team of independent valuation experts have reviewed subsidiary's management above scenarios and ECL assessment.

2) Description of consensus economic scenarios

Economic assumptions for the year ended 31 December 2020

The economic assumptions presented in this section have been formed by the subsidiary with reference to available assumptions specifically for the purpose of calculating ECL. Management considered the PD parameter constant at 1 and sensitized the LGD assumption per instrument type.

Central Bank of Lebanon statutory reserves in Lebanese pound and the Lebanese Treasury Bills for all scenarios were kept at a constant LGD of 3.6% and 20% respectively; The subsidiary's management applied the 20% to all scenarios based on a Citigroup report for Lebanese Restructuring which suggested 20% as a potential haircut on the Lebanese Treasury Bills. The subsidiary's total gross exposure in Lebanese Treasury bills as at 31 December 2020 stands at LBP 17 billion and hence there is a minor impact that might arise in relation to this instrument.

The consensus Base scenario

The current accounts and statutory reserves in foreign currency held with the Central Bank of Lebanon are calculated on the basis of a stage three classification with LGD of 15% and 3.6% respectively and for both the long-term placements with the Central Bank of Lebanon and Certificates of deposit issued by the Central Bank of Lebanon LGD of 27%.

The ECL on Lebanese government bonds in foreign currency held at fair value through other comprehensive income and at amortized cost is calculated on the basis of a stage three classification with LGD of 70%.

The consensus Optimistic scenario

The current accounts and statutory reserves in foreign currency held with the Central Bank of Lebanon are calculated on the basis of a stage three classification with LGD of 7.5% and 3.6% respectively and for both

40. Risk management (continued)

Credit risk management (continued)

Credit risk management at the level of the Lebanese subsidiary (continued)

Measurement uncertainty and sensitivity analysis of Sovereign and Central Bank of Lebanon ECL estimates (continued)

2) Description of consensus economic scenarios (continued)

The consensus Optimistic scenario (continued)

the long-term placements with the Central Bank of Lebanon and Certificates of deposit issued by the Central Bank of Lebanon LGD of 27%.

The ECL on Lebanese government bonds in foreign currency held at fair value through other comprehensive income and at amortized cost is calculated on the basis of a stage three classification with LGD of 85%.

The consensus Downside scenario

The current accounts and statutory reserves in foreign currency held with the Central Bank of Lebanon are calculated on the basis of a stage three classification with LGD of 30% and 12.4% respectively and for both the long-term placements with the Central Bank of Lebanon and Certificates of deposit issued by the Central Bank of Lebanon with LGD of 30%.

The ECL on Lebanese government bonds in foreign currency held at fair value through other comprehensive income and at amortized cost is calculated on the basis of a stage three classification with LGD of 65%.

3) Economic scenarios sensitivity analysis of ECL estimates on the sovereign and Central bank of Lebanon exposure

Management considered the sensitivity of the ECL outcome by calculating the ECL under each scenario described above for the sovereign exposure, applying a 15%, 50%, and 35% weighting to the Optimistic, Base, and Downside scenarios respectively. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL. The ECL calculated for the Optimistic and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes.

For the all Central Bank of Lebanon outstanding instruments in foreign currency, the assumption made by the subsidiary's management was that the Central Bank will need to be recapitalized to a viable position under any restructuring plan introduced and that the required capitalization is equivalent to the Central Bank foreign currency gap in his balance sheet adjusted by the permitted GDP deficit. This adjusted gap is estimated to represent around 27% of total foreign currency liabilities which was derived mainly from Morgan Stanley report dated March 2020, as detailed below:

-For the current accounts in foreign currency held with the Central Bank of Lebanon, the subsidiary's management's approach is where LGD is ultimately determined based on who will cover the BDL Foreign Currency gap. In the case where all the local banks will be called to cover the entire deficit instead of the Lebanese Government, and in turn the subsidiary will need to take a 30% haircut on their current account balances in US Dollars held with the BDL.

40. Risk management (continued)

Credit risk management (continued)

Credit risk management at the level of the Lebanese subsidiary (continued)

Measurement uncertainty and sensitivity analysis of Sovereign and Central Bank of Lebanon ECL estimates (continued)

3) Economic scenarios sensitivity analysis of ECL estimates on the sovereign and Central bank of Lebanon exposure (continued)

Moreover, the rationale for applying a 7.5% LGD on the Optimistic and 15% on the Base scenarios is that LGD on BDL Current Accounts is interconnected with LGD on Eurobonds. If the deficit on the BDL foreign currency gap would partly be funded by the Government (or through customer deposit conversion and /or haircut), in which case a higher haircut on Lebanese Government bonds may be needed, a lower than 30% haircut on the bank's deposits could be applied. Hence a maximum LGD of 30% is assumed and a lower LGD to the remaining scenarios, on the assumption that the bondholders will cover the losses.

-For the mandatory reserves in foreign currency held with the Central Bank of Lebanon, considering that they are still unused, and in an attempt to be prudent, the subsidiary's management used an LGD of 3.6% for both the Optimistic and Base scenarios and 12.4% for the Downside scenario.

-For the long term placements in foreign currency held with the Central Bank of Lebanon and Certificates of Deposit (CDs) in foreign currency, considering the longer term nature of these accounts the subsidiary's management has determined that in the Base and Optimistic scenarios, the long term placements and CDs will suffer a haircut equal to the BDL gap deficit, i.e. 27%, while in the downside scenario they will suffer the same haircut as the current account balances of 30%.

-The regulatory governing body, namely the Central Bank of Lebanon imposed in the Intermediate circular 567 issued on 26 August 2020 a minimum regulatory ECL using present LGDs which is not constituted in the above-mentioned scenarios and is by far less than the weighted ECL calculated and booked by management.

An additional ECL of AED 200 million was recognized on the Lebanese subsidiary's sovereign exposure following a prudent and conservative approach due to latest assessments performed.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

40 Risk management (continued)

Credit risk management (continued)

Expected credit loss allowance

As of 31 December 2020	**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	2,298,089	-	574,825	38,398	3,371,293	671,710	6,244,207	710,108
Due from banks and financial institutions	75,936	1,481	54,727	136	-	-	130,663	1,617
Reverse repurchase agreements	115,386	1,152	-	-	-	-	115,386	1,152
Loans and advances	12,879,561	289,678	5,806,751	760,970	2,713,248	893,305	21,399,560	1,943,953
Investments measured at FVOCI	267,133	-	-	-	102,407	70,322	369,540	70,322
Investments measured at amortised cost	4,163,225	4,086	-	-	190,962	109,268	4,354,187	113,354
Unfunded exposure	3,622,390	4,762	657,842	12,522	846,555	114,245	5,126,787	131,529
	23,421,720	**301,159**	**7,094,145**	**812,026**	**7,224,465**	**1,858,850**	**37,740,330**	**2,972,035**

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	3,501,317	-	-	-	2,648,408	297,731	6,149,725	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
Investments measured at amortised cost	281,210	332	-	-	205,274	33,933	486,484	34,265
Unfunded exposure	4,627,673	23,419	14,181	2,811	701,927	95,590	5,343,781	121,820
	21,997,565	444,114	4,158,533	610,026	6,222,940	1,255,390	32,379,038	2,309,530

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

40 Risk management (continued)

Credit risk management (continued)

Stage migration of loans and advances

	Stage 1		Stage 2		Stage 3		Total	
	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking loans								
As of 1 January 2020	184,222	3,291	33,569	53	8,140	2,478	225,931	5,822
Transfers from stage 1 to stage 2	-	-	-	-	-	-	-	-
Transfers from stage 2 to stage 1	1,467	-	(1,467)	-	-	-	-	-
Transfers from 1&2 to stage 3	(461)	-	(1)	-	462	-	-	-
Transfers from stage 3	5	-	5	-	(10)	-	-	-
Other movements	100,995	525	(21,721)	26	298	982	79,572	1,533
As of 31 December 2020	**286,228**	**3,816**	**10,385**	**79**	**8,890**	**3,460**	**305,503**	**7,355**
Wholesale banking loans								
As of 1 January 2020	12,585,380	405,998	4,109,876	607,145	2,659,191	825,657	19,354,447	1,838,800
Transfers from stage 1 to stage 2	(1,194,825)	(72,320)	1,194,825	72,320	-	-	-	-
Transfers from stage 2 to stage 1	866,290	15,542	(718,480)	(15,542)	-	-	147,810	-
Transfers from 1&2 to stage 3	(20,228)	(233)	(16,380)	(1,016)	36,608	1,249	-	-
Transfers from stage 3	-	-	30,643	4,055	(30,643)	(4,055)	-	-
Other movements	356,716	(63,125)	1,195,882	93,929	39,202	66,994	1,591,800	97,798
As of 31 December 2020	**12,593,333**	**285,862**	**5,796,366**	**760,891**	**2,704,358**	**889,845**	**21,094,057**	**1,936,598**
	12,879,561	**289,678**	**5,806,751**	**760,970**	**2,713,248**	**893,305**	**21,399,560**	**1,943,953**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

40 Risk management (continued)

Credit risk management (continued)

Stage migration of loans and advances (continued)

	Stage 1		Stage 2		Stage 3		Total	
	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking loans								
As of 1 January 2019	126,920	2,673	1,055	17	7,670	1,544	135,645	4,234
Transfers from stage 1 to stage 2	(416)	-	416	-	-	-	-	-
Transfers from stage 2 to stage 1	43	-	(43)	-	-	-	-	-
Transfers from 1&2 to stage 3	(1,122)	(318)	(182)	-	1,304	318	-	-
Transfers from stage 3	210	-	95	-	(305)	-	-	-
Other movements	58,587	936	32,228	36	(529)	616	90,286	1,588
As of 31 December 2019	184,222	3,291	33,569	53	8,140	2,478	225,931	5,822
Wholesale banking loans								
As of 1 January 2019	8,866,712	18,462	7,346,566	735,776	2,499,696	1,241,839	18,712,974	1,996,077
Transfers from stage 1 to stage 2	(158,661)	(290)	158,661	290	-	-	-	-
Transfers from stage 2 to stage 1	1,342,209	66,013	(1,342,209)	(66,013)	-	-	-	-
Transfers from 1&2 to stage 3	(4,092)	(4)	(840,548)	(85,058)	844,640	85,062	-	-
Transfers from stage 3	5,799	4,100	7,065	34,254	(12,864)	(38,354)	-	-
Other movements	2,533,413	317,717	(1,219,659)	(12,104)	(672,281)	(462,890)	641,473	(157,277)
As of 31 December 2019	12,585,380	405,998	4,109,876	607,145	2,659,191	825,657	19,354,447	1,838,800
	12,769,602	409,289	4,143,445	607,198	2,667,331	828,135	19,580,378	1,844,622

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

40. Risk management (continued)

Credit risk management (continued)

ECL change/(flow) of loans and advances

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Retail banking loans:				
ECL allowance as of 1 January 2020	3,291	53	2,478	5,822
Others	525	26	982	1,533
ECL allowance as of 31 December 2020	**3,816**	**79**	**3,460**	**7,355**
Wholesale banking loans:				
ECL allowance as of 1 January 2020	405,998	607,145	825,657	1,838,800
Emirates governments	1,155	-	-	1,155
GREs (Gov ownership >50%)	4,936	-	-	4,936
Other corporates	(79,447)	(52)	101,373	21,874
High net worth individuals	(15,783)	109,770	(22,246)	71,741
SMEs	(29,681)	36,009	(21,389)	(15,061)
Others	(1,316)	8,019	6,450	13,153
ECL allowance as of 31 December 2020	**285,862**	**760,891**	**889,845**	**1,936,598**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Retail banking loans:				
ECL allowance as of 1 January 2019	2,865	-	1,368	4,233
Personal Loans	(318)	-	318	-
Others	744	53	792	1,589
ECL allowance as of 31 December 2019	3,291	53	2,478	5,822
Wholesale banking loans:				
ECL allowance as of 1 January 2019	18,462	735,776	1,241,838	1,996,076
Emirates governments	145	-	-	145
GREs (Gov ownership >50%)	1,221	-	-	1,221
Other corporates	313,947	(1,307)	(377,466)	(64,826)
High net worth individuals	17,034	(24,779)	(63,948)	(71,693)
SMEs	53,574	(101,828)	26,511	(21,743)
Others	1,615	(717)	(1,278)	(380)
ECL allowance as of 31 December 2019	405,998	607,145	825,657	1,838,800

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

40. Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk

2020

Loans and advances	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Grade 1	32,737	-	-	32,737
Grade 2	251,050	-	-	251,050
Grade 3	1,681,727	985	-	1,682,712
Grade 4	6,094,500	300,679	-	6,395,179
Grade 5	3,328,329	771,098	-	4,099,427
Grade 6	1,414,708	685,589	-	2,100,297
Grade 7	76,510	4,048,400	-	4,124,910
Default grades 8-10	-	-	2,713,248	2,713,248
Total gross carrying amount	**12,879,561**	**5,806,751**	**2,713,248**	**21,399,560**
Allowance for impairment losses	(289,678)	(760,970)	(893,305)	(1,943,953)
Net carrying amount	**12,589,883**	**5,045,781**	**1,819,943**	**19,455,607**

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

40. Risk management (continued)

Credit risk management (continued)

The Central Bank of the UAE classification of loans and advances

2020

Loans and advances	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Normal	8,943,920	324,784	72,147	9,340,851
Other loans exceptionally monitored	1,288,304	292,195	43,559	1,624,058
Substandard	1,997,271	3,757,517	136	5,754,924
Doubtful	-	389,138	2,197,956	2,587,094
Loss	-	149,842	265,260	415,102
Total gross carrying amount	**12,229,495**	**4,913,476**	**2,579,058**	**19,722,029**
Allowance for impairment losses	(259,711)	(696,223)	(802,841)	(1,758,775)
Net carrying amount	**11,969,784**	**4,217,253**	**1,776,217**	**17,963,254**

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

40. 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.

		2020 **AED'000**	2019 AED'000
Balances with Central Banks	6	5,534,099	5,851,994
Deposits and balances due from banks	7	129,046	350,287
Reverse-repo placements	8	114,234	457,291
Loans and advances, net	9	19,455,607	17,735,756
Investments measured at amortised cost	10	4,240,833	452,219
Other assets *(excluding prepayments& assets acquired in settlement of debts)*		916,582	1,022,877
Total		**30,390,401**	25,870,424
Letters of credit	25	1,375,540	830,317
Guarantees	25	2,573,079	2,863,393
Undrawn loan commitments	25	1,454,998	1,626,507
Total		**5,403,617**	5,320,217
Total credit risk exposure		**35,794,018**	31,190,641

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 2020 AED'000	**31 to 89 days 2020 AED'000**	**More than 90 days 2020 AED'000**	**Total 2020 AED'000**
Loans and advances	**147,763**	**118**	**509**	**148,390**

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

Collaterals held against loans and advances

The fair value of the collateral that the Group held as at 31 December 2020 for past due but not impaired loans and advances to customers covers 123% (2019: 207%) 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.

40. Risk management (continued)

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

	2020	2019
	AED'000	AED'000
Loans and advances	**3,120,905**	565,382

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 13 billion (2019: AED 11.6 billion) out of which AED 1.3 billion is collateral held against stage 3 loans and advances (2019: AED 1.2 billion). 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 9d and 9e. 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.

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.

40. Risk management (continued)

Liquidity risk management (continued)

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.

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 91.31% as at 31 December 2020 (2019: 80.26%). 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2020 (continued)

40. Risk management (continued)

Liquidity risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2020 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	4,293,810	-	1,076,491	163,798	**5,534,099**
Deposits and balances due from banks	127,421	94	-	1,531	**129,046**
Reverse-repo placements	114,234	-	-	-	**114,234**
Loans and advances, net	5,613,085	3,936,372	9,906,150	-	**19,455,607**
Investments measured at fair value	121,760	-	-	299,218	**420,978**
Investments measured at amortised cost	18,632	-	4,219,065	3,136	**4,240,833**
Investment properties	-	-	-	767,594	**767,594**
Goodwill and other intangibles	-	-	-	40,370	**40,370**
Other assets	788,576	11,857	117,545	4,020,165	**4,938,143**
Property and equipment	-	-	-	502,586	**502,586**
Total assets	**11,077,518**	**3,948,323**	**15,319,251**	**5,798,398**	**36,143,490**
Liabilities					
Customers' deposits	14,161,232	9,198,139	294,166	19,047	**23,672,584**
Deposits and balances due to banks	-	240,915	-	-	**240,915**
Repo-borrowing	2,345,757	93,085	-	-	**2,438,842**
Other liabilities	1,440,810	91,283	139,688	-	**1,671,781**
Issued Bonds	-	-	4,953,951	-	**4,953,951**
Total liabilities	**17,947,799**	**9,623,422**	**5,387,805**	**19,047**	**32,978,073**
Net liquidity gap	**(6,870,281)**	**(5,675,099)**	**9,931,446**	**5,779,351**	**3,165,417**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

40. 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	4,745,526	-	1,034,363	72,105	5,851,994
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	-	-	-	25,861	25,861
Other assets	176,449	83,668	764,094	4,044,572	5,068,783
Property and equipment	-	-	-	370,920	370,920
Total assets	14,204,949	1,971,113	9,780,607	5,731,957	31,688,626
Liabilities					
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	1,513,552	59,325	-	-	1,572,877
Issued Bonds	-	712,989	4,884,937	-	5,597,926
Total liabilities	16,877,296	6,810,764	4,954,195	28,001	28,670,256
Net liquidity gap	(2,672,347)	(4,839,651)	4,826,412	5,703,956	3,018,370

40. 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 2020		31 December 2019	
Market indices	**Change in equity price %**	**Effect on income AED'000**	Change in equity price %	Effect on income AED'000
Global Stock markets	**+1%**	**1,218**	+1%	1,593
Global Stock markets	**-1%**	**(1,218)**	-1%	(1,593)

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 2020 (continued)

40. 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 2020 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	**0.12%**	275,322	-	936,541	4,322,236	**5,534,099**
Deposits and balances due from banks	**0.00%**	76,681	-	-	52,365	**129,046**
Reverse-repo placements	**1.10%**	114,234	-	-	-	**114,234**
Loans and advances, net	**5.43%**	16,806,717	79,665	109,278	2,459,947	**19,455,607**
Other financial assets - Equity instruments		-	-	36,140	384,838	**420,978**
Other financial assets - Debt securities	**2.35%**	-	4,161,853	78,980	-	**4,240,833**
Investment properties		-	-	-	767,594	**767,594**
Goodwill and other intangibles		-	-	-	40,370	**40,370**
Other assets		-	-	-	4,938,143	**4,938,143**
Property and equipment, net		-	-	-	502,586	**502,586**
Total assets		**17,272,954**	**4,241,518**	**1,160,939**	**13,468,079**	**36,143,490**
Liabilities and equity						
Customers' deposits	**2.53%**	9,926,135	8,944,084	294,165	4,508,200	**23,672,584**
Deposits and balances due to banks	**0.25%**	239,988	-	-	927	**240,915**
Reverse repo borrowings	**0.90%**	2,104,842	334,000	-	-	**2,438,842**
Other liabilities		-	-	-	1,671,781	**1,671,781**
Issued Bonds	**3.70%**	-	-	4,953,951	-	**4,953,951**
Equity		-	-	-	3,165,417	**3,165,417**
Total liabilities and equity		**12,270,965**	**9,278,084**	**5,248,116**	**9,346,325**	**36,143,490**
On statement of financial position gap		**5,001,989**	**(5,036,566)**	**(4,087,177)**	**4,121,754**	**-**
Cumulative interest rate sensitivity gap		**5,001,989**	**(34,577)**	**(4,121,754)**	**-**	**-**

Notes to the Consolidated Financial Statements for the year ended 31 December 2020 (continued)

40. 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%	2,739,970	-	954,906	2,157,118	5,851,994
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		-	-	-	25,861	25,861
Other assets		-	-	-	5,068,783	5,068,783
Property and equipment, net		-	-	-	370,920	370,920
Total assets		18,402,197	131,353	1,461,594	11,693,482	31,688,626
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	-	-	1,570,613	1,572,877
Issued Bonds	4.00%	-	-	5,597,926	-	5,597,926
Equity		-	-	-	3,018,370	3,018,370
Total liabilities and equity		11,583,249	5,701,462	5,667,354	8,736,561	31,688,626
On statement of financial position gap		6,818,948	(5,570,109)	(4,205,760)	2,956,921	-
Cumulative interest rate sensitivity gap		6,818,948	1,248,839	(2,956,921)	-	-

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

40. 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 2020, 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 2020 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.

2020 **Currency**	**Increase in basis**	**Sensitivity** **of interest income**	**Sensitivity** **of equity**
AED	**+200**	**(25,586)**	**(25,586)**
USD	**+200**	**(3,044)**	**(3,044)**
Others	**+200**	**(256)**	**(256)**
AED	**-200**	**25,586**	**25,586**
USD	**-200**	**3,044**	**3,044**
Others	**-200**	**256**	**256**

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

40. 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 2020, 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:

	2020 AED'000 equivalent long (short)	2019 AED'000 equivalent long (short)
Euro	**(22,570)**	25,222

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 2020	**Change in currency rate in %**	**Change on net profit**	**Change on Equity**
EUR	**+5%**	**(1,129)**	**(1,129)**
EUR	**-5%**	**1,129**	**1,129**

(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)

40. 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 2020		31 December 2019	
Market indices	**Change in equity price %**	**Effect on equity AED'000**	Change in equity price %	Effect on equity AED'000
Global stock markets	**+1%**	**948**	+1%	1,272
Global stock markets	**-1%**	**(948)**	-1%	(1,272)

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.

41. 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.

41. 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.

41. 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 2020 AED'000 (audited)	31 December 2019 AED'000 (audited)
Capital base		
Common Equity Tier 1	**2,723,616**	2,920,581
Additional Tier 1 capital	**-**	-
Tier 1 capital	**2,723,616**	2,920,581
Tier 2 capital	**339,773**	329,871
Total capital base	**3,063,389**	3,250,452
Risk-weighted assets:		
Credit risk	**27,181,855**	26,389,680
Market risk	**266,517**	360,838
Operational risk	**1,149,361**	1,290,982
Total risk-weighted assets	**28,597,733**	28,041,500
Capital ratios		
Common equity Tier 1 capital ratio	**9.52%**	10.42%
Tier 1 capital ratio	**9.52%**	10.42%
Total capital ratio	**10.71%**	11.59%

42. Impact of Covid-19

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity. In response, governments and central banks have launched economic support and relief measures (including payment reliefs) to minimize the impact on individuals and corporates.

In the determination of ECL, the Group has considered the potential impact (based on the best available information) of the uncertainties caused by the Covid-19 pandemic and taken into account the economic support and relief measures of governments and central banks. The Group has also considered the notices issued by the Central Bank of UAE with regards to the Targeted Economic Support Scheme (TESS) and guidance issued by the International Accounting Standards Board (IASB) on 27 March 2020.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

42. Impact of Covid-19 (continued)

Significant increase in Credit Risk (SICR)

Under IFRS 9, loans are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of a SICR since origination. A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or longer term.

During 2020, the Group has initiated a programme of payment relief for its impacted customers by deferring interest/principal due for a period of one month to nine months. These payment reliefs are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the Covid-19 outbreak to resume regular payments. At this stage sufficient information is not available to enable the Group to individually differentiate between a borrowers’ short-term liquidity constraints and a change in its lifetime credit risk. This approach is consistent with the expectations of the Central Bank of UAE as referred to in the TESS notice.

The accounting impact of the onetime extension of credit facilities due to Covid-19 has been assessed and has been treated as per the requirements of IFRS 9 for modification of terms of arrangement.

Forward Looking Information

In light of the current uncertain economic environment, the Group has assessed a range of possible macro-economic scenarios and associated weightings, and analysed their impact on ECL estimates accordingly. The Group has incorporated Covid-19 impacted variables into its IFRS 9 calculations, including updated macro – economic forecasts, to reflect the impact of Covid-19. This has resulted in an estimated AED 155 million impact on ECL and net of other overlays, is reflected in the statement of profit and loss during the period ended 31 December 2020.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Analysis of clients benefitting from payment deferrals

Zero Cost Funding under the CBUAE TESS program availed by the Group amounts to AED 334 million to provide payment relief to the impacted customers.

As per the requirements of the Central Bank of UAE, the Group has divided its customers benefitting from payment deferrals into two groups as follows:

Group 1: includes those customers that are not expected to face substantial changes in their creditworthiness, beyond liquidity issues and are temporarily and mildly impacted by the Covid-19 crisis.

For these clients, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers will remain in their current IFRS 9 stage, at least for the duration of the crisis, or their distress, whichever is shorter.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

42. Impact of Covid-19 (continued)

Analysis of clients benefitting from payment deferrals (continued)

Group 2: includes those customers that are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals.

For these customers, there is sufficient deterioration in credit risk to trigger IFRS 9 stage migration. The Group continue to monitor the creditworthiness of these customer, particularly indications of potential inability to pay any of their obligations as and when they become due.

Deferrals information at beginning of the year

Clients benefiting from deferrals in 2020 (TESS clients and non-TESS clients)

Portfolio date: 1 January 2020

Segment	Stage	Group	Number of clients deferred	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking	Stage 1	Group 1	41	-	18,918	405
		Group 2	-	-	-	-
Total retail banking			**41**	**-**	**18,918**	**405**
Wholesale banking	Stage 1	Group 1	21	-	2,546,739	55,757
		Group 2	12	-	149,843	3,792
			33	**-**	**2,696,582**	**59,549**
	Stage 2	Group 1	8	-	997,460	95,876
		Group 2	8	-	1,190,987	179,346
			16		**2,188,447**	**275,222**
	Stage 3	Group 1	-	-	-	-
		Group 2	1	-	160,000	40,479
			1	**-**	**160,000**	**40,479**
Total wholesale banking			**50**		**5,045,029**	**375,250**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

42. Impact of Covid-19 (continued)

Deferrals information during the year

Clients benefiting from deferrals in 2020 (TESS clients and non-TESS clients)

Portfolio date: 31 December 2020

Segment	Stage	Group	Number of clients deferred	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking	Stage 1	Group 1	36	4,031	32,422	330
		Group 2	-	-	-	-
Total retail banking			**36**	**4,031**	**32,422**	**330**
Wholesale banking	Stage 1	Group 1	18	532,359	3,748,916	35,761
		Group 2	8	12,056	36,954	116
			26	**544,415**	**3,785,870**	**35,877**
	Stage 2	Group 1	8	100,035	605,492	114,871
		Group 2	10	213,963	1,331,944	215,857
			18	**313,998**	**1,937,436**	**330,728**
Total wholesale banking			**44**	**858,413**	**5,723,306**	**366,605**

42. Impact of Covid-19 (continued)

Macro overlay added to ECL

As at 31 December 2020

	Non-Covid related overlay amount AED'000	Covid related overlay amount AED'000	Total macro overlay AED'000
Wholesale banking loans:			
Non-government obligors	452,766	-	452,766
Total wholesale banking loans	**452,766**	**-**	**452,766**

43. Fair value of financial instruments

Investments held at fair value through profit and loss

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 2020, 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.

Unquoted investments held at fair value through other comprehensive income

The consolidated financial statements include holdings in unquoted securities amounting to AED 175 million (2019: AED 209 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.

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 9 million (2019: AED 11 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

43. Fair value of financial instruments (continued)

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.

		2020		2019	
	Level	**Carrying amount AED'000**	**Fair value AED'000**	Carrying amount AED'000	Fair value AED'000
Financial assets					
- Investments measured at amortised cost	**3**	**4,240,833**	**4,242,127**	452,219	400,749
- Loans and advances	**3**	**19,455,607**	**19,455,607**	17,735,756	17,735,756
Financial liabilities					
- Customers' deposits	**2**	**23,672,584**	**23,672,584**	21,326,234	21,326,234
- Issued Bonds	**2**	**3,057,269**	**3,167,603**	3,019,861	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 2020 (continued)

43. Fair value of financial instruments (continued)

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2020				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	**121,760**	**-**	**-**	**121,760**
Investments measured at FVTOCI				
Quoted equity	**94,818**	**-**	**-**	**94,818**
Unquoted equity	**-**	**-**	**175,042**	**175,042**
Unquoted debt securities	**-**	**29,358**	**-**	**29,358**
Total	**216,578**	**29,358**	**175,042**	**420,978**
Other financial liabilities measured at fair value				
Issued bonds measured at FVTPL				
Quoted debt securities	**1,896,682**	**-**	**-**	**1,896,682**
Other assets /liabilities				
Positive fair value of derivatives	**-**	**49,730**	**-**	**49,730**
Negative fair value of derivatives	**-**	**(15,941)**	**-**	**(15,941)**
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)

43. Fair value of financial instruments (continued)

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

	2020 **AED'000**	2019 AED'000
Opening balance	**209,252**	323,239
Losses recognised in other comprehensive income	**(34,210)**	(113,987)
Closing balance	**175,042**	209,252

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 2020	**Favourable**	**Unfavourable**
	+17,504	**-17,504**

	Effect on OCI	
31 December 2019	Favourable	Unfavourable
	+20,925	-20,925

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:

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.

43. Fair value of financial instruments (continued)

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.

44. Impact of prior period adjustment on consolidated financial statements

During the year, the Group identified that the impairment of the goodwill generated prior to year 2019 from the acquisition of the subsidiary Muwaileh Capital FZC was not recognised in the consolidated financial statements of the Group for the year ended 31 December 2018. This has been rectified retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* Accordingly, the consolidated financial statements of the Group are restated to recognize the goodwill impairment.

The effects of the retrospective recognition of goodwill impairment in 2018 consolidated financial statements is summarized below:

	As previously reported AED '000	Restatements AED '000	Restated AED '000
Consolidated statement of financial position as at 1 January 2019			
Goodwill and other intangibles	416,056	(110,726)	305,330
Retained earnings	300,324	(110,726)	189,598
Total equity	3,778,915	(110,726)	3,668,189
Consolidated statement of financial position as at 31 December 2019			
Goodwill and other intangibles	136,587	(110,726)	25,861
Accumulated losses	(291,984)	(110,726)	(402,710)
Total equity	3,129,096	(110,726)	3,018,370

There is no impact on the consolidated statement of cash flow for the year ended 31 December 2018 and 31 December 2019, and there is no impact on the consolidated statement of profit or loss for the year ended 31 December 2019.

45. Comparative figures

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

	As previously reported AED '000	Reclassifications AED '000	Reclassified AED '000
Consolidated statement of financial position as at 31 December 2019			
Cash and balances with central banks	5,808,927	43,067	5,851,994
Other assets	994,831	8,980	1,003,811
Other liabilities	(1,513,253)	(52,047)	(1,565,300)

46. Hyperinflation

The International Monetary Fund (IMF) publishes inflation forecasts. Applying the October 2020 IMF information and the indicators laid out in IAS 29, the Lebanese economy is considered a hyperinflationary economy for the purposes of applying IAS 29 and for retranslation of foreign operations in accordance with IAS 21 *The Effect of Changes in Foreign Exchange Rates* in consolidated financial statements for the year ending 31 December 2020.

Consequently, the Group has applied for the first time IAS 29 *Financial reporting in Hyperinflationary Economies* to its subsidiary, Emirates Lebanon Bank SAL from 1 January 2020 and for financial reporting purposes for the year ended 31 December 2020.

In line with IAS 29, the financial statements of Emirates Lebanon Bank SAL have been restated by applying a general price index to the historical cost, in order to reflect the changes in the purchasing power of the LBP, on the closing date of the financial statements. The non-monetary items of the statement of financial position as well as the income statement, statement of other comprehensive income and statement of cash flows of Emirates Lebanon Bank SAL, have been adjusted for inflation and re-expressed in accordance with the variation of the consumer price index (‘CPI’), at the presentation date of its financial statements. The re-expression of non-monetary items is made from the date of initial recognition in the statements of financial position and considering that the financial statements are prepared under the historical cost criterion. The consumer price index at the beginning of the reporting period was 115.54 and closed at 284.04.

The gain or loss on the net monetary position which has been derived as the difference resulting from the restatement of non-monetary assets, owners’ equity and items in the statement of comprehensive income is recognised in the statement of profit or loss. During 2020, the resulting loss on the net monetary position for Emirates Lebanon Bank SAL was AED 577 million.

The comparative amounts in the consolidated financial statements presented in a stable currency are not adjusted for subsequent changes in the price level or exchange rates. Opening equity reported in the stable currency is affected by the cumulative effect of restating non-monetary items at the subsidiary level from the date they were first recognised and the effect of translating those balances to the closing rate. This resulted in a difference of AED 879 million between the closing equity of the previous year and the opening equity of the current year, and is recorded under equity.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2020 (continued)

46. Hyperinflation (continued)

	2020 After hyperinflation and additional ECL overlays related to the Lebanese subsidiary AED'000	2020 Before hyperinflation and additional ECL overlays related to the Lebanese subsidiary AED'000
ASSETS		
Cash and balances with central banks	**5,534,099**	**5,734,099**
Deposits and balances due from banks	**129,046**	**129,046**
Reverse-repo placements	**114,234**	**114,234**
Loans and advances, net	**19,455,607**	**19,455,607**
Investments measured at fair value	**420,978**	**420,978**
Investments measured at amortised cost	**4,240,833**	**4,240,833**
Investment properties	**767,594**	**767,594**
Goodwill and other intangibles	**40,370**	**24,609**
Assets acquired in settlement of debt	**4,020,165**	**3,931,502**
Other assets	**868,248**	**868,248**
Derivative assets held for risk management	**49,730**	**49,730**
Property and equipment	**502,586**	**329,028**
Total assets	**36,143,490**	**36,065,508**
LIABILITIES AND EQUITY		
Liabilities		
Customers' deposits	**23,672,584**	**23,672,584**
Deposits and balances due to banks	**240,915**	**240,915**
Repo borrowings	**2,438,842**	**2,438,842**
Other liabilities	**1,655,840**	**1,614,143**
Derivative liabilities held for risk management	**15,941**	**15,941**
Issued bonds	**4,953,951**	**4,953,951**
Total liabilities	**32,978,073**	**32,936,376**
Equity		
Capital and reserves		
Share capital	**2,100,000**	**2,100,000**
Statutory reserve	**1,050,000**	**1,050,000**
Contingency reserve	**640,000**	**640,000**
General and impairment reserve	**288,962**	**291,962**
Investment fair value reserve	**(740,095)**	**(740,095)**
Accumulated losses	**(182,157)**	**(221,442)**
Equity attributable to equity holders of the Bank	**3,156,710**	**3,120,425**
Non-controlling interests	**8,707**	**8,707**
Total equity	**3,165,417**	**3,129,132**
Total liabilities and equity	**36,143,490**	**36,065,508**

46. Hyperinflation (continued)

	2020 After hyperinflation and additional ECL overlays related to the Lebanese subsidiary AED'000	2020 Before hyperinflation and additional ECL overlays related to the Lebanese subsidiary AED'000
Interest income	**1,430,779**	**1,282,247**
Interest expense	**(861,283)**	**(808,843)**
Net interest income	**569,496**	**473,404**
Net fee and commission income	**106,438**	**95,599**
Exchange profit	**155,999**	**153,510**
Loss on investments	**(20,415)**	**(20,423)**
Revaluation loss on properties and shares	**(191,187)**	**(191,187)**
Other income	**42,639**	**42,490**
Operating income	**662,970**	**553,393**
Net impairment loss on financial assets	**(744,459)**	**(484,115)**
Net operating (loss)/ income	**(81,489)**	**69,278**
Other non-operating income	**449,338**	**449,338**
Personnel expenses	**(217,742)**	**(187,676)**
Depreciation	**(65,219)**	**(38,707)**
Other expenses	**(118,101)**	**(106,097)**
Amortisation of intangible assets	**(4,401)**	**(1,252)**
Loss on monetary position	**(577,037)**	**-**
(Loss)/profit before taxes	**(614,651)**	**184,884**
Income tax expense - overseas	**(51,745)**	**(8,776)**
Net (loss)/profit for the year	**(666,396)**	**176,108**

47. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 2 May 2021.