Al Hilal Bank PJSC

Consolidated financial statements

31 December 2019

Principal business address:
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P O Box: 63111
Abu Dhabi
UAE

Al Hilal Bank PJSC
Consolidated financial statements
Year ended 31 December 2019

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Annual Report of the Internal Shari'ah Supervision Committee of Al Hilal Bank

Issued on: Thursday, 5th Jumada Al Akhirah 1441 AH, corresponding to 30th Jan 2020

To: Shareholders of Al Hilal Bank ("the Bank")

After greetings,

Pursuant to the requirements stipulated in the relevant laws, regulations and standards ("Regulatory Requirements"), the Internal Shari'ah Supervision Committee of the bank ("ISSC") presents to you its Annual Report for the financial year ending on 31 December 2019 ("Financial Year").

1. Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:
undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Bank; and the Bank's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ("Bank's Activities") and issue Shari'ah resolutions in this regard, and to determine Shari'ah parameters necessary for the Bank's Activities, and the Bank's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority ("HSA") to ascertain compliance of the Bank with Islamic Shari'ah.

The senior management is responsible for compliance of the Bank with Islamic Shari'ah in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA ("Compliance with Islamic Shari'ah") regarding the Bank's Activities, and the Board bears the ultimate responsibility in this regard.

2. Shari'ah Standards

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Bank's Activities without exception.

3. Works Undertaken by the ISSC During the Financial Year

The ISSC undertook Shari'ah supervision of the Bank's Activities through review of those Activities, and monitoring through internal Shari'ah supervision department and internal Shari'ah audit in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. Works of the ISSC included the following:

a. Convening eight meetings during the financial year.
b. Providing fatwas, opinions and resolutions on matters presented to the ISSC in relation to the Bank's Activities.
c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Bank and its subsidiaries to the ISSC for approval.

d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders with parameters set by the ISSC.
e. Supervision through internal Shari'ah supervision department and internal Shari'ah Audit of the Bank's Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.
f. Providing direction to relevant parties of the Bank and its subsidiaries to rectify (where possible) findings cited in the reports submitted by internal Shari'ah supervision department and internal Shari'ah audit, and issuance of resolutions to set aside revenue derived from transactions in which non-compliance were identified to be disposed towards charitable purposes.
g. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.
h. Specifying the amount of Zakat due on each of the Bank's share.
i. Specifying the amount of Zakat due on the depositor's reserves.
j. Monitoring charity account sources and payments.
k. Communicating with the Board, and the senior management of the Bank concerning compliance of the Bank with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Bank is compliant with Islamic Shari'ah.

4. **Independence of the ISSC**

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Bank. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5. **The ISSC's Opinion on the Shari'ah Compliance Status of the Bank**

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that the Bank's Activities are in compliance with Islamic Shari'ah, except for the incidents of non-compliance observed, as highlighted in the relevant reports, including ten breaches that did not result in setting aside revenue. The ISSC also issued directions to take appropriate measure in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year.

Signatures of members of the Internal Shari'ah Supervision Committee

Dr. Ibrahim Ali Al Mansoori	Chairman	
Dr. Ali Husain Al Junaidi	Member	
Dr. Salim Ali Al Ali	Member	

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders
Al Hilal Bank PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Hilal Bank PJSC (the "Bank") which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, 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 consolidated 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 Bank as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Bank's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters (continued)

Estimation uncertainty with respect to expected credit losses for receivables from Islamic financing activities and Ijara

The financial statement risk

As described in Notes 12 and 13 to the consolidated financial statements, the Bank had receivables from Islamic financing activities and Ijara of AED 10.0 billion as at 31 December 2019 representing 54.3% of total assets. The determination of the Bank's expected credit losses for receivables from Islamic financing activities and Ijara measured at amortised cost is considered a key audit matter given the magnitude of the account balance and as it is a material and complex estimate requiring significant management judgement in the evaluation of the credit quality and the estimation of inherent credit losses in the portfolio.

The financial statement risk arises from several aspects requiring substantial judgement of management, such as the estimation of expected future cash flows, the determination of significant increases in credit risk (SICR) and credit-impairment status (default), the use of different modelling techniques and assumptions as well as consideration of post model adjustments. In calculating expected credit losses, the Bank considered credit quality indicators for each loan and portfolios, stratifies receivables from financing activities and Ijara by risk grades and estimates losses for each loan based upon their nature and risk profile.

For further information on the accounting policies relating to impairment of receivables from financings and ijara as well as the Bank's management of credit risk refer to Note 5.3 to the consolidated financial statements.

How the matter was addressed in the audit

We established an audit approach which includes both testing the design and operating effectiveness of internal controls over the determination of expected credit losses and risk-based substantive audit procedures. Our procedures over internal controls focused on the governance over the process controls around the ECL methodology, completeness and accuracy of loan data used in the expected loss models, and consistency of application of accounting policies.

The primary substantive procedures which we performed to address this key audit matter included, but were not limited to, the following:

- For a risk-based sample of individually assessed loans, we performed a credit review, assessed the appropriateness of information for evaluating the credit-worthiness and staging classification of individual borrowers and challenged the assumptions underlying the expected credit loss allowance calculations, such as estimated future cash flows, collateral valuations and estimates of recovery as well as considered the consistency of the Bank's application of its impairment policy;
- For loans tested collectively, we tested with the involvement of our modelling specialists the mathematical accuracy and computation of the expected credit losses by re-performing or independently calculating elements of the expected credit losses based on relevant source data and methodology documents. We challenged key assumptions and the expected credit loss policy. We evaluated key assumptions such as the thresholds used to determine SICR and forward looking and macroeconomic information and the weighting of each economic scenario;
- We tested, utilising our internal IT specialists, 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.

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Key audit matters (continued)

Risk of inappropriate access or changes to information technology systems

The financial statement risk

The Bank is vitally dependent on its complex information technology environment for the reliability and continuity of its operations and financial reporting process due to the extensive volume and variety of transactions which are processed daily across the Bank's businesses; this includes cyber risks.

Inappropriate granting of or ineffective monitoring of access rights to IT systems therefore presents a risk to the accuracy of financial accounting and reporting. Appropriate IT controls are required to protect the Bank's IT infrastructure, data and applications, ensure transactions are processed correctly and limit the potential for fraud and error as a result of change to an application or underlying data.

Unauthorised or extensive access rights cause a risk of intended or unintended manipulation of data that could have a material effect on the completeness and accuracy of financial statements. Therefore, we considered this area as key audit matter.

How the matter was addressed in the audit

Our audit approach depends to a large extent on the effectiveness of automated and IT-dependent manual controls and therefore we updated our understanding of the Bank's IT-related control environment and identified IT applications, databases and operating systems that are relevant for the financial reporting process and to our audit.

For relevant IT-dependent controls within the financial reporting process we identified, with the involvement of our internal IT specialists, supporting general IT controls and evaluated their design, implementation and operating effectiveness. We updated our understanding of applications relevant for financial reporting and tested key controls particularly in the area of access protection, integrity of system interfaces and linkage of such controls to the reliability, completeness and accuracy of financial reporting including computer-generated reports used in financial reporting. Our audit procedures covered, but were not limited to, the following areas relevant for financial reporting:

- IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations;
- Controls regarding initial access granted to IT systems for new employees or employees changing roles, whether that access was subject to appropriate screening and it was approved by authorised persons;
- Controls regarding removal of employee or former employee access rights within an appropriate period of time after having changed roles or leaving the Bank;
- Controls regarding the appropriateness of system access rights for privileged or administrative authorisations (superuser) being subject to a restrictive authorisation assignment procedure and regular review thereof;
- Password protection, security settings regarding modification of applications, databases and operating systems, the segregation of department and IT users and segregation of employees responsible for program development and those responsible for system operations;
- Program developers approval rights in the modification process and their capability to carry out any modifications in the productive versions of applications, databases and operating systems. We analysed the segregation of duties on critical trading and payment systems in order to assess whether the segregation between front and back office was effective; and
- We performed journal entry testing as stipulated by the International Standards on Auditing.

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Other information

The Board of Directors and management are responsible for the other information. The other information comprises the Chairman's report. 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this 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.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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 scepticism throughout the audit. We also:

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

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders
Al Hilal Bank PJSC (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 Bank 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 of the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements of the Bank 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 Chairman's report is consistent with the Bank's books of account;
- Note 14 to the consolidated financial statements of the Bank discloses purchased or investment in shares during the financial year ended 31 December 2019;

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders
Al Hilal Bank PJSC (continued)

Report on Other Legal and Regulatory Requirements (continued)

- Note 38 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which these were conducted and principles of managing conflict of interests;
- 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 financial year ended 31 December 2019 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 2019; and

Further, as required by the Decree of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to Auditing the Financial Statements of Subject Entities, we report that, based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Bank has not complied, in all material respects, with any of the provisions of the following laws, regulations and circulars, which would materially affect its activities or its consolidated financial statements as at 31 December 2019:

- law of establishment; and
- relevant provisions of applicable laws, resolutions and circulars organising the Bank's operations.

Further, as required by the 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.)

Mohammad Khamees Al Tah
Registration No. 717
1 March 2020
Abu Dhabi
United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	2019 AED'000	2018 AED'000
Assets			
Cash and balances with central banks	10	**1,506,057**	6,856,453
Deposits & balances due from banks, net	11	**2,520,318**	3,174,601
Receivables from Islamic financing activities	12	**7,427,733**	19,762,445
Ijara	13	**2,572,852**	8,369,142
Investment securities	14	**3,345,573**	3,572,722
Islamic derivative financial instruments	35	**60**	20,565
Investment properties	15	**60,750**	55,230
Property and equipment, net	16	**534,330**	705,208
Investment in associates	17	**99,662**	86,168
Other assets	18	**127,437**	448,581
Assets held for sale	36	**233,172**	715,853
Total assets		**18,427,944**	43,766,968
Liabilities			
Deposits from customers	19	**13,067,233**	31,323,715
Wakala deposits from banks		**490,633**	1,858,840
Medium term financing	20	**2,400,792**	3,759,798
Islamic derivative financial instruments	35	**83,379**	21,303
Other liabilities	21	**430,174**	1,043,487
Liabilities directly related to assets held for sale	36	**282,101**	270,411
Total liabilities		**16,754,312**	38,277,554
Equity			
Share capital	22	**4,750,000**	3,500,000
Tier 1 Sukuk	23	**-**	1,836,250
Statutory reserve	22	**168,938**	168,938
Other reserves	24	**(125,989)**	(215,915)
Retained earnings		**(3,119,317)**	200,141
Total equity		**1,673,632**	5,489,414
Total liabilities and equity		**18,427,944**	43,766,968

Ala'a Eraiqat
Chairman

Abdul Shakeel Aidaroos
Chief Executive Officer

Rajesh Arora
Head of Finance

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2019

	Notes	***2019*** ***AED'000***	*2018* *AED'000*
Profit income			
Income from Islamic financing activities, net	25	**696,043**	1,134,317
Income from Ijara, net	26	**258,660**	435,920
Investment income		**115,806**	127,103
Income from Wakala investments		**81,472**	88,385
Total profit income		**1,151,981**	1,785,725
Depositors' and sukuk holders' share of profits	32	**(527,816)**	(684,352)
Net profit income		**624,165**	1,101,373
Fees and commission income, net	27	**79,726**	139,555
Trading income, net	28	**14,754**	23,231
Other operating income	29	**12,355**	25,103
		106,835	187,889
Operating income		**731,000**	1,289,262
Operating expenses	30	**(587,343)**	(741,778)
Depreciation		**(66,626)**	(54,869)
Operating income before impairment charges		**77,031**	492,615
Impairment charges, net	31	**(3,327,093)**	(343,585)
Operating income after impairment charges		**(3,250,062)**	149,030
Share in profit of associate		**13,482**	(12,002)
Operating (loss) / income from continuing operations		**(3,236,580)**	137,028
Discontinued operations			
Net loss from discontinued operations	36	**(16,661)**	(31,283)
Net (loss) / profit for the year		**(3,253,241)**	105,745

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	2019 *AED'000*	*2018* *AED'000*
Net (loss) profit for the year	**(3,253,241)**	105,745
Other comprehensive income / (loss)		
Items that will not be reclassified subsequently to the consolidated statement of income		
Net fair value changes on investment in equity securities designated at FVTOCI	**(339)**	(10,002)
Net fair value changes transferred within equity upon disposal of investment in securities designated at FVTOCI	**(15,452)**	(5,137)
Directors' remuneration	**-**	(3,794)
	(15,791)	(18,933)
Items that may be reclassified subsequently to the consolidated statement of income		
Net fair value changes on investment in debt securities designated at FVTOCI	**89,644**	(434)
Exchange difference on translation of foreign operations	**621**	(24,440)
Other comprehensive income (loss) for the year	**74,474**	(43,807)
Total comprehensive (loss) income for the year	**(3,178,767)**	61,938

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Share capital AED'000	*Statutory reserve AED'000*	*Translation reserve AED'000*	*Fair value reserve AED'000*	*Retained earnings AED'000*	*Tier 1 Sukuk AED'000*	*Total AED'000*
Balance at 1 January 2019	**3,500,000**	**168,938**	**(200,198)**	**(15,717)**	**200,141**	**1,836,250**	**5,489,414**
Total comprehensive income for the year							
Loss for the year	-	-	-	-	**(3,253,241)**	-	**(3,253,241)**
Other comprehensive (loss) / income							
Net (loss) / gain on investment securities designated at fair value through other comprehensive income	-	-	-	**89,305**	**(15,452)**	-	**73,853**
Exchange difference on translation of foreign operations	-	-	**621**	-	-	-	**621**
Total other comprehensive (loss) / income	-	-	**621**	**89,305**	**(15,452)**	-	**74,474**
Total comprehensive (loss) / income for the year	-	-	**621**	**89,305**	**(3,268,693)**	-	**(3,178,767)**
Transaction with owner of the Bank							
Contributions and distributions							
Issuance of share capital (note 22)	**1,250,000**	-	-	-	-	-	**1,250,000**
Repayment of Tier 1 Sukuk (note 23)	-	-	-	-	-	**(1,836,250)**	**(1,836,250)**
Tier 1 Sukuk dividends (note 23)	-	-	-	-	**(50,765)**	-	**(50,765)**
Transfer to statutory reserve	-	-	-	-	-	-	-
Total contributions and distributions	**1,250,000**	-	-	-	**(50,765)**	**(1,836,250)**	**(637,015)**
Balance as at 31 December 2019	**4,750,000**	**168,938**	**(199,577)**	**73,588**	**(3,119,317)**	-	**1,673,632**

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued
Year ended 31 December 2019

	Share capital AED'000	*Statutory reserve AED'000*	*Translation reserve AED'000*	*Fair value reserve AED'000*	*Retained earnings AED'000*	*Tier 1 Sukuk AED'000*	*Total AED'000*
Balance at 1 January 2018 (audited)	3,090,000	155,330	(175,758)	(5,281)	622,058	1,836,250	5,522,599
Transition adjustment on adoption of IFRS 9	-	-	-	-	(403,916)	-	(403,916)
Balance at 1 January 2018 (adjusted)	3,090,000	155,330	(175,758)	(5,281)	218,142	1,836,250	5,118,683
Total comprehensive income for the year							
Profit for the year	-	-	-	-	105,745	-	105,745
Other comprehensive (loss) / income							
Net loss on investment securities designated at fair value through other comprehensive income	-	-	-	(10,436)	(5,137)	-	(15,573)
Exchange difference on translation of foreign operations	-	-	(24,440)	-	-	-	(24,440)
Directors' remuneration	-	-	-	-	(3,794)	-	(3,794)
Total other comprehensive loss	-	-	(24,440)	(10,436)	(8,931)	-	(43,807)
Total comprehensive (loss) / income for the year	-	-	(24,440)	(10,436)	96,814	-	61,938
Transaction with owner of the Bank							
Contributions and distributions							
Issuance of share capital (note 22)	410,000	-	-	-	-	-	410,000
Tier 1 Sukuk dividends (note 23)	-	-	-	-	(101,207)	-	(101,207)
Transfer to statutory reserve	-	13,608	-	-	(13,608)	-	-
Total contributions and distributions	410,000	13,608	-	-	(114,815)	-	308,793
Balance as at 31 December 2018	3,500,000	168,938	(200,198)	(15,717)	200,141	1,836,250	5,489,414

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2019

	2019 *AED'000*	*2018* *AED'000*
OPERATING ACTIVITIES		
(Loss) / profit for the year	**(3,253,241)**	105,745
Adjustments for:		
Depreciation	**67,363**	57,009
Share in profit of associate	**(13,482)**	12,002
Impairment charges	**3,361,689**	367,574
Fair value (gain) /loss from investment property	**(5,520)**	7,170
Unwinding on renegotiated financings	**(2,842)**	(5,290)
Realised gain on sale of investment securities	**-**	(253)
Unrealised revaluation (gain)/loss on investment securities	**(828)**	500
Cash flows from operating activities before changes in operating assets and liabilities	**153,139**	544,457
Changes in:		
Cash and balances with central banks with maturities over three months	**4,060,806**	(901,344)
Deposits & balances due from banks with maturities over three months	**143**	365,168
Receivables from Islamic financing activities	**9,841,787**	1,904,832
Ijara	**5,348,109**	728,208
Islamic derivative financial instruments	**82,581**	532
Other assets	**339,003**	333,645
Deposits from customers	**(18,256,482)**	(2,316,434)
Wakala deposits from banks	**-**	88,814
Other liabilities	**(772,590)**	(339,225)
Net cash flows from operating activities	**796,496**	408,653
INVESTING ACTIVITIES		
Net acquisition of property and equipment	**(64,103)**	(48,056)
Acquisition of investment securities	**(529,750)**	(1,552,897)
Proceeds from sale of investment securities	**752,729**	1,570,555
Disposal/ (purchase) of investment property	**500,000**	(7,969)
Net cash flows from (used in) investing activities	**658,876**	(38,367)
FINANCING ACTIVITIES		
Issuance of share capital	**1,250,000**	410,000
Repayment of Tier 1 Sukuk	**(1,836,250)**	-
Tier 1 sukuk dividends	**(50,765)**	(101,207)
(Repayment) / Issuance of medium term financing	**(1,359,006)**	733,380
Directors' remuneration	**-**	(3,794)
Net cash flows (used in) from financing activities	**(1,996,021)**	1,038,379
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(540,649)**	1,408,665
Cash and cash equivalents, beginning of the year	**4,113,178**	2,704,513
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 33)	**3,572,529**	4,113,178

The attached notes 1 to 42 form part of these consolidated financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Hilal Bank PJSC (the “Bank”) was incorporated in Abu Dhabi, United Arab Emirates (“UAE”) on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), Union Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

The Federal Law No.2 of 2015, concerning commercial companies has come into effect from 1 July 2015, replacing the existing Federal Law No.8 of 1984.

The Bank’s registered office address is Al Bahr Towers, P. O. Box 63111, Abu Dhabi, United Arab Emirates.

These consolidated financial statements as at and for the year ended 31 December 2019 comprise the Bank and its subsidiaries set out in (Note 37) (together referred to as the “Group”). The Group is primarily involved in Islamic retail, corporate, investment banking and Islamic insurance (“Takaful”) activities. The Bank carries out its operations through its branches in the United Arab Emirates and subsidiaries located in the United Arab Emirates and Kazakhstan.

On 29 January 2019, the Board of Directors of Abu Dhabi Commercial Bank PJSC (“ADCB”) and the erstwhile Board of Directors of Union National Bank PJSC (“UNB”) approved and recommended to their respective shareholders a merger of the two banks and acquisition of 100% of the issued share capital of the Bank by the combined bank (i.e. combined after erstwhile ADCB and UNB).

On 21 March 2019, the shareholders of ADCB and UNB approved the proposed merger pursuant to Article 283 (1) of UAE Federal Law No. 2 of 2015, through issuance of 0.5966 new shares in ADCB for every one share of UNB, subject to the terms and conditions of the merger. Following the merger, ADCB and UNB shareholders owns approximately 76% and 24% of the combined bank, respectively. On the effective date of the merger, UNB shares were delisted from the Abu Dhabi Securities Exchange. The combined bank has retain ADCB’s legal registrations.

The shareholders of ADCB also approved the issuance by ADCB of a mandatory convertible bond (“bond”) to the shareholder of the Bank as the acquisition price to acquire the entire issued share capital of the Bank. Such bond shall be converted into 117,647,058 ADCB shares. Post acquisition, ADCB holds 100% of the share capital of the Bank.

The effective date of above merger and acquisition was 01 May 2019.

As a part of strategic balance sheet management, the Bank entered into a Master Transfer Agreement with ADCB for the transfer and/or assignment of certain assets and liabilities of the Bank. Based on this agreement, the Bank transferred and/or assigned to ADCB certain portfolio assets which were identified by the Bank and ADCB together, with all of the Bank’s rights, title, interests, duties and obligations (as applicable) under and in respect of the client agreements for such portfolio assets including, without limitation, the amounts owing to the Bank under any client agreements for the portfolio assets and all claims, suits, causes of action and any other rights of the Bank with respect to the portfolio assets. (refer to notes 12, 13, 18, 19, 21 and 31 for further details).

The consolidated financial statements were authorized and approved for issue by the Board of Directors on 01 March 2020.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

In the current year, the Group applied for the first time, IFRS 16 Leases. As required by IAS 1 Presentation of Financial Statements, the nature and effect of these changes are disclosed in Note 4 of the consolidated financial statements.

The Group has also applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 01 January 2019. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation
- Amendment to IAS 19 Employee Benefits relating to plan amendment, curtailment or settlement
- Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures

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 01 January 2019.

Standards and Interpretations in issue but not yet effective and not early adopted

The Group has not early adopted new and revised IFRSs that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Group:

New standards and significant amendments to standards applicable to the Group:	**Effective for annual periods beginning on or after**
Amendments to references to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 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.	01 Jan 2020
Amendment to IFRS 3 regarding the definition of a business.	01 Jan 2020
Amendments to IAS 1 and IAS 8 regarding the definition of material.	01 Jan 2020
IFRS 17 Insurance Contracts. IFRS 17 requires insurance liabilities to be measured at a current fulfillment 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 2021.	01 Jan 2021
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 an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption still permitted.

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

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

Certain disclosure notes have been reclassified from the Group's prior year consolidated financial statements to conform to the current year's presentation. These reclassifications do not have an impact on the total net assets and net profit.

3.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the following:

Item	*Measurement basis*
Islamic derivative financial instruments	Fair value
Financial assets at fair value through profit or loss	Fair value
Financial assets at fair value through other comprehensive income	Fair value
Investment property	Fair value
Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships	Amortised cost adjusted for changes in fair value attributable to the risk being hedged
Asset held for sale	Lower of carrying amount and fair value less cost to sell

3.3 Functional and presentation currency

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Group's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

3.4 Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.5 Islamic financial receivables

i) Murabaha
Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. A Murabaha contract is a sale of goods with an agreed upon profit mark up on the cost of the goods. A Murabaha contract is of two categories. In the first category, the Bank purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second category, the Bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Bank purchases the goods only after a customer has made a promise to purchase them from the Bank.

ii) Ijara Muntahia Bittamleek
A form of leasing contract which includes a promise by a lessor to transfer the ownership of the leased property to the lessee at the end of the term of the Ijara period.

iii) Wakala
A contract between the Bank and customers whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the Muwakkil.

iv) Mudaraba
Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of investment account holders, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

v) Sukuk
Certificates which are equal in value and represent common shares in the ownership of a specific asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

vi) Musharaka
It is an agreement between two or more parties to combine their assets or to merge their services or obligations and liabilities with the aim of making profit. Profit in Musharaka is shared as per the agreed ratio whereas loss is distributed in proportion to the contribution of each partner.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.6 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

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

When a company has less than a majority of voting rights of an investee, still 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's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank;
- rights arising 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 the decision needs to be made, including voting patterns at 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. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income 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 attributed to owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and non-controlling interests even if this results in non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to align their accounting policies with the Bank's accounting policies.

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Bank's interests is 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 or received is recognised directly in equity and attributed to the shareholders of the Bank.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement 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), 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 income statement 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 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. The subsidiaries consolidated in the Group financial statement are listed in note 37.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Foreign currency

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

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the initial transaction. Foreign currency differences arising on translation are recognised in the consolidated statement of income, except for foreign currency differences arising from the translation of non-monetary items carried at fair value through other comprehensive income which are recognised in other comprehensive income.

ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into AED at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into AED at the average exchange rates for the year.

Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to non-controlling interest.

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

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

3.8 Property and equipment

i) Recognition and measurement
Property and equipment are stated at historical cost less accumulated depreciation, amortization and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Purchased software that is integral to the functionality of related equipment is capitalized as part of equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gains and losses on disposal of an item of property and equipment is recognised in the consolidated statement of income.

ii) Subsequent costs
Subsequent costs are included in the asset's carrying amount or recognised 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.8 Property and equipment continued

iii) Depreciation and amortisation
Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Building	**40 years**
Leasehold improvements	**7-10 years**
Computer systems	**4 years**
Furniture and fixtures	**4-6 years**

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.9 Capital work in progress

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

3.10 Qard hasan

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

3.11 Swap transactions

Currency and profit rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency profit rate swaps). The Group's credit risk represents the potential loss if counterparties fail to fulfill their obligations.

3.12 Impairment of non-financial assets

Assets that have indefinite useful life (for example, land, goodwill or intangible assets not ready for use) are not subject to amortization or depreciation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognised if the carrying amount of an asset or cash-generating units exceeds its recoverable amount.

Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

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

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.13 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, balances with central banks, deposits and balances due from banks with original maturity of less than three months 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 statement of financial position.

3.14 Share capital

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

3.15 Fair value reserve

The fair value reserve is related to revaluation of investment securities classified at fair value through other comprehensive income, the policy of which is set out in Note 3.17.

3.16 Deposit from customers and wakala deposits from banks

Deposit from customers and Wakala deposits from banks are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost.

3.17 Financial instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Cash and balances with central banks
- Deposits and balances due from banks;
- Receivables from Islamic financing activities;
- Ijara;
- Investment securities and
- Sharia compliant derivatives.

Effective 31 December 2010, the Group early adopted classification and measurement principles of IFRS 9 'Financial Instruments' in issue at that time in line with the transitional provisions of IFRS 9.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or at fair value.

i) Recognition

The Group initially recognises financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Receivables from Islamic financing activities and Ijara are recognised on the day they are disbursed. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instrument.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial instruments continued

ii) Classification

Financial assets at amortised cost
Financial assets are subsequently measured at amortised cost, if both the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

Financial assets at fair value through profit or loss ("FVTPL")
Investments in equity instruments are classified as FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

A financial asset is FVTPL if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is part of identified financial instrument that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a Shari'a compliant alternatives of derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

Financial asset 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 that are designated as FVTPL on initial recognition is not allowed.

Financial assets at fair value through other comprehensive income ("FVTOCI")
At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

A sukuk 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 profit on the principal amount outstanding.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial instruments continued

iii) Measurement

Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including receivables from Islamic financing activities, Ijara and investment in sukuk securities are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Financial assets at fair value through profit or loss ("FVTPL")
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

Financial assets at fair value through other comprehensive income ("FVTOCI")
Investments in equity securities for which the Group has made an irrevocable election to designate as FVTOCI and sukuk instruments 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 the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity.

Where the assets are disposed off, except for sukuk measured at FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. Financial assets measured at FVTOCI are not required to be tested for impairment.

For sukuk measured at FVTOCI which are disposed off, the cumulative gain or loss previously recognised in the consolidated statement of other comprehensive income is reclassified from equity to the consolidated income statement.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions

Dividends on investment in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of investment.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial instruments continued

iii) Measurement continued

Impairment of financial assets

Measurement of Expected Credit Losses (ECL):
The impairment of financial assets are calculated in accordance with IFRS 9 expected credit loss (ECL) model. The standard introduces a new single model for the measurement of impairment losses on all financial assets including receivables from Islamic financing activities, Ijara and sukuk measured at amortized cost or at fair value through OCI. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

The Group measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate. The Group has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Group developed a statistical model and for other portfolios judgmental models were developed.

Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur.

When the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the finance customer, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the exiting asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Purchased or originated credit impaired assets (POCI)
POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit income is subsequently recognized based on a credit-adjusted expected profit rate. Life time ECLs are only recognised or released to the extent that there is a subsequent change in the ECL.

Covered card facilities
The Group's product offering includes a variety of covered cards facilities, in which the Group has the right to cancel and/or reduce the facilities at a short notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behavior, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial instruments continued

iii) Measurement continued

Write-off
Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

iv) De-recognition

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, and financial assets at fair value through other comprehensive income that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

v) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right and under Sharia'a framework to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.18 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective profit 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 to the net carrying amount of the financial asset or financial liability.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.19 Fair value measurement

The Group measures its financial assets and liabilities at market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence in the most advantageous market for the assets or liabilities. The Group considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

The Group measures its non-financial assets at a price that take into account a market participant's ability to generate economic benefits by using the assets for their highest and best use.

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 under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of a liability reflects its non-performance risk.

When applicable, 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 takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, 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 the factors that market participants would take into account into pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or a liability nor based on valuation technique that uses only data from observable markets, the instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the 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 supported wholly by observable market data or the transaction is closed out.

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

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

Different levels of fair value hierarchy based on the inputs to valuation techniques are discussed in Note 7. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.20 Hedge accounting

In order to manage profit rate risks, the Group enters into Shariah compliant arrangements including profit rate swaps. These financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant 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 recognized pricing models as appropriate.

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
When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in the consolidated statement of income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statement of income and other comprehensive income as the hedged item).

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

Changes in the fair value of Islamic derivatives not designated as hedges are recorded in the consolidated statement of income.

Discontinuance of hedge accounting
The hedge accounting is discontinued when a hedging instrument expires, terminated or exercised or when a hedge no longer meets the criteria for hedge accounting. At that point of time, in the case of a cash flow hedge, any cumulative gain or loss on the hedging instrument that has been previously recognised in the consolidated statement of comprehensive income remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gains or losses initially recognised in equity are transferred to the consolidated statement of income.

In the case of a fair value hedge, for hedged items recorded at amortised cost, using the effective profit rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.21 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Profit income
Profit income is recognised using the effective profit rate method.

The 'effective profit rate' is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective profit rate, the Group estimates future cash flows considering all contractual terms of the financial asset, but not future credit losses.

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

When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow required to unwind at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired finance facilities and receivables is recognised using the original effective profit rate.

ii) Dividend income
Dividend income is recognised when the right to receive the income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated at fair value through other comprehensive income are presented in other revenue in the consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income.

iii) Fees and commission income, net
Fees and commission income and expense that are integral to the effective profit rate on a financial asset or financial liability are included in the measurement of the effective profit rate.

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a finance commitment is not expected to result in a drawdown of the financing, then the related finance fees are recognised on a straight-line basis over the period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

iv) Gain on sale of investments
Gain or loss on disposal of fair value through profit or loss investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of fair value through other comprehensive income investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.22 Investment property

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date.

The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

Investment properties under development that are being constructed or developed for future use as investment property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under development are measured at fair value. Gains and losses arising from changes in the fair value of investment property under development is included in the consolidated income statement in the period in which they arise.

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

3.23 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income.

Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Above policy was applicable for year ended 31 December 2018 and replaced by IFRS 16 for year ended 31 December 2019.

3.24 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3.25 Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.26 Staff terminal benefits

UAE nationals employed by the Group are registered in the scheme managed by the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with Law number (2) of 2000. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Group's internal policies, which comply with the applicable laws.

3.27 Depositors' and sukuk holders share of profits

Profit distribution is an amount accrued as an expense on the funds accepted from banks and customers in the form of Wakala deposits, Mudaraba contracts, reverse Murabaha and sukuk financing instruments and are recognised as expenses in the consolidated statement of income. The amounts are calculated in accordance with agreed terms and conditions of the Wakala and Mudaraba deposits as per Shariah ruling and principles.

3.28 Financial guarantees and financing commitments

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.

Financing commitments are firm commitments to provide credit under pre-specified terms and conditions.

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

3.29 Takaful contracts

i) Classification
The Group issues contracts that transfer either Takaful risk or both Takaful and financial risks. The Group does not issue contracts that transfer only financial risks.

Contracts under which the Group accepts significant Takaful risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as Takaful contracts.

ii) Recognition and measurement
Gross written contributions, in respect of annual policies, are recognised in the consolidated statement of income at the inception of the policy. In respect to policies with a term of more than one year, the contributions are spread over the tenure of the policies on a straight line basis, and the unexpired portion of such contributions is included under "unearned contributions" in the consolidated statement of financial position.

iii) Claims
Claims incurred comprise the settlement, the internal and external handling costs of paid and changes in the provisions for outstanding claims arising from events occurring during the year. Where applicable, deductions are made for salvage and recoveries.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and reduced by expected salvage and recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly by management.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.29 Takaful contracts continued

iv) Gross claims paid
Gross claims paid are recognised in the consolidated statement of income when the claim amount payable to policyholders and third parties is determined as per the terms of the Takaful contracts.

v) Claims recovered
Claims recovered include amounts recovered from re-takaful companies in respect of the gross claims paid by the Group, in accordance with the re-takaful contracts held by the Group. It also includes salvage and claims recoveries.

vi) Gross outstanding and IBNR claims
Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the consolidated statement of financial position date. Provisions for reported claims not paid as at the end of the reporting period are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by management in the light of currently available information and past experience.

An additional net provision is also made for any claims incurred but not reported ("IBNR") at the end of the reporting period, on the basis of management estimates.

The re-takaful share of the gross outstanding claims is estimated and shown separately.

vii) Unearned contribution reserves
A provision is made for contribution deficiency arising from general Takaful contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the consolidated statement of financial position date exceeds the unearned contributions provision and already recorded claim liabilities in relation to such policies. The provision for contribution deficiency is calculated by reference to classes of business which are managed together.

viii) Re-takaful
The Group cedes re-takaful in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expense arising from ceded re-takaful contracts are presented separately from the assets, liabilities, income and expense from the related Takaful contracts because the re-takaful arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from re-takaful are accounted for in a manner consistent with the related contributions and is included in re-takaful assets.

Re-takaful assets are assessed for impairment at the end of each reporting period. A re-takaful asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the re-takaful operator. Impairment losses on re-takaful assets are recognised in the consolidated statement of income in the year in which they are incurred. Commissions in respect of re-takaful contracts are recognised on an accrual basis.

ix) Takaful receivables and payables
Amounts due from and to policyholders, agents and re-takaful operators are financial instruments and are included in other assets and other liabilities, respectively, and not in Takaful contract provisions or re-takaful assets.

x) Liability adequacy test
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities using current estimates of future cash flows under Takaful contracts. In performing these, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets supporting such liabilities are used. Any deficiency in the carrying amounts is immediately charged to the consolidated statement of income by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).
Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.30 Acceptances

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

3.31 Investment in associates

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investment in associates are accounted for using the equity method and are recognised initially at cost. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Bank's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Any goodwill is included within the carrying amount of the investment which is assessed for impairment, at least annually, as part of that investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, is recognised immediately in profit or loss. Where a Group's subsidiary or other associate transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate

3.32 Assets held for sale

Non-current assets and associated liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable. Assets designated as held for sale are held at lower of carrying amount at designation and fair value less costs to sell. Depreciation is not charged against property and equipment classified as held for sale.

3.33 Taxation

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the respective countries in which the Group operates.

3.34 Zakat

As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is responsible of his or her own Zakat. In accordance with the AAOIFI's Shariah Standard number 35 the Zakat is computed by the Bank and it is approved by the Internal Shariah Supervision Committee of the Bank.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 & Shariah Standard number 35, and the bank Internal Shariah Supervision Committee of the Bank Resolutions. The bank communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 41).

4 CHANGES IN ACCOUNTING POLICY

General impact of application of IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

IFRS introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requires the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The date of initial application of IFRS 16 for the Group is 01 January 2019. The Group has applied IFRS 16 using simplified modified approach.

Impact on Lessee Accounting
IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before01 January 2019. The lease liability for such leases are measured at the present value of the remaining lease payments using the incremental profit rate as of 01 January 2019.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 01 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The Group has applied a single discount rate to portfolio of leases, as the leases are of reasonably similar characteristics.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 as at 01 January 2019:

	Carrying amount 31 December 2018 AED'000	Re-measurement AED'000	IFRS 16 Carrying amount 01 January 2019 AED'000
Property, plant and equipment	705,208	15,532	720,740
Other assets – Prepayments	6,608	(2,555)	4,053
Impact on total assets		**12,977**	
Other liabilities – Lease liabilities	-	12,977	12,977
Impact on total liabilities		**12,977**	

4 CHANGES IN ACCOUNTING POLICY continued

The following is a reconciliation of total operating lease commitments at December 31, 2018 (as disclosed in the financial statements to December 31, 2018) to the lease liabilities recognised at January 1, 2019:

	AED'000
Total operating lease commitments as at 31 December 2018	164,237
Recognition exemptions:	
Lease of low value assets	-
Lease with remaining lease term of less than 12 months	12,222
Others:	
Terminated contract as at 01 January 2019	135,250
Operating lease liabilities before discounting	16,765
Discounted using incremental finance rate	4.3% p.a.
Total lease liabilities recognized under IFRS 16 as at 01 January 2019	**12,977**

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance lease or operating lease and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Significant accounting policies introduced on adoption of IFRS 16

The Group as lessee
The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangement in which it is the lessee, except for short-term (defined as leases with a lease term of 12 months or less) and leases of low value asset. For these leases, the Group recognises the lease payments as an operating lease on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. This expense is presented within other expenses in the consolidated income statement.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental profit rate. The lease liability is subsequently measured by increasing the carrying amount to reflect the profit on the lease liability (using the effective profit method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the period of lease term or useful life of the underlying asset whichever is shorter. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as per the Group's impairment policy for non-financial assets.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease component, and instead account for any lease and associated non-lease component as a single arrangement. The Group has used this practical expedient.

The Group has presented right of use asset within 'Property and equipment' and lease liabilities within 'Other liabilities' in the consolidated statement of financial position.

The Group as lessor
Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental income are recognised in the consolidated income statement on a straight line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Financial instruments are fundamental to the Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the credit, market and liquidity risks of the Group's balance sheet.

Risk taking is core to the banking business and financial /operational risks are an inevitable consequence of such activities. The Group's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and procedures to reflect changes in regulations, markets, products and emerging best practice in order to keep financial risk at a minimum and acceptable level within agreed risk appetite parameters.

The Group has exposure to many financial instruments and entails the following financial risks:

- Credit risk - The risk of financial loss where a customer or counterparty fails to meet their financial obligations;
- Market risk - The risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, profit rates and equity prices.
- Liquidity risk - The risk that the Group will be unable to fund assets and meet obligations as they become due;
- Operational risk – The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risk but excluding strategic or reputational risk.

5 FINANCIAL RISK MANAGEMENT continued

5.2 Risk Governance and Framework

The risk management is integral to the operations and risk culture of the Group. The Board of Directors ("The Board") places significant importance on strong risk governance when shaping the Group's strategy and managing risks effectively. Risks are proactively managed within the Group with a clear policy framework of risk ownership by respective stakeholders. The Bank's risk governance structure ensures oversight of, and accountability for, the effective management of risk at the Group.

The Group's business strategy is to achieve the objective of being a strong financial player and at the same time managing risks associated with this objective effectively. The risk management supports this objective and promotes the transparency in the Group. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite

Board has ultimate responsibility for setting out risk appetite and effective management of risk for the Group. The Board has set up from within the management, Management Executive Committee (MEC), Assets and Liabilities Committee ("ALCO") and Risk Management Committee ("RMC").

The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership for the enforcement of strategy and internal control directives laid down by the Board. The Management level committees also actively manage risk particularly ALCO and RMC. The RMC as well encompasses Information Security, Financial Crime and Business Continuity Management matters to ensure that proper governance is in place.

The Risk Management function headed by the Chief Risk Officer reports to CEO and Group Chief Risk Officer. The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function exercises control over credit, market, liquidity, operational, fraud, compliance, data governance and information security risk.

The Internal Audit division (IAD) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Bank's risk management, control and governance processes. The IAD auditors, alongside the compliance department, also ensure that transactions undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements and in accordance with the Group's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

5.3 Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from Islamic financing activities, Ijara, and Investments. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure such as counterparty default risk and geographical risk for risk management purposes.

The objective of credit risk management is to undertake an independent review and objective assessment of risk for all credit facilities as well as to both partner and challenge the businesses in defining, implementing and continually re-evaluating the risk appetite in line with the Group's policies, procedures and change in market conditions and regulations.

Credit applications for Personal banking customers are reviewed and approved by the Credit underwriting team in line with the approved policies and delegated approval authorities. Credit policies for the Personal Banking Group asset products are reviewed by the Retail Risk Policies & Portfolio Management team to ensure that the associated risks against financing are minimized.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Risk management department ensures that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances for facilities in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance. Risk Management is also responsible for establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The Group credit policies are approved by Board. These govern all delegated financing authorities and include policies, strategies and procedures specific to the Group's business and are decided based on the macro economic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Group's interest in changing operating conditions. In addition to Group wide policies, there are underwriting standards set for the Group. The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

ECL measurement
Group credit risk is measured in terms of expected credit loss (ECL), which is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default EAD), and discounting at the initial effective profit rate.

The Bank has developed a range of models to estimate these parameters.

The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions. In addition, the estimation of ECL takes into account the time value of money.

As per IFRS 9 requirements, the Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility. Expected Loss at any point in time of the life of the facility is calculated using the following formula:

Expected Credit Loss (ECL) = PD*EAD*LGD
For each facility the Group calculates ECL over two forecast periods:

- 12 Month: ECL is calculated using 12-month forward looking PD, LGD and EAD.
- Lifetime: ECL is calculated using Lifetime forward looking PD, LGD and EAD.

12 Month or Lifetime ECL for each facility is used depending on the stage of the facility, as explained below:

- **Stage1:** where no significant increase in credit risk is observed,12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- **Stage2:** where significant increase in credit risk has been observed, Life-time ECL is recorded as impairment provision;
- **Stage3:** where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

Significant increase in credit risk (SICR)
The stage allocation is determined by identifying a significant increase in credit risk since initial origination. The Group assesses when significant increase in credit risk has occurred based on the quantitative and qualitative assessments. The facilities are classified as stage 2 when they meet following criteria:

Quantitative criteria: Thresholds based on absolute PD or relative PD increase compared to origination have been defined, in order to determine the significant increase in credit risk. In addition to this the bank also uses rating migration since origination for non-retail customers.

Qualitative criteria: Independent of PD, the Group also uses qualitative information to assess the significant increase in credit risk. This includes information such as watch list classification, renegotiation of the facilities and credit classification.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Backstop criteria: For retail and corporate customers, a backstop is applied and the facility is considered to have experienced a significant increase in credit risk if the finance customer is more than 30 days past due on its contractual payments.

For the cases where Group has experienced limitation on the information available at origination, certain proxy assumptions were made to estimate the rating at origination.

Definition of default and credit-impaired assets
The Group defines a financial instrument as in default, when it meets one or more of the following criteria:

Retail: A customer who is delinquent over 90 days past due will be classified as default or credit impaired.

Corporate: All customers currently classified/rated as below will be considered under default:

- Where classification is Substandard, Doubtful or Loss
- Risk Rating is 8, 9, and 10

The customers are classified or downgraded in the above categories, based on a comprehensive assessment of the customer's credit quality. This assessment includes review of payment history, capacity to repay and financial health.

Curing
Assets can move back to Stage 1 from Stage 2 when they no longer meet the significant increase in credit risk criteria and have completed a probation period of 12 months, defined by the Group. Similarly for the movement from Stage 3 to Stage 2, for certain portfolios, the Group's policy include probation periods whereby assets remain in Stage 3 for periods of between three to twelve months. The policy also ensures that none of the assets can move back directly to Stage 1 from Stage 3.

Measuring ECL- Explanations of input, assumptions and estimation techniques
As per IFRS 9, the ECL calculated for a facility should incorporate both current and forward-looking economic outlook over 12 months and over the remaining life of the facility.

The Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over forecast period (next 12 months or effective remaining life of the facility).

At the reporting date, a monthly ECL is estimated for each individual exposure for each month until the end of the forecast period. This is calculated as a simple multiplication of PD, LGD and EAD at each month. These monthly ECLs are discounted to the reporting date and the summation of these discounted monthly ECLs gives the ECL estimate. The lifetime ECL is the sum of the monthly ECLs over the remaining life, while the 12-month ECL is limited to the first 12 months.

The estimation methodology for three main components, PD, LGD and EAD is explained below:

Probability of Default (PD):

The Bank have used statistical approach to get account level PD. For retail and corporate segments, PD models are based on the internal data. The methodology adopted is logistic regression. It uses a set of financing-specific or financee-specific factors which are weighted to produce an assessment of credit risk. PD parameters are adjusted by the impact of macroeconomic forecasts in several scenarios. The impact of the economy is modeled by separate models on the segment level – thus it includes macroeconomic factors specific for a given segment.

PD model for corporate portfolio is developed on a customer level, whereas for retail portfolio models are developed on a contract level. The estimates produced from the models are 12 month point-in-time (PiT) PDs. The cohort approach is used to build the PD term structure. The actual cumulative default rates are calculated using the PD term structure for the entire lifetime of the account.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Measuring ECL- Explanations of input, assumptions and estimation techniques continued

Loss Given Default (LGD):

For LGD models, workout method has been used by the Bank in modelling LGD as the calculation of realised LGDs is based on workout data. To bring all the values to the date of default point-in-time, all the recoveries are discounted using the effective contractual profit rate. The recovery period was defined as 12 months from start of default. This approach is conservative as recovery period is considered for one year due to the fact that most of the accounts would be recovered if the time window is increased.

Internal LGD estimates have been compared to market benchmark LGD and the higher of the two have been assigned for the computation of ECL.

Exposure at Default (EAD):

The EAD is the amount which the Bank expects a customer to owe in the event of default. The EAD depends on the following:

On balance sheet items: EAD for funded / single drawdown facilities shall be the actual outstanding of the financings. Lifetime computations would require cash flow patterns for these types of financings. The future cash flows are calculated and are discounted to the start of the default date. Also, the maturity of the financings shall be fixed as per the contractual terms.

Off balance sheet items: Due to data limitation, no models are developed. The Bank have used Basel CCFs to calculate EAD for undrawn amounts.

Forward-looking information incorporated in the ECL model
As per IFRS 9 requirements, The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. Consultants have developed a macro-economic overlay models by performing statistical analysis to establish a historical relationship of macro-economic variables with PD and components of LGD. These models depend on various macroeconomic variables and geographical economic scenarios. The macro-economic models are used to adjust the PD and LGD calculated from the base models.

The Group sources the macro-economic scenarios data from an external vendor, which uses scenarios built based on the current market conditions and outlook of their economic team. The Group uses multiple macro-economic scenarios and a weightage has been assigned to each scenario.

Credit risk monitoring
For IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by an appropriate management committee.

Risks of the Group's credit portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and/or quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Collateral management

The Group holds collateral against various credit risk exposures in the form of mortgage over property, guarantee, fixed deposits and guarantees. Collateral and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Bank seeks to ensure enforceability of the collateral. Major categories of collateral include cash/ fixed deposits, guarantees, immovable properties, vehicles.

Collateral is revalued regularly as per the bank's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Bank to assess the fair market value of the collateral and ensure that risks are appropriately covered.

Exposure to credit risk
The Group measures its exposures to credit risk by reference to the gross carrying amount of financial assets.

As at 31 December 2019 and 31 December 2018, the Group's maximum exposure to credit risk before collateral held or other credit enhancements was as follows:

	Notes	***2019*** ***AED'000***	*2018* *AED'000*
Deposits & balances due from banks, net	11	**2,521,156**	3,176,236
Receivables from Islamic financing activities	12	**7,637,460**	21,119,455
Ijara	13	**2,688,810**	8,698,912
Investment securities	14	**3,338,365**	3,360,288
Other assets	18	**101,178**	378,282
		16,286,969	36,733,173
Commitments and contingencies	34	**462,292**	12,364,028

The above table represents the credit risk exposure of the Group at 31 December 2019 and 31 December 2018, the exposures set out above are at gross amounts.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

As at 31 December 2019 and 31 December 2018, the distribution by geographical region of major categories of assets and commitments as per Central Bank guidelines was as follows:

	United Arab Emirates AED'000	*Kazakhstan AED'000*	*Others AED'000*	*Total AED'000*
31 December 2019				
Assets				
Cash and balances with central banks	**1,240,379**	**70,686**	**-**	**1,311,065**
Deposits & balances due from banks, net	**2,314,294**	**2,200**	**203,824**	**2,520,318**
Receivables from Islamic financing activities	**6,853,085**	**574,648**	**-**	**7,427,733**
Ijara	**2,526,575**	**46,277**	**-**	**2,572,852**
Investment securities	**2,422,401**	**5,747**	**917,425**	**3,345,573**
Other assets	**61,440**	**31,610**	**8,128**	**101,178**
Total	**15,418,174**	**731,168**	**1,129,377**	**17,278,719**
Commitments and contingencies	**250,586**	**211,706**	**-**	**462,292**
31 December 2018				
Assets				
Cash and balances with central banks	5,957,599	26,671	623,921	6,608,191
Deposits & balances due from banks, net	3,086,595	88,006		3,174,601
Receivables from Islamic financing activities	18,661,546	539,658	561,241	19,762,445
Ijara	8,288,576	66,012	14,554	8,369,142
Investment securities	2,883,138	5,725	683,859	3,572,722
Other assets	374,314	3,968	-	378,282
Total	39,251,768	730,040	1,883,575	41,865,383
Commitments and contingencies	11,171,075	130,134	1,062,819	12,364,028

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

At 31 December 2019 and 31 December 2018, the distribution by sector of major categories of assets and commitments as per Central Bank guidelines was as follows:

	Government AED'000	*Public AED'000*	*Corporate / private AED'000*	*Consumers AED'000*	*Total AED'000*
31 December 2019					
Cash and balances with central banks	**1,311,065**	**-**	**-**	**-**	**1,311,065**
Deposits & balances due from banks, net	**-**	**-**	**2,520,318**	**-**	**2,520,318**
Receivables from Islamic financing activities	**-**	**-**	**557,724**	**6,870,009**	**7,427,733**
Ijara	**-**	**-**	**52,379**	**2,520,473**	**2,572,852**
Investment securities	**2,061,179**	**494,334**	**790,060**	**-**	**3,345,573**
Other assets	**29,171**	**3,233**	**51,240**	**17,534**	**101,178**
Total	**3,401,415**	**497,567**	**3,971,721**	**9,408,016**	**17,278,719**
Commitments and contingencies	**-**	**-**	**306,145**	**156,147**	**462,292**

	Government AED'000	*Public AED'000*	*Corporate / private AED'000*	*Consumers AED'000*	*Total AED'000*
31 December 2018					
Cash and balances with central banks	5,957,599	-	650,592	-	6,608,191
Deposits & balances due from banks, net	-	-	3,174,601	-	3,174,601
Receivables from Islamic financing activities	-	705,316	10,788,029	8,269,100	19,762,445
Ijara	77,681	569,014	4,393,729	3,328,718	8,369,142
Investment securities	1,638,933	240,285	1,693,504	-	3,572,722
Other assets	-	-	-	378,282	378,282
Total	7,674,213	1,514,615	20,700,455	11,976,100	41,865,383
Commitments and contingencies	19,904	1,491	11,967,500	375,133	12,364,028

Impairment and provisioning policies

With the adoption of IFRS 9 the incurred loss approach for impairment has been replaced by a forward looking expected credit loss (ECL) approach. The Bank recognizes an allowance for ECL for all financial instruments other than those held at fair value through profit or loss. The Group's impairment and provisioning policy is in line with IFRS and Central Bank of the UAE provision guideline.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Credit quality per class of financial assets

The Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. The credit quality of financial assets is reported by the Group using internal credit ratings.

31 December 2019	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL not credit-impaired AED'000**	**Stage 3 Lifetime ECL credit-impaired AED'000**	**Total AED'000**
Receivables from Islamic financings activities - Corporate				
Performing (Grades 1-7)	559,621	2	-	559,623
Non performing (Grades 8-10)	-	-	40,351	40,351
Gross receivables from Islamic financings activities - Corporate	559,621	2	40,351	599,974
Receivables from Islamic financings activities - Retail				
Performing (Grades 1-7)	6,773,154	211,652	-	6,984,806
Non performing (Grades 8-10)	-	-	52,680	52,680
Gross receivables from Islamic financings activities - Retail	6,773,154	211,652	52,680	7,037,486
Gross receivables from Islamic financings activities	7,332,775	211,654	93,031	7,637,460
Allowance for impairment	(106,998)	(21,085)	(81,644)	(209,727)
Total carrying amount	7,225,777	190,569	11,387	7,427,733

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

31 December 2018	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Receivables from Islamic financings activities - Corporate				
Performing (Grades 1-7)	7,764,874	2,531,858	-	10,296,732
Non performing (Grades 8-10)	-	-	2,098,217	2,098,217
Gross receivables from Islamic financings activities - Corporate	7,764,874	2,531,858	2,098,217	12,394,949
Receivables from Islamic financings activities - Retail				
Performing (Grades 1-7)	8,280,750	310,250	-	8,591,000
Non performing (Grades 8-10)	-	-	133,506	133,506
Gross receivables from Islamic financings activities - Retail	8,280,750	310,250	133,506	8,724,506
Gross receivables from Islamic financings activities	16,045,624	2,842,108	2,231,723	21,119,455
Allowance for impairment	(81,849)	(287,005)	(988,156)	(1,357,010)
Total carrying amount	15,963,775	2,555,103	1,243,567	19,762,445

31 December 2019	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL not credit-impaired AED'000**	**Stage 3 Lifetime ECL credit-impaired AED'000**	**Total AED'000**
Ijara - Corporate				
Performing (Grades 1-7)	**48,887**	-	-	**48,887**
Non performing (Grades 8-10)	-	-	**4,521**	**4,521**
Gross Ijara - Corporate	**48,887**	-	**4,521**	**53,408**
Ijara - Retail				
Performing (Grades 1-7)	**2,243,327**	**223,352**	-	**2,466,679**
Non performing (Grades 8-10)	-	-	**168,723**	**168,723**
Gross Ijara - Retail	**2,243,327**	**223,352**	**168,723**	**2,635,402**
Gross Ijara	**2,292,214**	**223,352**	**173,244**	**2,688,810**
Allowance for impairment	**(20,303)**	**(29,561)**	**(66,094)**	**(115,958)**
Total carrying amount	**2,271,911**	**193,791**	**107,150**	**2,572,852**

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

31 December 2018	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Ijara - Corporate				
Performing (Grades 1-7)	4,025,690	996,880	4,855	5,027,425
Non performing (Grades 8-10)	-	-	125,241	125,241
Gross Ijara - Corporate	4,025,690	996,880	130,096	5,152,666
Ijara - Retail				
Performing (Grades 1-7)	3,152,799	231,636	-	3,384,435
Non performing (Grades 8-10)	-	-	161,811	161,811
Gross Ijara - Retail	3,152,799	231,636	161,811	3,546,246
Gross Ijara	7,178,489	1,228,516	291,907	8,698,912
Allowance for impairment	(43,180)	(183,728)	(102,862)	(329,770)
Total carrying amount	7,135,309	1,044,788	189,045	8,369,142

31 December 2019	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Investment securities				
Performing (Grades 1-7)	**3,338,365**	-	-	**3,338,365**
Non performing (Grades 8-10)	-	-	-	-
Gross Investments	**3,338,365**	-	-	**3,338,365**
Allowance for impairment	-	-	-	-
Total carrying amount	**3,338,365**	-	-	**3,338,365**

31 December 2018	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Investment securities				
Performing (Grades 1-7)	3,173,591	76,522	-	3,250,113
Non performing (Grades 8-10)	-	-	110,175	110,175
Gross Investments	3,173,591	76,522	110,175	3,360,288
Allowance for impairment	(5,097)	(2,737)	(28,982)	(36,816)
Total carrying amount	3,168,494	73,785	81,193	3,323,472

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

The movement of gross exposure is as follows:

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Deposits & balances due from banks				
Balance as at 1 January 2019	3,176,236	-	-	3,176,236
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
Transfer from stage 3 to stage 1	-	-	-	-
Other movements within the same stage	(171,316)	-	-	(171,316)
New financial assets originated/purchased	2,320,799	-	-	2,320,799
Financial assets that have been derecognized	(2,804,563)	-	-	(2,804,563)
Write-offs and other adjustments	-	-	-	-
Balance as at 31 December 2019	2,521,156	-	-	2,521,156

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Receivables from Islamic financings activities				
Balance as at 1 January 2019	16,045,624	2,842,108	2,231,723	21,119,455
Transfers:				
Transfer from stage 1 to stage 2	(1,206,606)	1,206,606	-	-
Transfer from stage 1 to stage 3	(309,847)	-	309,847	-
Transfer from stage 2 to stage 1	244,684	(244,684)	-	-
Transfer from stage 2 to stage 3	-	(926,249)	926,249	-
Transfer from stage 3 to stage 2	-	24,083	(24,083)	-
Transfer from stage 3 to stage 1	245	-	(245)	-
Other movements within the same stage	(706,983)	(31,577)	148,547	(590,013)
New financial assets originated/purchased	582,941	21,844	989	605,774
Financial assets that have been derecognized	(7,317,210)	(2,680,457)	(3,241,898)	(13,239,565)
Write-offs and other adjustments	(73)	(20)	(258,098)	(258,191)
Balance as at 31 December 2019	7,332,775	211,654	93,031	7,637,460

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Ijara				
Balance as at 1 January 2019	7,178,489	1,228,516	291,907	8,698,912
Transfers:				
Transfer from stage 1 to stage 2	(516,490)	516,490	-	-
Transfer from stage 1 to stage 3	(275,763)	-	275,763	-
Transfer from stage 2 to stage 1	91,779	(91,779)	-	-
Transfer from stage 2 to stage 3	-	(183,742)	183,742	-
Transfer from stage 3 to stage 2	-	6,727	(6,727)	-
Transfer from stage 3 to stage 1	-	-	-	-
Other movements within the same stage	3,070	(33,613)	(18,473)	(49,016)
New financial assets originated/purchased	82,132	5,011	-	87,143
Financial assets that have been derecognized	(4,271,003)	(1,224,258)	(466,608)	(5,961,869)
Write-offs and other adjustments	-	-	(86,360)	(86,360)
Balance as at 31 December 2019	2,292,214	223,352	173,244	2,688,810

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Investment securities				
Balance as at 1 January 2019	3,173,591	76,522	110,175	3,360,288
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	76,522	(76,522)	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
Transfer from stage 3 to stage 1	-	-	-	-
Other movements within the same stage	144,905	-	3,200	148,105
New financial assets originated/purchased	452,551	-	-	452,551
Financial assets that have been derecognized	(509,204)	-	-	(509,204)
Write-offs and other adjustments	-	-	(113,375)	(113,375)
Balance as at 31 December 2019	3,338,365	-	-	3,338,365

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	31 December 2019				31 December 2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	AED'000	AED'000	AED'000
Deposits & balances due from banks, net								
At the beginning of the year	**1,635**	-	-	**1,635**	14	-	-	14
Allowances for impairment made during the year	**(1,086)**	-	-	**(1,086)**	1,621	-	-	1,621
Write offs, recoveries and others	**289**	-	-	**289**	-	-	-	-
Unwinding on renegotiated financings	-	-	-	-	-	-	-	-
At the end of the year	**838**	-	-	**838**	1,635	-	-	1,635

	31 December 2019				31 December 2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities								
At the beginning of the year	**81,849**	**287,005**	**988,156**	**1,357,010**	170,736	337,606	1,481,708	1,990,050
Allowances for impairment made during the year	**88,930**	**231,078**	**2,175,760**	**2,495,768**	(88,865)	(45,311)	310,532	176,356
Write offs, recoveries and others	**(63,781)**	**(494,156)**	**(3,082,272)**	**(3,640,209)**	(22)	-	(804,084)	(804,106)
Unwinding on renegotiated financings	-	**(2,842)**	-	**(2,842)**	-	(5,290)	-	(5,290)
At the end of the year	**106,998**	**21,085**	**81,644**	**209,727**	81,849	287,005	988,156	1,357,010

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	31 December 2019				31 December 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Ijara								
At the beginning of the year	43,180	183,728	102,862	329,770	66,933	123,273	45,824	236,030
Allowances for impairment made during the year	9,369	(91,442)	530,252	448,179	(23,753)	60,455	57,059	93,761
Write offs, recoveries and others	(32,246)	(62,725)	(567,020)	(661,991)	-	-	(21)	(21)
At the end of the year	20,303	29,561	66,094	115,958	43,180	183,728	102,862	329,770

	31 December 2019				31 December 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Investment securities								
At the beginning of the year	5,097	2,737	28,982	36,816	4,473	32,343	-	36,816
Allowances for impairment made during the year	(2,805)	(2,737)	84,393	78,851	624	(29,606)	28,982	-
Write offs, recoveries and others	-	-	(113,375)	(113,375)	-	-		-
At the end of the year	2,292	-	-	2,292	5,097	2,737	28,982	36,816

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	31 December 2019				31 December 2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	AED'000	AED'000	AED'000
Other Liabilities								
At the beginning of the year	**14,678**	**108,957**	**58,624**	**182,259**	37,141	167,562	39,508	244,211
Allowances for impairment made during the year	**81,641**	**137,892**	**(47,945)**	**171,588**	(22,463)	(58,605)	19,116	(61,952)
Write offs, recoveries and others	**(96,070)**	**(245,201)**	**(1,494)**	**(342,765)**	-	-		-
At the end of the year	**249**	**1,648**	**9,185**	**11,082**	14,678	108,957	58,624	182,259

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

The movement in impairment allowances is as follows:

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Deposits & balances due from banks				
Balance as at 1 January 2019	1,635	-	-	1,635
Transfers:				
Other movements within the same stage	(1,134)	-	-	(1,134)
New financial assets originated/purchased	50	-	-	50
Financial assets that have been derecognized	(2)	-	-	(2)
Net (release)/charge for the year	(1,086)	-	-	(1,086)
Write-offs and other adjustments	289	-	-	289
Balance as at 31 December 2019	838	-	-	838

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Receivables from Islamic financings activities				
Balance as at 1 January 2019	81,849	287,005	988,156	1,357,010
Transfers:				
Transfer from stage 1 to stage 2	(27,230)	27,230	-	-
Transfer from stage 1 to stage 3	(5,363)	-	5,363	-
Transfer from stage 2 to stage 1	4,328	(4,328)	-	-
Transfer from stage 2 to stage 3	-	(119,306)	119,306	-
Transfer from stage 3 to stage 2	-	4,952	(4,952)	-
Transfer from stage 3 to stage 1	334	-	(334)	-
Other movements within the same stage	134,097	326,367	2,177,239	2,637,703
New financial assets originated/purchased	1,570	323	2,603	4,496
Financial assets that have been derecognized	(18,806)	(4,160)	(123,465)	(146,431)
Gross charge for the year	88,930	231,078	2,175,760	2,495,768
Recoveries	-	-	(34,596)	(34,596)
Net charge for the year	88,930	231,078	2,141,164	2,461,172
Unwinding on renegotiated financings	-	(2,842)	-	(2,842)
Write-offs and other adjustments	(63,781)	(494,156)	(3,082,272)	(3,640,209)
Balance as at 31 December 2019	106,998	21,085	81,644	209,727

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Ijara				
Balance as at 1 January 2019	43,180	183,728	102,862	329,770
Transfers:				
Transfer from stage 1 to stage 2	(20,396)	20,396	-	-
Transfer from stage 1 to stage 3	(5,835)	-	5,835	-
Transfer from stage 2 to stage 1	829	(829)	-	-
Transfer from stage 2 to stage 3	-	(34,464)	34,464	-
Transfer from stage 3 to stage 2	-	73	(73)	-
Other movements within the same stage	40,835	195,626	518,303	754,764
New financial assets originated/purchased	1,325	159	3,399	4,883
Financial assets that have been derecognized	(7,389)	(272,403)	(31,676)	(311,468)
Gross charge / (release) for the year	9,369	(91,442)	530,252	448,179
Recoveries	-	-	-	-
Net charge / (release) for the year	9,369	(91,442)	530,252	448,179
Write-offs and other adjustments	(32,246)	(62,725)	(567,020)	(661,991)
Balance as at 31 December 2019	20,303	29,561	66,094	115,958

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Investment securities				
Balance as at 1 January 2019	5,097	2,737	28,982	36,816
Transfers:				
Transfer from stage 2 to stage 1	295	(295)	-	-
Other movements within the same stage	(1,609)	(2,442)	84,393	80,342
New financial assets originated/purchased	277	-	-	277
Financial assets that have been derecognized	(1,768)	-	-	(1,768)
Net (release)/charge for the year	(2,805)	(2,737)	84,393	78,851
Write-offs and other adjustments	-	-	(113,375)	(113,375)
Balance as at 31 December 2019	2,292	-	-	2,292

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit-impaired AED'000	Stage 3 Lifetime ECL credit-impaired AED'000	Total AED'000
Other liabilities				
Balance as at 1 January 2019	14,678	108,957	58,624	182,259
Transfers:				
Transfer from stage 1 to stage 2	(3,715)	3,715	-	-
Transfer from stage 1 to stage 3	(1)	-	1	-
Transfer from stage 2 to stage 1	51	(51)	-	-
Transfer from stage 2 to stage 3	-	(26,592)	26,592	-
Transfer from stage 3 to stage 2	-	-	-	-
Transfer from stage 3 to stage 1	-	-	-	-
Other movements within the same stage	87,959	180,874	49,913	318,746
New financial assets originated/purchased	-	-	-	-
Financial assets that have been derecognized	(2,653)	(20,054)	(124,451)	(147,158)
Net (release)/charge for the year	81,641	137,892	(47,945)	171,588
Write-offs and other adjustments	(96,070)	(245,201)	(1,494)	(342,765)
Balance as at 31 December 2019	249	1,648	9,185	11,082

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Impairment reserve under the Central Bank of UAE (CBUAE) guidance
The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2019 via notice no. CBUAE/BSD/2019/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance"). Pursuant to clause 6.4 of the guidance, a comparison between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2019
	AED'000
Impairment Reserve - General	
General provisions under Circular 28/2010 of CBUAE	153,547
Less: Stage 1 and Stage 2 provisions under IFRS 9	(182,974)
General provision transferred to the impairment reserve	-
Impairment Reserve - Specific	
Specific provisions under Circular 28/2010 of CBUAE	156,923
Less: Stage 3 provisions under IFRS 9	(156,923)
Specific provision transferred to the impairment reserve	-

As per the guidance note, where provisions under IFRS 9 exceed provisions under circular 28/10 of the CBUAE, no amount is required to be transfer to the impairment reserve.

Financial assets with renegotiated terms
Financial assets with renegotiated terms are facilities that have been renegotiated due to the deterioration in the customer's financial position and where the Group has made concessions that it would not otherwise consider.

Write-off of financial assets
Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

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

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Collateral
Collateral is used to mitigate credit risk, as the secondary source of payment in case the counterparty cannot meet its contractual payment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

Credit risk mitigants are held against receivables from Islamic financing activities, Ijara finance and investments in the form of real estate collateral, cash deposits and guarantees. Collateral generally is not held against Wakala deposits with banks and other financial institutions, and no such collateral was held at 31 December 2019 or 31 December 2018.

The table below shows the lower of the collateral value or the outstanding balance of the customers' financings as at the reporting date

	2019	*2018*
	AED'000	*AED'000*
Against customer financing not credit-impaired		
Property	**2,470,938**	8,820,603
Securities	**-**	563,485
Cash margin and lien over deposit	**20,189**	284,440
Others	**-**	1,953,149
	2,491,127	11,621,677
Against individually credit-impaired		
Property	**157,364**	229,755
Securities	**-**	-
Cash margin and lien over deposit	**211**	50,367
Others	**-**	145,151
	157,575	425,273
Total	**2,648,702**	12,046,950

The tables below stratify credit exposures from home finances retail customers by ranges of finance-to-value (FTV) ratio:

	2019	*2018*
	AED'000	*AED'000*
FTV ratio		
Less than 50%	**640,422**	1,079,935
51-70%	**680,278**	1,321,609
71-90%	**865,137**	889,325
91-100%	**222,866**	122,551
More than 100%	**240,657**	149,570
Total	**2,649,360**	3,562,990

5 FINANCIAL RISK MANAGEMENT continued

5.4 Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, spreads, foreign exchange rates and equity prices.

Overall authority for market risk is vested in the Asset and Liability Committee ("ALCO"). The Risk Management Division is responsible for the development of detailed market and liquidity risk management policies (subject to review and approval by ALCO or relevant authority) and for the day to day monitoring of the actual position versus the established limits.

Management of market risk
The Market and Liquidity Risk team is responsible for measuring market risk exposures as an independent control function in accordance with approved policies and risk appetite.

The Market and Liquidity Risk team monitors market risk exposures of daily limit monitoring and control reports that are circulated to all stakeholders to advise of current outstanding exposures versus prescribed limits and any breach is immediately advised for rectification.

The banking book primarily comprises Islamic financing activities, Ijara and investment in Sukuks designated at FVTOCI which are exposed to profit rate risk. The Group has non-material exposure in the trading book.

Currency risk
The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, and monitors currency positions on a daily basis.

If the exchange rates between the various currencies and AED increase or decrease by 5%, with all other variables held constant, the impact on the results and equity of the Group would not be material as the exposures are primarily related to currencies that are pegged to AED. The table below indicates the extent to which the Group is exposed to currency risk and its impact:

	% Change in rate	*Effect on net profit AED'000*	*Effect on equity AED'000*
31 December 2019			
Currency			
USD	5%	**3,627**	**3,627**
EUR	5%	**7**	**7**
GBP	5%	**8**	**8**
Others	5%	**54**	**54**
KZT	5%	-	**5,444**
31 December 2018			
Currency			
USD	5%	1,408	1,408
EUR	5%	24	24
GBP	5%	8	8
Others	5%	15	15
KZT	5%	-	7,658

In addition, the Group does not actively trade in foreign currency but manages all customer requests on a back to back basis, thus further reducing the risk the Group is exposed to.

5 FINANCIAL RISK MANAGEMENT continued

5.4 Market risk *continued*

Profit rate risk
Profit rate risk in the banking book is applicable to the Group's exposure to receivables from Islamic financing activities, Ijara as well as investment in Sukuks securities designated at FVTOCI. To the extent that the profit rate sensitive assets are funded and backed by rate sensitive liabilities of identical maturities / repricing frequency the exposure is mitigated, matched funding however does not maximize profit. The Group therefore selectively accepts the gap between the repricing/ maturities of rate sensitive assets/ liabilities that maximizes profitability while remaining within defined risk tolerance and parameters.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard profit rate scenarios. Standard scenarios include a 200 basis point parallel rise in all yield curves over a twelve month horizon maintaining a constant financial position.

	Impact on results and equity of the Group	
	2019	*2018*
	AED'000	*AED'000*
+ 200 basis points change in profit rates	**4,176**	4,354

This exposure arises as a result of mismatches in re-pricing of assets and liabilities reflected in the following net position schedule.

5 FINANCIAL RISK MANAGEMENT continued

5.4 Market risk *continued*

A summary of the Group's profit rate re-pricing as at 31 December 2019 is as follows:

	Less than 3 months AED'000	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years AED'000*	*Non-sensitive AED'000*	*Total AED'000*
Assets							
Cash and balances with central banks	454,841	-	-	-	-	1,051,216	1,506,057
Deposits & balances due from banks, net	2,315,132	-	-	-	-	205,186	2,520,318
Receivables from Islamic financing activities	261,676	168,194	383,910	796,010	6,030,350	(212,407)	7,427,733
Ijara	2,201,411	368,541	81,920	42,365	7,718	(129,103)	2,572,852
Investment securities	30,090	60,489	-	551,950	2,695,837	7,207	3,345,573
Islamic derivative financial instruments	-	50	-	-	10	-	60
Investment properties	-	-	-	-	-	60,750	60,750
Property and equipment, net	-	-	-	-	-	534,330	534,330
Investment in associate	-	-	-	-	-	99,662	99,662
Other assets	-	-	-	-	-	127,437	127,437
Assets held for sale	-	-	-	-	-	233,172	233,172
Total assets	**5,263,150**	**597,274**	**465,830**	**1,390,325**	**8,733,915**	**1,977,450**	**18,427,944**
Liabilities							
Deposits from customers	9,053,921	479,000	859,090	89,930	185,293	2,399,999	13,067,233
Wakala deposits from banks	257,132	-	-	-	-	233,501	490,633
Medium term financing	-	-	574,830	-	1,825,962	-	2,400,792
Islamic derivative financial instruments	-	-	-	-	83,379	-	83,379
Other liabilities	-	-	-	-	-	430,174	430,174
Liabilities directly related to assets held for sale	-	-	-	-	-	282,101	282,101
Total liabilities	**9,311,053**	**479,000**	**1,433,920**	**89,930**	**2,094,634**	**3,345,775**	**16,754,312**
Total off balance sheet	**382,016**	**1,212**	**18**	**-**	**79,046**	**-**	**462,292**
Net position	**(3,665,887)**	**119,486**	**(968,072)**	**1,300,395**	**6,718,327**	**(1,368,325)**	**2,135,924**

5 FINANCIAL RISK MANAGEMENT continued

5.4 Market risk *continued*

A summary of the Group's profit rate re-pricing as at 31 December 2018 is as follows:

	Less than 3 months AED'000	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years AED'000*	*Non-sensitive AED'000*	*Total AED'000*
Assets							
Cash and balances with central banks	1,819,830	2,741,016	-	-	-	2,295,607	6,856,453
Deposits & balances due from banks, net	2,520,892	25,708	1,116	-	-	626,885	3,174,601
Receivables from Islamic financing activities	8,452,607	2,862,323	1,604,163	4,239,957	3,866,777	(1,263,382)	19,762,445
Ijara	5,554,543	2,844,553	117,858	181,959	-	(329,771)	8,369,142
Investment securities	117,158	-	484,024	167,625	2,645,874	158,041	3,572,722
Islamic derivative financial instruments	5,673	-	1,849	1,020	12,023	-	20,565
Investment properties	-	-	-	-	-	55,230	55,230
Property and equipment, net	-	-	-	-	-	705,208	705,208
Investment in associate	-	-	-	-	-	86,168	86,168
Other assets	-	-	-	-	-	448,581	448,581
Assets held for sale	-	-	-	-	-	715,853	715,853
Total assets	18,470,703	8,473,600	2,209,010	4,590,561	6,524,674	3,498,420	43,766,968
Liabilities							
Deposits from customers	16,755,032	1,849,369	3,518,905	1,379,592	1,953,769	5,867,048	31,323,715
Wakala deposits from banks	1,495,699	249,856	-	-	-	113,285	1,858,840
Medium term financing	737,169	-	1,186,809	-	1,835,820	-	3,759,798
Islamic derivative financial instruments	6,411	-	1,849	1,020	12,023	-	21,303
Other liabilities	-	-	-	-	-	1,043,487	1,043,487
Liabilities directly related to assets held for sale	-	-	-	-	-	270,411	270,411
Total liabilities	18,994,311	2,099,225	4,707,563	1,380,612	3,801,612	7,294,231	38,277,554
Total off balance sheet	6,892,113	286,644	215,045	381,028	4,589,198	-	12,364,028
Net position	6,368,505	6,661,019	(2,283,508)	3,590,977	7,312,260	(3,795,811)	17,853,442

5 FINANCIAL RISK MANAGEMENT continued

5.5 Takaful and re-takaful risk

Takaful risk
Takaful risk is where the Group agrees to indemnify the insured parties against unforeseen future insured events. The frequency and severity of claims are the main risk factors. Due to the inherent risk in the Takaful business, actual claim amounts can vary compared to the outstanding claim reserves.

Re-takaful (Islamic reinsurance) risk
In order to minimize financial exposure arising from large claims, the Group, in the normal course of business, enters into Shariah compliant agreements with other parties for re-takaful (Islamic reinsurance) purposes. Such re-takaful (Islamic reinsurance) arrangements provide for greater diversification of business, allows management to control and minimise exposure to potential losses arising from large single name risks and provide additional capacity for growth and diversification.

To minimize its exposure to significant losses from re-takaful (Islamic reinsurers') insolvencies, the Group evaluates the financial condition of its re-takaful (Islamic reinsurers) and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the re-takaful (Islamic reinsurers).

Re-takaful (Islamic reinsurers) ceded contracts do not relieve the Group from its obligations and, as a result, the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the re-takaful (Islamic reinsurance) agreements. However, the Group takes comfort in that the bulk of re-takaful (Islamic reinsurance) risks are to generally well rated and reputed reinsurers with an average external rating of A.

Reserve for claims
The Group maintains adequate reserves in respect of its Takaful business in order to protect against adverse future claims experience and developments. The uncertainties surrounding the amount and timing of claim payments are normally resolved within a year. Furthermore, the adequacy of such reserves is reviewed on annual basis by an independent external actuary with the final report shared with management on the level of reserving adequacy.

Sensitivities
The general Takaful claims provision is sensitive to certain key assumptions which are not material to the consolidated financial statements of the Group.

5.6 Liquidity risk

Liquidity risk comprises mainly funding liquidity risk and market liquidity risk. Funding Liquidity Risk is the risk that the Group will be unable to meet its obligations associated with its financial liabilities. Market Liquidity Risk is the risk that the bank will be unable to sell financial assets at prevailing market price due to absence of buyers or due to lack of depth of the market thereby forcing the bank to accept a haircut in the event of forced or voluntary liquidation.

Management of liquidity risk
The Group's approach to managing liquidity is to ensure, as much as possible, that it will always have a sufficient buffer of liquidity to meet its liabilities during the normal course of business. As part of its strategic liquidity management, contingency funding planning in the Group ensures that the liquidity management centre (treasury) is well equipped to tap contingent funding sources during periods of market stress. The Group also maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term financing from the Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The daily liquidity position is monitored by the Market and Liquidity Risk Department and regular stress testing is conducted under a variety of scenarios covering the idiosyncratic and systemic stress conditions.

All liquidity policies and procedures are subject to regular review and approval by ALCO or relevant authority.
Daily reports are produced covering the liquidity position.

5 FINANCIAL RISK MANAGEMENT continued

5.6 Liquidity risk *continued*

The Group relies on customers' current accounts, saving accounts and Wakala deposits as its primary sources of funding. Customers' accounts generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends. The Group's overall funding and liquidity risk profile improved as a result of the increase in medium term funding in the form of Sukuk issuance of USD 500 million.

Exposure to liquidity risk
The key measures used by the Group for managing liquidity risk are regulatory driven ratios such as Advance to stable ratio ("ASRR"), Liquid Assets Ratio and eligible liquid asset ratio.

ASRR take into consideration the extent of stable resources (stable funding sources) which are being utilized by the financing activities of the Bank. At 31 December 2019, the Bank's ASRR was 67.41% (2018: 81.74%).

The eligible liquid assets ratio is calculated as per the UAE Central Bank's definition of liquid assets divided by total liabilities. The eligible liquid assets are defined by the Central Bank to include cash and cash equivalents including reserves, central bank certificates of deposits, federal government securities and issuances from local governments, non-commercial and foreign sovereign public sector entities subject to certain limits. As at 31 December 2019, this ratio stood at 13.69% (2018: 23.44%).

In addition to the above ratios the Bank also monitors internally its liquidity profile through regular ALCO briefings which are held on a monthly basis. Market and Liquidity Risk department monitors various internal and regulatory liquidity risk ratios against the limits and circulates the liquidity risk dashboard to various stakeholders in treasury and finance.

The table below sets out the availability of the Group's financial assets to future financing.

	2019 ***AED'000***	*2018* *AED'000*
Cash and balances with central banks	**1,506,057**	6,856,453
Deposits & balances due from banks, net	**2,029,685**	1,315,761
Investment securities	**3,345,573**	3,572,722
	6,881,315	11,744,936

As at the reporting date, the Group had no pledged or encumbered financial assets (2018: nil).

5 FINANCIAL RISK MANAGEMENT continued

5.6 Liquidity risk *continued*

A summary of the Group's maturity profile as at 31 December 2019 is as follows:

	Less than 3 months AED'000	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years AED'000*	*Total AED'000*
Assets						
Cash and balances with central banks	1,506,057	-	-	-	-	1,506,057
Deposits & balances due from banks, net	2,520,318	-	-	-	-	2,520,318
Receivables from Islamic financing activities	226,159	167,023	380,543	774,736	5,879,272	7,427,733
Ijara	106,528	2,225	921	82,270	2,380,908	2,572,852
Investment securities	37,297	60,489	-	551,950	2,695,837	3,345,573
Islamic derivative financial instruments	-	50	-	-	10	60
Investment properties	-	-	-	60,750	-	60,750
Property and equipment, net	-	-	-	-	534,330	534,330
Investment in associate	-	-	-	-	99,662	99,662
Other assets	117,448	9,321	73	595	-	127,437
Assets held for sale	233,172	-	-	-	-	233,172
Total assets	**4,746,979**	**239,108**	**381,537**	**1,470,301**	**11,590,019**	**18,427,944**
Liabilities						
Deposits from customers	10,774,779	753,140	1,181,077	165,494	192,743	13,067,233
Wakala deposits from banks	490,633	-	-	-	-	490,633
Medium term financing	-	-	574,830	-	1,825,962	2,400,792
Islamic derivative financial instruments	-	-	-	-	83,379	83,379
Other liabilities	371,701	12,221	7,425	3,220	35,607	430,174
Liabilities directly related to assets held for sale	282,101	-	-	-	-	282,101
Total liabilities	**11,919,214**	**765,361**	**1,763,332**	**168,714**	**2,137,691**	**16,754,312**
Net position	**(7,172,235)**	**(526,253)**	**(1,381,795)**	**1,301,587**	**9,452,328**	**1,673,632**
Total off balance sheet	**382,016**	**1,212**	**18**	**-**	**79,046**	**462,292**

5 FINANCIAL RISK MANAGEMENT continued

5.6 Liquidity risk *continued*

A summary of the Group's maturity profile as at 31 December 2018 is as follows:

	Less than 3 months AED'000	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years AED'000*	*Total AED'000*
Assets						
Cash and balances with central banks	4,115,436	2,741,017	-	-	-	6,856,453
Deposits & balances due from banks, net	3,148,778	25,823	-	-	-	3,174,601
Receivables from Islamic financing activities	3,180,528	3,144,075	1,649,967	4,726,693	7,061,182	19,762,445
Ijara	105,804	214,047	399,813	2,139,573	5,509,905	8,369,142
Investment securities	213,692	-	594,199	167,625	2,597,206	3,572,722
Islamic derivative financial instruments	5,673	-	1,849	1,020	12,023	20,565
Investment properties	-	-	-	55,230	-	55,230
Property and equipment, net	-	-	-	-	705,208	705,208
Investment in associate	-	-	-	-	86,168	86,168
Other assets	448,581	-	-	-	-	448,581
Assets held for sale	715,853	-	-	-	-	715,853
Total assets	**11,934,345**	**6,124,962**	**2,645,828**	**7,090,141**	**15,971,692**	**43,766,968**
Liabilities						
Deposits from customers	21,944,061	2,105,511	3,863,650	1,482,032	1,928,461	31,323,715
Wakala deposits from banks	1,608,976	111,159	138,705	-	-	1,858,840
Medium term financing	737,169	-	1,186,809	-	1,835,820	3,759,798
Islamic derivative financial instruments	6,411	-	1,849	1,020	12,023	21,303
Other liabilities	1,043,487	-	-	-	-	1,043,487
Liabilities directly related to assets held for sale	270,411	-	-	-	-	270,411
Total liabilities	**25,610,515**	**2,216,670**	**5,191,013**	**1,483,052**	**3,776,304**	**38,277,554**
Net position	**(13,676,170)**	**3,908,292**	**(2,545,185)**	**5,607,089**	**12,195,388**	**5,489,414**
Total off balance sheet	**6,892,113**	**286,644**	**215,045**	**381,028**	**4,589,198**	**12,364,028**

5 FINANCIAL RISK MANAGEMENT continued

5.6 Liquidity risk *continued*

Maturity profile of financial liabilities based on contractual undiscounted repayment obligations:

31 December 2019	*Carrying amount AED'000*	*Gross outflow AED'000*	*Less than 3 months AED'000*	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years AED'000*
Liabilities							
Deposits from customers	13,067,233	13,152,451	10,789,178	760,703	1,201,424	177,376	223,770
Wakala deposits from banks	490,633	490,654	490,654	-	-	-	-
Medium term financing	2,400,792	2,717,733	-	-	593,277	-	2,124,456
Islamic derivative financial instruments	83,379	83,379	-	-	-	-	83,379
Other liabilities	155,917	155,917	155,917	-	-	-	-
Total financial liabilities	**16,197,954**	**16,600,134**	**11,435,749**	**760,703**	**1,794,701**	**177,376**	**2,431,605**

31 December 2018	*Carrying amount AED'000*	*Gross outflow AED'000*	*Less than 3 months AED'000*	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years AED'000*
Liabilities							
Deposits from customers	31,323,715	32,368,029	22,743,947	2,128,915	3,915,380	3,549,980	29,807
Wakala deposits from banks	1,858,840	1,862,718	1,611,017	112,989	138,712	-	-
Medium term financing	3,759,798	3,801,525	778,466	-	1,186,809	-	1,836,250
Islamic derivative financial instruments	21,303	21,303	21,303	-	-	-	-
Other liabilities	424,095	424,095	424,095	-	-	-	-
Total financial liabilities	**37,387,751**	**38,477,670**	**25,578,828**	**2,241,904**	**5,240,901**	**3,549,980**	**1,866,057**

5 FINANCIAL RISK MANAGEMENT continued

5.7 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal & compliance risk but excluding strategic or reputation risk.

Loss from operational risk can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, loss of life or injury to people, and loss of property and / or information.

All operational risks carry at least a financial consequence. Examples of operational risks that the Group is exposed to include the losses arising from internal fraud, external fraud, acts that are inconsistent with employment, health or safety laws or agreements, failure to meet professional customer and legal obligations, disruption of business or system failures, failure to execute a transaction correctly including but not limited to internal restructures, inadequate process management and failure caused by third parties.

Direct or indirect losses that occur as a result of operational failures, breakdowns, omissions or unplanned events could adversely affect the Group's financial results. Operational risks arise from all of the Group's operations.

The objective of the Group operational risk management is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with the Group's defined risk appetite.

The Group has a dedicated Operational Risk Management function. It is responsible for leading the embedding of the Operational Risk management function and assuring adherence to associated policies and processes across the first and second lines of defense.

Operational Risk Policy defines minimum standards and processes and the governance structure for the management of operational risk and internal control for businesses and support functions.

To create a robust control environment to manage risks, the Group use an activity-based three lines of defense model. This model delineates management accountabilities and responsibilities for risk management and the control environment. The model underpins the Group approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.
The three lines of defense are summarised below:

- The first line of defense owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.

- The day-to-day management of operational risk is executed through a strong "second line of defense" within business lines and control functions. Risk and Control Self Assessments (RCSAs), Key Risk Indicators (KRIs) and Incident Management (IM) form the core of Operational Risk Policy. Operational Risk function provides assistance to the first line of defense (business and support functions) in the implementation of the polices as-well as providing independent reporting on the effectiveness of the implementation of the operational risk framework by risk and control owners.

- The third line of defense is the Group's Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Group's risk management framework and control governance process.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS requires the management, in preparing the Group's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board of Directors (the "Board") to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

6.1 Critical judgments in applying the changes in Group's accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

Business model assessment

Classification and measurement of financial assets depends on the results of the solely payment of principal and interest (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 judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Impairment losses

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

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the finance seeker, etc). 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 ECL of financial assets. 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. Refer Note 5.3 for more details on ECL.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

6.1 Critical judgments in applying the changes in Group's accounting policies continued

Valuation of financial instruments

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Note 7. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are estimated based on the terms of the instrument, and judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- when applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

Fair valuation of investment properties

The fair values of investment properties is based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on models whose inputs are observable in an active market such as market conditions, market prices, future rental income, etc.

The fair value movements on investment properties are disclosed in more detail in Note 15.

Consolidation of Funds

The changes introduced by IFRS 10 – Consolidated Financial Statements require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The new definition of control requires the Group to exercise significant judgement on an ongoing basis to determine which entities are controlled, and therefore are required to be consolidated.

Lease accounting under IFRS 16

The following are the critical judgments in the application of IFRS 16, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised;
- classification of lease arrangements (when the entity is a lessor).

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

6.1 Critical judgments in applying the changes in Group's accounting policies continued

Impairment of non-financial assets

The Bank assesses impairment on its nonfinancial assets (e.g., property and equipment) and considers the following impairment indicators:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is determined based on fair value less cost to sell. The Bank is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The carrying values of the Bank's property and equipment is disclosed in Note 16.

6.2 Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Group's consolidated financial statements:

Impairment losses

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 finance provider would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Lease accounting under IFRS 16

The following are key estimations that the management has used in the process of applying the Group's accounting policies for IFRS 16 and that have the most significant effect on the amounts recognised in the Group's consolidated financial statements:

- determination of the appropriate rate to discount the lease payments;
- assessment of whether a right-of-use asset is impaired.

7 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

Financial instruments measured at Fair value – fair value hierarchy
The table below analyses assets and liabilities measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1 *AED'000*	*Level 2* *AED'000*	*Level 3* *AED'000*	*Total* *AED'000*
31 December 2019				
Assets and liabilities measured at fair value				
Investment securities				
Quoted	**3,338,365**	**-**	**-**	**3,338,365**
Unquoted	**-**	**-**	**7,208**	**7,208**
Profit rate swaps (Positive value)	**-**	**60**	**-**	**60**
Profit rate swaps (Negative value)	**-**	**(83,379)**	**-**	**(83,379)**
Investment property	**-**	**-**	**60,750**	**60,750**
31 December 2018				
Investment securities				
Quoted	3,603,813	-	-	3,603,813
Unquoted	-	-	5,725	5,725
Profit rate swaps (Positive value)	-	20,565	-	20,565
Profit rate swaps (Negative value)	-	(21,303)	-	(21,303)
Investment property	-	-	55,230	55,230

8 OPERATING SEGMENTS

8.1 Basis for segmentation

The Group is structured into the following four segments which offer different products and services and are managed separately based on the Group's management and internal reporting structure.

Wholesale Banking Group ("WBG") provides Shariah compliant financial solutions to both the private and public sector and is organized into business divisions which include Corporate Banking, Government Relations, Institutional Banking, Syndications and Structured Finance, Capital Markets and Cash Management.

Personal Banking Group ("PBG") provides Shariah compliant products and services that are designed to meet the financial needs of individuals which include wealth management, personal financings, vehicle financings, home financings, Islamic credit cards as well as day to day banking requirements such as account management, cash transfers and cheque management.

Treasury Banking Group ("TBG") provides Shariah compliant services to handle money market, trading and other treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

8.2 Information about reportable segments

Information related to each reportable segment is set out below. Segment profit or loss, as included in the internal management reports reviewed by the Management Executive Committee (MEC) used to measure the performance of each segment..

Reportable segment information for the year ended 31 December 2019 and 31 December 2018 are as follows:

	PBG AED'000	WBG AED'000	TBG AED'000	Total AED'000
31 December 2019				
Segment revenues, net	**505,241**	**185,259**	**40,500**	**731,000**
Operating expenses	**(506,304)**	**(116,797)**	**(30,868)**	**(653,969)**
Net operating income	**(1,063)**	**68,462**	**9,632**	**77,031**
Impairment charges, net	**(468,126)**	**(2,781,614)**	**(77,353)**	**(3,327,093)**
Share of profit in associate	**13,482**	**-**	**-**	**13,482**
Loss from discontinued operations	**(16,661)**	**-**	**-**	**(16,661)**
Reportable segment (loss)/ profit	**(472,368)**	**(2,713,152)**	**(67,721)**	**(3,253,241)**
Reportable segment assets	**10,221,912**	**868,639**	**7,337,393**	**18,427,944**
Reportable segment liabilities	**11,167,183**	**2,612,325**	**2,974,804**	**16,754,312**
31 December 2018				
Segment revenues, net	602,399	537,293	149,570	1,289,262
Operating expenses	(519,905)	(202,786)	(73,956)	(796,647)
Net operating income	82,494	334,507	75,614	492,615
Impairment charges, net	(275,732)	(69,995)	2,142	(343,585)
Share of profit in associate	(12,002)	-	-	(12,002)
Loss from discontinued operations	(31,283)	-	-	(31,283)
Reportable segment (loss)/ profit	(236,523)	264,512	77,756	105,745
Reportable segment assets	12,055,703	18,861,456	12,849,809	43,766,968
Reportable segment liabilities	11,027,518	21,977,170	5,272,866	38,277,554

8 OPERATING SEGMENTS continued

8.2 Information about reportable segments continued

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	PBG AED'000	*WBG AED'000*	*TBG AED'000*	*Total AED'000*
31 December 2019				
Revenue, net	**550,884**	**118,339**	**61,777**	**731,000**
Inter segment revenues	**(45,643)**	**66,920**	**(21,277)**	**-**
Segment revenues, net	**505,241**	**185,259**	**40,500**	**731,000**
31 December 2018				
Revenue, net	697,976	493,566	97,720	1,289,262
Inter segment revenues	(95,577)	43,727	51,850	-
Segment revenues, net	602,399	537,293	149,570	1,289,262

8.3 Geographic information

The Group operates primarily in the UAE and designates it as the domestic segment. The operations originating from its branches, associates and subsidiaries in the domestic segment form a significant portion of the Group's total assets and liabilities. The international segment represents the operations of the Group that originate from its presence in Kazakhstan. As the size of these operations and exposures is not significant, no further geographical analysis of segment revenues, expenses, assets and liabilities is presented.

9 CAPITAL MANAGEMENT

9.1 Regulatory capital

The Central Bank of UAE ('CBUAE') supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

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

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

9.2 Minimum Capital Requirements

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

Additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced over and above the minimum CET1 requirement of 7%.

9 CAPITAL MANAGEMENT continued

9.2 Minimum Capital Requirements continued

For 2019, CCB is effective in transition arrangement and is required to keep at 1.88% of the Capital base and from 2019; it will be required to keep at 2.5% of the Capital base. CCyB is not in effect and is not required to keep for 2019.

The Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 (‘T2’), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest 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.
- AT 1 capital comprises eligible non-common equity capital instruments.
- T2 capital comprises qualifying subordinated sukuk and undisclosed reserve.

9.3 Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities.

In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group’s longer term strategic objectives.

During 2019, the Group’s capital strategy, which was unchanged from the previous year is to:

- maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel accord guidelines; and
- Efficiently allocate capital to various business units.

9 CAPITAL MANAGEMENT continued

The table below shows summarises the composition of Basel III regulatory capital and the ratios of the Group for the years ended 31 December 2019 and 2018. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	BASEL III 2019 AED'000	*BASEL III 2018 AED'000*
Common Equity Tier 1 (CET1) Capital		
Share capital	**4,750,000**	3,500,000
Statutory reserve	**168,938**	168,108
Cumulative changes in fair value	**(125,989)**	(215,915)
Retained earnings	**(3,119,317)**	324,106
CET1 capital before the regulatory adjustments	**1,673,632**	3,776,299
Less: Regulatory deductions	**(72,772)**	(20,886)
Total CET1 capital after deductions (A)	**1,600,860**	3,755,413
Additional Tier 1 Capital		
Eligible Additional Tier 1 Capital	-	1,836,250
Total Additional Tier 1 Capital (B)	-	1,836,250
Tier 2 Capital		
Other Tier 2 capital (including General Provisions, etc.)	**127,956**	398,653
Total Tier 2 Capital (C)	**127,956**	398,653
Total Regulatory Capital (A+B+C)	**1,728,816**	5,990,316

	BASEL III 2019 AED'000	*BASEL III 2018 AED'000*
Available capital		
Common equity tier 1 capital	**1,600,860**	3,755,413
Tier 1 capital	**1,600,860**	5,591,663
Total eligible capital	**1,728,816**	5,990,316
Risk weighted assets		
Credit risk	**10,236,445**	31,892,257
Market risk	**109,783**	8,320
Operational risk	**2,377,206**	2,688,661
Total risk weighted assets	**12,723,434**	34,589,238

9 CAPITAL MANAGEMENT continued

Capital ratios	Minimum	2019	2018
Common Equity Tier 1 capital expressed as a percentage of total risk weighted assets	10.00%	**12.58%**	10.86%
Tier 1 capital expressed as a percentage of total risk weighted assets	11.50%	**12.58%**	16.17%
Total regulatory capital expressed as a percentage of total risk weighted assets	13.50%	**13.59%**	17.32%

10 CASH AND BALANCES WITH CENTRAL BANKS

	2019 AED'000	2018 AED'000
Cash in hand	**194,992**	248,262
Current account with Central Banks	**25,022**	433,872
Islamic certificates of deposit with Central Banks	**454,841**	4,560,847
Cash reserve deposits with Central Banks	**831,202**	1,613,472
	1,506,057	6,856,453

11 DEPOSITS AND BALANCES DUE FROM BANKS, NET

	2019 AED'000	2018 AED'000
Commodity Murabaha	-	808,534
Wakala investments	**2,315,132**	1,739,182
Nostro balances	**206,024**	628,520
	2,521,156	3,176,236
Allowance for impairment (note 31)	**(838)**	(1,635)
	2,520,318	3,174,601

All Wakala placements held by the Group as at 31 December 2019 and 2018 are in the UAE.

12 RECEIVABLES FROM ISLAMIC FINANCING ACTIVITIES

	2019 *AED'000*	*2018* *AED'000*
Retail Murabaha and Musawama	**6,907,788**	8,564,867
Corporate Commodity Murabaha	**599,974**	12,347,929
Islamic credit card receivable	**129,698**	159,639
Other Islamic financings	**-**	47,020
	7,637,460	21,119,455
Allowance for impairment (note 31)	**(209,727)**	(1,357,010)
	7,427,733	19,762,445

As at 31 December 2019 corporate receivables from Islamic financing activities, amounting to AED 10,612,282 thousand has been transferred to ADCB.

Allowances of impairment on receivables from Islamic financing activities have been disclosed in further detail in note 5.3.

The distribution of the gross Murabaha, Musawama and other Islamic financing by industry sector and geographic region was as follows:

	2019 *AED'000*	*2018* *AED'000*
Industry:		
Personal	**7,031,342**	9,077,017
Trading	**145,946**	2,614,190
Energy	**135,281**	447,542
Transport & communication	**67,200**	355,492
Services	**40,882**	-
Real estate investment & hospitality	**29,927**	3,272,435
Manufacturing	**221**	1,799,002
Financial institutions	**98**	1,505,558
Agriculture	**-**	249,431
Others	**186,563**	1,798,788
	7,637,460	21,119,455
Geographic region:		
UAE	**7,061,025**	19,860,152
Kazakhstan	**576,435**	545,750
Others	**-**	713,553
	7,637,460	21,119,455

13 IJARA

	2019 AED'000	2018 AED'000
Retail standard Ijara	**2,622,819**	3,535,128
Corporate Standard Ijara	**53,408**	2,834,155
Retail Ijara Mawsufa Fi-aldhimma	**12,583**	11,118
Corporate Musharaka	-	2,318,511
	2,688,810	8,698,912
Allowance for impairment (note 31)	**(115,958)**	(329,770)
	2,572,852	8,369,142

Ijara assets represent net investment in assets leased for periods which either approximate or cover majority of the estimated useful lives of such assets. The lease agreements stipulate that the lessor undertakes to transfer the leased assets to the lessee upon receiving the final rental payment.

Allowances of impairment on Ijara have been disclosed in further detail in note 5.3.

As at 31 December 2019 corporate ijara, amounting to AED 4,926,002 thousand has been transferred to ADCB

The distribution of the gross Ijara by industry sector and geographic region was as follows:

	2019 AED'000	2018 AED'000
Industry:		
Personal	**2,642,533**	3,683,219
Transport & communication	**43,113**	734,008
Trading	-	150,547
Real Estate Invt and Hospitality	-	2,443,334
Manufacturing	-	290,268
Others	**3,164**	1,397,536
	2,688,810	8,698,912
Geographic region:		
UAE	**2,642,533**	8,601,883
Kazakhstan	**46,277**	66,825
Others	-	30,204
	2,688,810	8,698,912

14 INVESTMENT SECURITIES

	UAE AED'000	Other GCC countries AED'000	Others AED'000	Total AED'000
31 December 2019				
Quoted:				
Sukuk – Government securities	**1,405,956**	**887,100**	-	**2,293,056**
Sukuk – Public sector	**16,629**	**30,325**	-	**46,954**
Sukuk – Banks and financial institution	**539,997**	-	-	**539,997**
Sukuk – Corporate	**458,358**	-	-	**458,358**
	2,420,940	**917,425**	-	**3,338,365**
Unquoted:				
Equity instruments	**1,461**	-	**5,747**	**7,208**
	1,461	-	**5,747**	**7,208**
Allowance for impairment	-	-	-	-
	2,422,401	**917,425**	**5,747**	**3,345,573**
31 December 2018				
Quoted:				
Sukuk – Government securities	1,341,417	633,254	22,187	1,996,858
Sukuk – Public sector	141,700	29,384	-	171,084
Sukuk – Banks and financial institution	484,211	-	-	484,211
Sukuk – Corporate	708,135	-	-	708,135
Equity instruments	243,525	-	-	243,525
	2,918,988	662,638	22,187	3,603,813
Unquoted:				
Equity instruments	-	-	5,725	5,725
	-	-	5,725	5,725
Allowance for impairment (note 31)	(35,849)	(929)	(38)	(36,816)
	2,883,139	661,709	27,874	3,572,722

As at 30 April 2019, the Bank reclassified its financial assets out of the amortised cost measurement category and into the fair value through other comprehensive income category. Accordingly, any gain or loss arising from the difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income.

The reclassification is as a result of a change in the Bank's business model for managing these financial assets. The change is determined by the Bank's senior management as a result of internal changes.

As at 31 December 2019, the allowance for impairment on Sukuk securities designated at FVTOCI amounting to AED 2,292 thousand is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

14 INVESTMENT SECURITIES continued

The investment security risk grade analysis based on external ratings is shown below:

	2019 *AED'000*	*2018* *AED'000*
A+ to A-	**1,616,101**	1,430,595
BBB+ to BBB-	**1,172,485**	1,129,437
Unrated	**556,987**	1,049,506
	3,345,573	3,609,538

In case of more than one rating by three external credit risk agencies (S&P, Fitch and Moody's), the lowest rating is applied.

Unrated Sukuk includes sovereign exposures to a local government in the UAE amounting to AED 489,698 thousand (2018: AED 471,860 thousand).

The distribution of gross investment securities by geographic region was as follows:

	2019 *AED'000*	*2018* *AED'000*
Geographic region:		
UAE	**2,422,401**	2,918,988
Kazakhstan	**5,747**	5,725
Others	**917,425**	684,825
	3,345,573	3,609,538

15 INVESTMENT PROPERTIES

The fair value of the Group's investment property is categorised into level 3 of the fair value hierarchy. The fair value of the investment property was determined by an external, independent property valuer having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. To arrive at the current market value of the property, the sale price per square foot of comparable properties was utilized. Change in the fair value for the year 2019 resulted in a gain of AED 5,520 thousand (2018: loss of AED 7,170 thousand) which was recorded under other operating income (note 29).

16 PROPERTY AND EQUIPMENT

Property and equipment at 31 December 2019 comprise:

	Land and building AED'000	Leasehold improvements AED'000	Computer systems AED'000	Furniture and fixtures AED'000	Right Of use asset(*) AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
At 1 January 2019	630,826	195,705	303,705	65,842	33,903	29,523	1,259,504
Additions	-	3,682	10,014	523	21,909	19,907	56,035
Transfers	-	10,010	21,552	983	2,452	(34,997)	-
Disposals	-	(38,063)	-	(3,613)	(7,455)	(1,677)	(50,808)
Translation adjustments	7	10	15	4	-	-	36
At 31 December 2019	**630,833**	**171,344**	**335,286**	**63,739**	**50,809**	**12,756**	**1,264,767**
Accumulated depreciation and impairment:							
At 1 January 2019	131,801	100,629	257,493	39,902	8,939	-	538,764
Charge for the year	14,667	15,354	25,531	1,313	9,761	-	66,626
Disposals	-	(31,162)	-	(3,150)	-	-	(34,312)
Impairment (note 31)	159,348	-	-	-	-	-	159,348
Translation adjustments	3	(8)	3	13	-	-	11
At 31 December 2019	**305,819**	**84,813**	**283,027**	**38,078**	**18,700**	-	**730,437**
Net book value:							
At 31 December 2019	**325,014**	**86,531**	**52,259**	**25,661**	**32,109**	**12,756**	**534,330**

In 2019, the Group estimated the fair value less costs of disposal of the land and building, which is based on the recent market value of the property, determined using the investment method / income approach. Impairment losses recognised in respect of this property and equipment in the year amounted to AED 159,348 thousand, which have been included in the profit or loss in the "Impairment charges, net" line item. No impairment assessment was performed in 2018 as there was no indication of impairment.

Included in land and building are three plots of land granted to the Bank with each having a carrying value of AED 1.
Right of use assets as at 01 January 2019 includes finance lease which were previously recorded under Furniture and fixtures.

16 PROPERTY AND EQUIPMENT continued

Property and equipment at 31 December 2018 comprise:

	Land and building AED'000	Leasehold improvements AED'000	Computer systems AED'000	Furniture and fixtures AED'000	Right Of use asset AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
At 1 January 2018	634,485	219,618	275,539	108,458	-	15,627	1,253,727
Additions	-	1,795	11,515	639	-	37,875	51,824
Transfers	-	2,116	20,892	10	-	(23,018)	-
Disposals	(3,367)	(26,463)	(3,910)	(24,737)	-	-	(58,477)
Translation adjustments	(292)	(533)	(331)	(157)	-	-	(1,313)
At 31 December 2018	630,826	196,533	303,705	84,213	-	30,484	1,245,761
Accumulated depreciation and impairment:							
At 1 January 2018	117,405	109,632	240,224	70,517	-	-	537,778
Charge for the year	14,314	16,075	21,306	3,174	-	-	54,869
Impairment (note 31)	-	828	-	-	-	961	1,789
Disposals	-	(24,653)	(3,909)	(24,736)	-	-	(53,298)
Translation adjustments	82	(425)	(128)	(114)	-	-	(585)
At 31 December 2018	131,801	101,457	257,493	48,841	-	961	540,553
Net book value:							
At 31 December 2018	499,025	95,076	46,212	35,372	-	29,523	705,208

Included in land and building are three plots of land granted to the Bank with each having a carrying value of AED 1.

17 INVESTMENT IN ASSOCIATE

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Principal activity	Proportion of ownership interest held by the Group 2019	2018
Global Sukuk Fund	Open-ended	**31.89%**	28.83%
GCC Equity Fund	Open-ended	**48.99%**	37.92%
Global Balanced Fund	Open-ended	**76.43%**	75.01%

All of the above associates are incorporated in UAE and are accounted for using the equity method in consolidated financial statements as set out in the Group's accounting policies in note 3.

The latest available audited financial information in respect of the Group's associates is as follows:

	Global Sukuk Fund 2019 AED'000	*GCC Equity Fund 2019 AED'000*	*Global Balanced Fund 2019 AED'000*
Total assets	130,954	26,326	59,907
Total liabilities	411	4,723	738
Net assets	130,543	21,603	59,169
Bank's share in net assets of associates	41,678	12,797	45,187
Total revenue	15,311	2,135	11,112
Profit for the year	13,893	1,119	9,854
Bank's share in profit of associates	4,435	663	7,525

18 OTHER ASSETS

	2019 AED'000	*2018 AED'000*
Financial assets		
Acceptances	-	171,218
Income receivable	**46,068**	110,235
Trade finance receivable	-	36,259
Others	**55,110**	60,570
	101,178	378,282
Non financial assets		
Murabaha inventory	**16,662**	17,625
Prepaid expenses	**6,608**	42,468
Prepaid staff allowances	**2,989**	10,206
	26,259	70,299
	127,437	448,581

As at 31 December 2019, all the outstanding acceptances and trade finance receivables were transferred to ADCB.

19 DEPOSITS FROM CUSTOMERS

	2019 AED'000	2018 AED'000
By account:		
Wakala deposits	**6,126,426**	19,938,750
Current accounts	**2,399,999**	5,888,047
Savings accounts	**3,641,354**	4,282,240
Time deposits	**899,454**	1,214,678
	13,067,233	31,323,715
Industry:		
Consumers	**6,611,389**	7,058,612
Corporate / private	**4,690,602**	9,730,863
Government	**1,508,869**	4,544,757
GRE and Public related entities	**256,373**	9,989,483
	13,067,233	31,323,715
Geographic region:		
UAE	**12,188,983**	29,787,898
Kazakhstan	**851,383**	433,137
Others	**26,867**	1,102,680
	13,067,233	31,323,715

During the current year, current and savings accounts which are related to the corporate facilities transferred to ADCB were also migrated.

As at 31 December 2019, deposits from customers amounting to AED 4,648,446 thousand were transferred to ADCB.

20 MEDIUM TERM FINANCING

Medium Term Sukuk

On 8 October 2013, the Bank through a Shari'a compliant Sukuk arrangement raised medium term Sukuk amounting to AED 1,836,250 thousand (USD 500,000 thousand) under a USD 2,500,000 thousand Trust Certificate Issuance Programme. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin). The issuance has a contractual maturity of five years and bears an expected profit rate of 3.267%.The Sukuk has already matured as of 31 December 2018.

On 7 September 2016, the Bank through a Shari'a compliant Sukuk arrangement raised another medium term Sukuk amounting to AED 826,313 thousand (USD 225,000 thousand) under the above mentioned programme. The Sukuk has a contractual maturity of two years and seven months and bears an expected profit rate of 3 month LIBOR plus a margin of 1.60% per annum payable quarterly. The Sukuk has matured during the current year.

On 14 August 2017, the Bank through a Shari'a compliant Sukuk arrangement raised another medium term Sukuk amounting to AED 363,352 thousand (USD 100,000 thousand) under the above mentioned programme. The Sukuk has a contractual maturity of two years and bears an expected profit rate of 3 month LIBOR plus a margin of 0.90% per annum payable quarterly. The Sukuk has matured during the current year.

On 19 September 2018, the Bank through a Shari'a compliant Sukuk arrangement raised another medium term Sukuk at a discount amounting to AED 1,828,805 thousand (Par value of USD 500,000 thousand) under the USD 2,500,000 thousand Trust Certificate Programme which was updated in August 2018. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin). The issuance has a contractual maturity of five years and bears an expected profit rate of 4.375%.

20 MEDIUM TERM FINANCING continued

Terms of arrangement
The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original Ijara assets of the Bank, to a Sukuk company, AHB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the Sukuk transaction. The assets are owned by the investors; however the assets are managed by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the semi-annual distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi annual amount payable to the Sukuk holders on the distribution dates. Upon maturity of the Sukuk, the Issuer will have the right to require the Bank to purchase all of the co-owned Assets for payment of the relevant dissolution distribution amount under Sukuk which includes the outstanding face amount of Sukuks and any accrued but unpaid periodic distribution.

International Reverse Murabaha

In 2018, the Bank entered into international reverse murabaha agreements with various financial institutions. As at 31 December 2019, the outstanding balance amounted to AED 574,830 thousand (2018: AED 737,168 thousand) with a contractual maturity of two years and bears an expected profit rate that ranges from 3.7% to 3.9%.

21 OTHER LIABILITIES

	2019 *AED'000*	*2018* *AED'000*
Financial liabilities		
Accounts payable	**75,773**	207,668
Lease liability	**24,171**	7,044
Charity payable	**12,763**	10,773
Acceptances	-	171,218
Others	**43,210**	27,392
	155,917	424,095
Non financial liabilities		
Accrued expenses	**262,905**	392,072
Provision on unfunded facilities (note 31)	**11,082**	182,259
Advance administrative fees	**270**	45,061
	274,257	619,392
	430,174	1,043,487

Accrued expenses also include an amount of AED 5,507 thousand (2018: AED 3,651 thousand) of depositors profit reserve and the zakat due on these reserves. The Group is discharging this Zakat on behalf of the depositors.

Charity payable represents profits forfeited by the Internal Shariah Supervision Committee, late payment amount and over limit fees.

As at 31 December 2019, all the outstanding acceptances and trade finance receivables were transferred to ADCB.

22 SHARE CAPITAL AND STATUTORY RESERVE

Share capital

As at 31 December 2018, the authorized share capital of the Bank comprise of 4,000,000 thousand ordinary shares of AED 1 each. The issued and fully paid up share capital as at 31 December 2018 comprise of 3,500,000 thousand ordinary shares of AED 1 each.

In June 2019, the Bank increased its authorized share capital by 1,250,000 thousand ordinary shares of AED 1 each, bringing the total authorized share capital to 5,250,000 thousand as at 31 December 2019.

The Bank also increased its issued and fully paid up share capital by 1,250,000 thousand ordinary shares of AED 1 each. As at 31 December 2019, the issued and fully paid up share capital comprise of 4,750,000 thousand ordinary shares of AED 1 each.

After the effective date of merger and acquisition, ADCB holds 100% of the issued and paid share capital. The Bank's shares are not listed on a recognised stock exchange.

Statutory reserve

The UAE Federal Law No.2 of 2015 and the Bank's Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution. Transfers to the statutory reserve, if any, are made at year end. For the year ended 31 December 2019, no transfer to statutory reserve was made as the Bank is in a net loss position during the year.

23 TIER 1 SUKUK

On 30 June 2014, the Bank through a Shariah compliant Sukuk arrangement issued Tier 1 Sukuk at face value of AED 1,836,250 thousand (USD 500,000 thousand) listed on the Irish Stock Exchange.

Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba agreement. It is callable by the Bank on 30 June 2019 (the "First Call Date") or any profit payment date thereafter subject to certain conditions.

It bears an expected Mudaraba profit rate of 5.50% payable semi-annually in arrears until the First Call Date. On the First Call Date and every five years thereafter it is reset to a new expected Mudaraba profit rate equal to the five-year US dollar mid swap rate plus a margin of 3.73% per annum.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. Additionally, any periodic distribution amount not paid as aforesaid will not accumulate and neither the Trustee nor the Certificate holders shall have any claim in respect thereof. In the case of a non-payment election or a non-payment event, from the date of such non-payment, the Bank will not (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on; and (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any class of shares issued by the Bank or any securities of the Bank ranking pari passu with or junior to the Tier 1 Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of next following expected Mudaraba profit distribution.

On 30 June 2019, Tier 1 sukuk has been fully called up and repaid in its entirety.

During 2019, distributable gains generated by the bank were not sufficient to cover the principal and profits paid to Sukuk holders therefore shareholders' support of AED 108,653 thousand was provided.

24 OTHER RESERVES

	Fair value reserve AED'000	Foreign currency translation reserve AED'000	Total AED'000
1 January 2018	(5,281)	(175,758)	(181,039)
Net loss on debt investment securities designated at FVTOCI	(434)	-	(434)
Net loss on equity investment securities designated at FVTOCI	(10,002)	-	(10,002)
Exchange differences on translation of foreign operations	-	(24,440)	(24,440)
1 January 2019	**(15,717)**	**(200,198)**	**(215,915)**
Net gain on debt investment securities designated at FVTOCI	**89,644**	-	**89,644**
Net loss on equity investment securities designated at FVTOCI	**(339)**	-	**(339)**
Exchange differences on translation of foreign operations	-	**621**	**621**
31 December 2019	**73,588**	**(199,577)**	**(125,989)**

25 INCOME FROM ISLAMIC FINANCING ACTIVITIES, NET

	2019 ***AED'000***	*2018* *AED'000*
Income from Murabaha – retail	**500,074**	598,893
Income from Murabaha – corporate	**194,988**	532,351
Other Islamic financing	**981**	3,073
	696,043	1,134,317

26 INCOME FROM IJARA, NET

	2019 ***AED'000***	*2018* *AED'000*
Income from Ijara – retail	**170,765**	164,140
Income from Ijara – corporate	**49,443**	148,766
Income from Musharaka – corporate	**38,452**	123,014
	258,660	435,920

27 FEES AND COMMISSION INCOME, NET

	2019 AED'000	2018 AED'000
Card related fee	**54,900**	58,575
Trade finance commission	**16,926**	36,964
Finance processing fee	**16,335**	54,109
Insurance commission	**10,282**	2,045
Accounts related fee	**5,181**	7,812
Asset management services	**2,480**	6,293
Others	**4,324**	5,545
	110,428	171,343
Fees and commission expenses	**(30,702)**	(31,788)
	79,726	139,555

Commission, fees and foreign exchange income constitute part of profit distributable to the Shareholder.

28 TRADING INCOME, NET

	2019 AED'000	2018 AED'000
Net gains from dealing in foreign currencies	**11,718**	23,161
Net gains from dealing in Islamic derivatives	**2,208**	570
Net gains from trading securities	**828**	(500)
	14,754	23,231

29 OTHER OPERATING INCOME

	2019 AED'000	2018 AED'000
Dividends income	**7,621**	31,348
Net (loss) /gain from disposal of investments securities	**(786)**	253
Others	**5,520**	(6,498)
	12,355	25,103

30 OPERATING EXPENSES

	2019 AED'000	2018 AED'000
Personnel and related expenses	**353,285**	435,207
Rent expenses	**24,641**	30,857
Legal and professional fees	**57,544**	28,121
Software maintenance	**21,851**	17,917
Communication expenses	**11,672**	12,756
Premises expenses	**33,652**	44,716
Marketing and advertising expenses	**8,270**	12,519
Hardware maintenance	**3,687**	4,115
Printing and office supplies	**5,748**	6,643
VAT expenses	**6,575**	5,870
Other expenses	**60,418**	143,057
	587,343	741,778

31 IMPAIRMENT ALLOWANCE

	2019 AED'000	2018 AED'000
At the beginning of the year	**2,118,897**	2,130,070
Opening adjustments on adoption of IFRS 9	**-**	403,916
At the beginning of the year (adjusted)	**2,118,897**	2,533,986
Allowances for impairment made during the year	**3,361,689**	367,574
Recoveries during the year	**(34,596)**	(23,989)
Net charge for the year	**3,327,093**	343,585
Unwinding on renegotiated financings	**(2,842)**	(5,290)
Net amounts written-off (*)	**(4,978,803)**	(777,373)
Currency translation	**304**	-
At end of the year	**499,245**	2,118,897

As at 31 December 2019, net amount written off includes impairment allowance of AED 4,299,690 thousand transferred to ADCB as part of corporate portfolio transfer.

For the year ended 31 December 2019, allowance for impairment includes AED 168,389 thousand (2018: AED 157,788 thousand) related to non-financial assets.

31 IMPAIRMENT ALLOWANCE continued

	2019 *AED'000*	*2018* *AED'000*
Deposits & balances due from banks, net	**838**	1,635
Receivables from Islamic financing activities	**209,727**	1,357,010
Ijara	**115,958**	329,770
Investment securities	**2,292**	36,816
Property and equipment, net	**159,348**	3,627
Assets held for sale	**-**	207,780
Other liabilities	**11,082**	182,259
	499,245	2,118,897

32 DEPOSITORS' AND SUKUK HOLDERS' SHARE OF PROFITS

	2019 *AED'000*	*2018* *AED'000*
Wakala	**387,378**	519,133
Medium term financing	**95,612**	117,606
Mudaraba	**44,826**	47,613
	527,816	684,352

The Bank invests all of its investment deposits including saving accounts, adjusted for UAE Central Bank reserve requirements and the Group's liquidity requirements. With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil). The profit distribution for the year has been supported by the Shareholder and is authorized by the Bank's Internal Shariah Supervision Committee.

During 2019, distributable gains generated by general pool were not sufficient to cover the principal and profits paid to depositors therefore shareholders' donation of AED 1,908,956 thousand was provided.

33 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts with original contractual maturities of less than three months:

	2019 *AED'000*	*2018* *AED'000*
Cash and balances with central banks	**1,506,057**	2,795,636
Deposits & balances due from banks (note 11)	**2,521,156**	3,176,382
Wakala deposits from banks	**(490,633)**	(1,858,840)
	3,536,580	4,113,178
Classified as part of assets directly related to discontinued operations (note 36)	**35,949**	-
	3,572,529	4,113,178

34 COMMITMENTS AND CONTINGENCIES

	2019 *AED'000*	*2018* *AED'000*
Letters of guarantee	**81,678**	5,279,211
Letters of credit	-	376,670
Revocable commitments to extend credit	**378,049**	5,792,085
Irrevocable commitments to extend credit	**2,565**	916,062
Capital commitments	**13,106**	45,586
Operating lease commitments	**1,680**	164,237

35 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into various types of transactions that involve Islamic derivative financial instruments. Islamic derivative financial instruments include Islamic promises to exchange currency and / or cash flows.

Islamic derivatives are measured at fair value by reference to published price quotations in an active market, counterparty prices or valuation techniques such as discounted cash flows.

The table below shows the positive and negative fair values of Islamic derivative financial instruments together with the notional amounts.

The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

35 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS continued

	Positive market value AED'000	*Negative market value AED'000*	*Notional amount AED'000*	*Less than 3 months AED'000*	*3-12 months AED'000*	*1-5 years AED'000*	*Total AED'000*
31 December 2019							
Islamic derivatives held for hedging purposes							
Profit rate swaps	**60**	**(83,379)**	**1,506,238**	**-**	**60,605**	**1,445,633**	**1,506,238**
	60	**(83,379)**	**1,506,238**	**-**	**60,605**	**1,445,633**	**1,506,238**
31 December 2018							
Islamic derivatives held for trading							
Profit rate swaps	6,376	(6,376)	526,371	-	37,210	489,161	526,371
Promises to sell foreign currencies	(703)	(35)	825,020	825,020	-	-	825,020
	5,673	(6,411)	1,351,391	825,020	37,210	489,161	1,351,391
Islamic derivatives held for hedging purposes							
Profit rate swaps	14,892	(14,892)	1,373,974	27,552	31,216	1,315,206	1,373,974
	20,565	(21,303)	2,725,365	852,572	68,426	1,804,367	2,725,365

In August 2019, the Bank entered into a novation agreement with its bank counterparties for its existing profit rate swaps held for trading. The novation includes replacing the Bank by ADCB as the party of these outstanding swaps.

36 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued operations and assets held for sale comprise of the following:

	2019 *AED'000*	*2018* *AED'000*
Assets directly related to discontinued operations (subsidiaries) (36.1)	**233,172**	215,853
Asset held for sale - Building (and the related land) (36.2)	-	500,000
Assets held for sale	**233,172**	715,853
Liabilities directly related to discontinued operations (subsidiaries) (36.1)	**282,101**	270,411
Net assets held for sale	**(48,929)**	445,442

36.1 DISCONTINUED OPERATIONS

The Board of Directors of the Group resolved to sell and discontinue the following subsidiaries:

Subsidiaries	*Holding*	*Year*
Al Hilal Takaful PSC	100%	2017
Al Hilal Auto LLC	100%	2016

The classes of assets and liabilities comprising the operations classified as discontinued operations at 31 December were as follows:

Consolidated Statement of Financial Position	*2019* *AED'000*	*2018* *AED'000*
Cash and balances with central banks	**35,949**	-
Property and equipment	**1,564**	2,335
Other assets	**195,659**	213,518
Assets directly related to discontinued operations	**233,172**	215,853
Other liabilities	**282,101**	270,411
Liabilities directly related to discontinued operations	**282,101**	270,411
Net assets directly related to discontinued oeprations	**(48,929)**	(54,558)

Loss from discontinued operations:	*2019* *AED'000*	*2018* *AED'000*
Investment income	-	352
Income from Wakala investments	**3**	-
Fees and commission income, net	**7,141**	11,978
Operating expenses	**(23,068)**	(41,473)
Depreciation	**(737)**	(2,140)
Loss for the period from discontinued operations	**(16,661)**	(31,283)

36 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE continued

36.1 DISCONTINUED OPERATIONS continued

The cash flows associated with the sale of Al Hilal Takaful are expected to be within 6 months of the balance sheet date. The cash flows associated with the discontinued operation of Al Hilal Auto are expected to be within 3 months of the balance sheet date.

	2019	*2018*
	AED'000	*AED'000*
Cash flows from discontinued operations:		
Net cash flows used in operating activities	**(464,085)**	(2,335)
Net cash flows from investing activities	**500,034**	2,335
Net cash flows from discontinued operations	**35,949**	-

On 14 January 2020, the Bank signed an agreement for the sale and purchase of the share capital of Al Hilal Takaful PSC with a third party Company established under the laws of UAE. Completion is conditional on certain conditions (as agreed by both parties) being satisfied on or before the date falling three months after the date of this agreement or such later date as the parties may agree in writing.

36.2 ASSET HELD FOR SALE - BUILDING (AND THE RELATED LAND)

Assets held for sale represent a building (and the related land) that was completed during the year 2015. A write down of AED 156,000 thousand was recognised as at 31 December 2018 to reduce the carrying amount of the building to its fair value less cost to sell (Note 31). In 2019, the building and the related land was sold to a third party.

37 GROUP ENTITIES

Subsidiaries	*Country of incorporation*	*Ownership*	
		2019	*2017*
Al Hilal Takaful PSC*	UAE	**100%**	100%
Al Hilal Auto LLC**	UAE	**100%**	100%
Al Hilal Islamic Bank PJSC	Kazakhstan	**100%**	100%
Al Hilal Leasing LLP	Kazakhstan	**100%**	100%
Al Hilal Al Mariah Development LLC	UAE	**100%**	100%
AHB Sukuk Company Limited	Cayman	-	-
AHB Tier 1 Sukuk Limited	Cayman	-	-
AHB derivatives Limited	Cayman	-	-

* Al Hilal Takaful PSC was classified as held for sale during 2017. Please refer to Note 36 for further details.

** Al Hilal Auto LLC was discontinued during the year 2016. Please refer to Note 36 for further details.

The Group does not have direct holding in AHB Sukuk Company Limited, AHB Tier 1 Sukuk Limited and AHB derivatives Limited, which are considered to be a subsidiary by virtue of control.

38 RELATED PARTIES

Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personnel of the Group. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

The Group enters into transactions with the parent and its related entities, associate, funds under management, directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at commercial profit and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors, chief executive officer and his direct reports.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Parent and ultimate controlling party

ADCB holds 100% of the Group issued and fully paid up share capital and Abu Dhabi Investment Council holds 60.20% (December 31, 2018 - 62.523%) of the ADCB's issued and fully paid up share capital. Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006 and so the ultimate controlling party is the Government of Abu Dhabi. During the year, the Group has identified new related parties owing to change in the ownership structure of the Bank's parent company.

Compensation of directors and key management personnel

Key management remuneration for the years ended 31 December 2019 and 31 December 2018 comprise:

	2019	*2018*
	AED'000	*AED'000*
Short term employment benefits	**22,882**	23,885
Directors' remuneration	**3,565**	3,794
Postemployment benefits	**1,235**	1,528

Short term employment benefits includes termination cost of AED 7,771 thousand for the year ended 31 December 2019.

Terms and conditions

Islamic financing and deposits are granted and accepted in various currency denominations and for various time periods from related parties. Profit rates earned on Murabaha financing facilities extended to related parties during the year have ranged from 1.25% to 4.75% per annum (2018: 2.00% to 7.30%).

Profit distribution rates paid on customers' investment accounts placed by related parties during the year have ranged from 1.50% to 3.80% per annum (2018: 1.75% to 3.80%).

Fees and commissions earned on transactions with related parties during the year have ranged from 0.40% to 3.00% per annum (2018: 0.40% to 3.00%).

Collaterals against financing to related parties range from being unsecured to fully secure.

Except for transactions carried out with the ultimate Parent and its group of companies, all transactions with the government and its related concerns are deemed to occur within the normal course of business.

38 RELATED PARTIES continued

Particulars of transactions with related parties, disclosed pursuant to the requirements of IAS 24, are shown below. The balances and transactions with related parties comprise:

	Balances: 31 December 2019				
	Ultimate controlling party and its related parties AED'000	*Directors and related parties AED'000*	*Key management personnel AED'000*	**Associates and Funds under** *management AED'000*	*Total AED'000*
Deposits & balances due from banks, net	**2,315,000**	-	-	-	**2,315,000**
Receivables from Islamic financing activities and Ijara	**1**	**25,201**	**84**	-	**25,286**
Islamic derivative financial instruments - assets	**10**	-	-	-	**10**
Other assets	**4,373**	**75**	-	-	**4,448**
Deposits from customers	**1,106,647**	**3,939**	**1,947**	-	**1,112,533**
Wakala deposits from banks	**257,110**	-	-	-	**257,110**
Islamic derivative financial instruments - liabilities	**73,486**	-	-	-	**73,486**
Other liabilities	**43,493**	-	-	-	**43,493**
Commitments and contingent liabilities	**59**	**11**	**342**	-	**412**

	Balances: 31 December 2018				
	Ultimate controlling party and its related parties AED'000	Directors and related parties AED'000	Key management personnel AED'000	Associates and Funds under management AED'000	Total AED'000
Deposits & balances due from banks, net	808,534	-	-	-	808,534
Receivables from Islamic financing activities and Ijara	751,589	22,138	-	-	773,727
Islamic derivative financial instruments - assets	-	-	-	-	-
Other assets	-	76	-	-	76
Deposits from customers	10,924,114	59,753	-	-	10,983,867
Islamic derivative financial instruments - liabilities	-	-	-	-	-
Other liabilities	100,363	2	-	-	100,365
Commitments and contingent liabilities	1,811,605	766	-	-	1,812,371

38 RELATED PARTIES continued

	Transactions: 31 December 2019				
	Ultimate controlling party and its related parties AED'000	*Directors and related parties AED'000*	*Key management personnel AED'000*	*Associates and Funds under management AED'000*	*Total AED'000*
Profit income, fees and other income	**(53,830)**	**1,285**	**76**	**989**	**(51,480)**
Depositors' and sukuk holders' share of profits	**132,079**	**204**	**-**	**-**	**132,283**
Trading income, net	**3,687**	**-**	**-**	**-**	**3,687**
Share in profit of associate	**-**	**-**	**-**	**13,482**	**13,482**

	Transactions: 31 December 2018				
	Ultimate controlling party and its related parties AED'000	Directors and related parties AED'000	Key management personnel AED'000	Associates and Funds under management AED'000	Total AED'000
Profit income, fees and other income	95,515	295	399	-	96,209
Depositors' and sukuk holders' share of profits	317,797	214	1	-	318,012
Share in profit of associate				(12,002)	(12,002)

The Bank entered into a profit rate swap, where the loss was with a related party and the gain with a non-related party.

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

Name of entity	***Interest held by the Group 2019***	*Interest held by the Group 2018*
Al Hilal Global Sukuk Fund	**Associate (note 17)**	Associate (note 17)
Al Hilal GCC Equity Fund	**Associate (note 17)**	Associate (note 17)
Al Hilal Global Balanced Fund	**Associate (note 17)**	Associate (note 17)

40 FUND MANAGEMENT AND FIDUCIARY ACTIVITIES

The Group manages and administers assets held in trust or in fiduciary capacity on behalf of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the consolidated financial statements of the Group.

The management fees earned by the Group from its fund management activities as per latest audited financial statements dated 31 December 2019 was AED 1,059 thousand (2018: AED 2,675 thousand).

41 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 31,552 thousand (2018: Nil) and accordingly, Zakat is estimated at AED 0.00664 (2018: Nil) per outstanding share.

42 RECLASSIFICATIONS

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

	AED'000
Reclassification of Ijara income receivable from Ijara to Other assets	62,603
Reclassification of reverse murabaha from Wakala deposits from banks to Medium term financing	737,169
Reclassification of PRS income from Depositors' and sukuk holders' share of profits to Income from Wakala investments	70,395
Reclassification of dividend income from Investment income to Trading and Other operating income	31,348
Reclassification of operational risk provision from Impairment charges to Operating expenses	55,742

The Bank believes that the above changes in presentation best reflect the nature and substance of the transactions. Accordingly, the previously reported cash flows has also been reclassified in the consolidated statement of cash flows.