



TOGETHER WE WILL CONQUER

EMIRATES NBD
BANK PJSC
GROUP CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR
ENDED 31 DECEMBER 2020



GROUP CONSOLIDATED FINANCIAL STATEMENTS

Contents	Page
Director's report	1 – 3
Independent auditors' report on the Group consolidated financial statements	4 – 9
Group consolidated statement of financial position	10
Group consolidated income statement	11
Group consolidated statement of comprehensive income	12
Group consolidated statement of cash flows	13
Group consolidated statement of changes in equity	14 – 15
Notes to the Group consolidated financial statements	16 – 134

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of Emirates NBD PJSC ("the Bank") and its subsidiaries (collectively known as "the Group") for the year ended 31 December 2020.

The Bank was incorporated in the United Arab Emirates (the UAE) on 16 July 2007, pursuant to the approval from the Central Bank of the UAE on 3 July 2007 to grant the Bank a banking license.

Basis of Preparation of Financial Statements

The Group consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB) and applicable requirements of the laws of the UAE.

Financial Commentary

The Group reported a consolidated profit (attributable to equity holders) of AED 6,959 million for the year 2020, which represent a decrease of 52 percent over 2019. The Group has continued to focus on:

- Operational resilience in providing full banking services during the global pandemic;
- Maintaining strong capital, liquidity and funding positions;
- Delivering long term sustainable value for shareholders;
- Maintaining a strong risk oversight whilst effectively managing cost of risk;
- Investment in people with a focus on developing and deploying National talent in key senior and executive positions;
- Investment in IT transformation with a focus on innovation, analytics and digitalisation;
- Integration of Denizbank into the Group post acquisition.

Novel Coronavirus (Covid-19) has caused severe disruption to global business and economic activity. The UAE Government took decisive action to protect the health of UAE residents and to provide economic relief measures to support customers and UAE banks. This was followed with clear, prescriptive and measured guidelines to reopen the economy with health and safety continuing to be the top priority. The Central Bank of the UAE has been proactive in supporting the economy with liquidity and capital relief measures introduced through the Targeted Economic Support Scheme.

During these challenging times, Emirates NBD continued to provide full, uninterrupted banking service to the customers and the wider community. Our award winning digital banking platform proved invaluable in providing a secure and convenient environment through which our customers continued to bank from the safety of their own homes. During the year, the Bank experienced an increase in the number of both retail and corporate customers using digital offering.

The Bank remained profitable throughout 2020 and maintained a strong balance sheet. The Bank used that strength to provide additional support to approximately one-tenth of customers primarily through the deferral of over nine billion dirhams of interest and principal payment for periods of up to six months.

Group adjusted Earnings per Share was AED 1.00 (2019: AED 1.68).

The Group achieved a return on average tangible equity of 9.5 percent (2019: 24.2 percent) and a return on average total assets of 1.0 percent (2019: 2.5 percent).

Equity and Note Holders' Funds

Total equity and note holders' funds as at the end of 2020 stands at AED 84,618 million (2019: AED 81,607 million).

Proposed Appropriations

The Directors also propose the following appropriations from retained earnings:

	AED million
Retained earnings as at 1 January 2020	43,375.4
Group profit for the year (attributable to equity holders)	6,959.5
Other comprehensive income for the year	(52.4)
Retained earnings available for appropriation	50,282.5
(a) 2019 Cash dividend paid during 2020	(2,524.3)
(b) Interest on Tier 1 Capital Notes	(651.1)
(c) Directors' fees for 2020	(31.0)
(d) Zakat	(61.4)
Balance of retained earnings as at 31 December 2020	47,014.7

Attendance of Directors at Board/Board Committee meetings during 2020

The Board of Directors comprises of the following members:

H.H. Shaikh Ahmad Bin Saeed Al Maktoum	Chairman
Mr. Hesham Abdulla Al Qassim	Vice Chairman
Mr. Salem Mohammed Obaidalla	Director
Mr. Hussain Hassan Mirza Al Sayegh	Director
Mr. Buti Obaid Buti Al Mulla	Director
Mr. Shoaib Mir Hashim Khoory	Director
Mr. Mohamed Hamad Obaid Khamis Al Shehi	Director
Mr. Mohamed Hadi Ahmad Al Hussaini	Director
Mr. Ali Humaid Ali Al Owais	Director

Total Number of Emirates NBD Board Meetings: 6

Emirates NBD Board Executive Committee

Mr. Hesham Abdulla Al Qassim	Chairman of the Committee
Mr. Shoaib Mir Hashem Khoory	Member
Mr. Mohamed Hamad Obaid Al Shehi	Member
Mr. Mohamed Hadi Ahmed Al Hussaini	Member
Mr. Ali Humaid Ali Al Owais	Member

Total Number of Meetings: 16

Emirates NBD Board Audit Committee

Mr. Hussain Hassan Mirza Al Sayegh	Chairman of the Committee
Mr. Shoaib Mir Hashem Khoory	Member
Mr. Mohamed Hamad Obaid Al Shehi	Member
Mr. Mohamed Hadi Ahmed Al Hussaini	Member
Mr. Salem Mohammed Obaidalla	Member

Total Number of Meetings: 4

Emirates NBD Board Nomination & Remuneration Committee

Mr. Buti Obaid Buti Al Mulla
Mr. Mohamed Hamad Obaid Al Shehi
Mr. Mohamed Hadi Ahmad Al Hussaini
Mr. Ali Humaid Ali Al Owais

Chairman of the Committee
Member
Member
Member

Total Number of Meetings: 4

Emirates NBD Board Risk Committee

Mr. Hesham Abdulla Al Qassim
Mr. Hussain Hassan Mirza Al Sayegh
Mr. Buti Obaid Buti Al Mulla
Mr. Ali Humaid Ali Al Owais
Mr. Salem Mohammed Obaidalla

Chairman of the Committee
Member
Member
Member
Member

Total Number of Meetings: 4

Emirates NBD Board Credit and Investment Committee

Mr. Hesham Abdulla Al Qassim
Mr. Shoaib Mir Hashem Khoory
Mr. Mohamed Hadi Ahmad Al Hussaini
Mr. Ali Humaid Ali Al Owais
Mr. Salem Mohammed Obaidalla

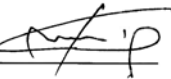
Chairman of the Committee
Member
Member
Member
Member

Total Number of Meetings: 50

Auditors:

Deloitte and Touche (M.E.) were appointed as auditors of the Emirates NBD Group for the 2020 financial year at the Annual General Meeting held on 10 March 2020.

On behalf of the Board



Chairman
Dubai, UAE
26 January 2021

INDEPENDENT AUDITORS' REPORT

**The Shareholders
Emirates NBD Bank PJSC
Dubai
United Arab Emirates**

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	Our audit approach
<i>Loan loss impairments – Estimation uncertainty with respect to expected credit losses for loan and advances to customers</i>	
The assessment of the Bank's determination of impairment allowances for loans and advances to customers require management to make judgements over the staging of financial assets and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality of the loans and advances to customers (representing 64.0% of total assets) and the complexity of the judgements, assumptions and estimates used in the ECL models especially in light of the uncertain outlook caused by the impact of the Covid-19 pandemic. Refer to Note 7 to the consolidated financial statements for the accounting policy and Note 49 for the credit risk disclosure.	We have gained an understanding of the loan origination process, credit risk management process and the estimation process of determining impairment allowances for loans and advances to customers and tested the operating effectiveness of relevant controls within these processes. On a sample basis, we selected individual loans and performed a detailed credit review and challenged the Banks's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions underlying the impairment allowance calculation, such as estimated future cash flows, collateral valuations and estimates of recovery. We evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of Emirates NBD Bank PJSC (continued)
Key audit matters (continued)

Key audit matter	Our audit approach
Loan loss impairments – Estimation uncertainty with respect to expected credit losses for loan and advances to customers (continued)	
The material portion of the non-retail portfolio of loans and advances is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging movements as per the Bank's policies. The measurement of ECL amounts for retail and non-retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention. It is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and are subject to a validation process by an independent reviewer. The impact of the Covid-19 pandemic and the resulting economic support and relief measurement programmes of governments and central banks have been incorporated in the Bank's measurement of ECL. The Bank has updated its macro-economic forecasts and has applied portfolio-level ECL adjustments to wholesale and retail portfolios based upon affected portfolios and sectors.	key management and committee meetings that form part of the approval process for loan impairment allowances. We evaluated key assumptions such as thresholds used to determine SICR and forward looking macroeconomic scenarios including the related weighting. For loans tested collectively, we evaluated controls over the modelling process, including model inputs, monitoring, validation and approval. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data. We tested the IT application used in the credit impairment process and verified the integrity of data used as input to the models including the transfer of data between source systems and the impairment models. We evaluated system-based and manual controls over the recognition and measurement of impairment allowances. We have evaluated the approach employed by the Bank to measure the impact of Covid-19 on ECL – we evaluated controls over the IFRS 9 governance process that reviews and approves all stage migrations, management overlays to ECL estimates, and macro-economic scenarios and weightings. We have tested the impact on individual loans through our detailed credit reviews referenced above. We evaluated other post model adjustments and management overlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses. The Bank performed an external validation of the PD and LGD models including macro-economic model during the reporting period. We considered the process of this external validation of the models and its impact on the results of the impairment estimate. Finally, we have updated our assessment of the methodology and framework designed and implemented by the Bank as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the forecasts used by the Bank to determine future economic conditions at the reporting date.

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of Emirates NBD Bank PJSC (continued)
Key audit matters (continued)

Key audit matter	Our audit approach
IT systems and controls over financial reporting	
We identified IT systems and controls over financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Bank and rely on the effective operation of automated and IT dependent manual controls. Moreover, the Bank completed the migration of its core banking systems and consolidated multiple systems into a single core banking platform during the reporting period. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.	We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications. We tested IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data center and network operations. We assessed relevant controls over data migration in relation to the upgrade of the core banking system during the reporting period. We examined computer generated information used in financial reports from relevant applications and key controls over their report logics. We performed testing on the key automated controls on significant IT systems relevant to business processes.
Key audit matter	
Concentration of related party balances	
Related party assets as at 31 December 2020 are disclosed in Note 42 to these consolidated financial statements with the description of the accounting policy disclosed in Note 7. We focused on this area as significant management judgement is required to determine the disclosures required under IFRS 7 Financial Instruments: Disclosures and IAS 24 Related Party Disclosures with regards to significant credit risk concentrations and related party disclosures. IFRS 7 requires that specific information be disclosed for each type of risk arising from financial instruments. These include qualitative disclosures around how exposures arise and how they are measured and managed, summary quantitative data about an entity's exposure to each type of risk, and information about an entity's credit risk exposure, including significant credit risk concentrations. In addition, for government-controlled entities such as Emirates NBD Bank PJSC, disclosure is required under IAS 24 Related Party Disclosures of a qualitative or quantitative indication of the extent of transactions with the government or related entities.	Our audit procedures included: • Obtaining from those charged with governance and management information identifying all known related parties. • Evaluating and testing of key controls over the identification and monitoring of related party transactions. • Evaluating and testing of key controls over the initial recording and monitoring of loans. • Reviewing minutes of board meetings and management meetings to determine if there were any related party transactions of which we were previously unaware. • Confirming the balance in writing from the relevant related party. • Vouching individual related party transactions on a sample basis to supporting documentation. • Evaluating the adequacy of the disclosures by assessing whether a reasonable user of the consolidated financial statements could understand the exposure of the Bank to concentration and related risks, and by considering the ability of such a user to reasonably estimate the extent of transactions with the parent of the majority shareholder, including the income arising from the balance due from them, based on the disclosures provided.

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of Emirates NBD Bank PJSC (continued)

Other information

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of Emirates NBD Bank PJSC (continued)

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

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

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

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

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.

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of Emirates NBD Bank PJSC (continued)

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

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

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

Report on Other Legal And Regulatory Requirements

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- Note 11 to the consolidated financial statements discloses the Bank's purchases or investments in shares during the year ended 31 December 2020;
- Note 42 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;
- Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2020; and
- Note 51 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2020.

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

Deloitte & Touche (M.E.)



Akbar Ahmad
Registration No. 1141
26 January 2021
Dubai
United Arab Emirates

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	2020 AED 000	2019 AED 000
ASSETS			
Cash and deposits with Central Banks	9	100,841,896	109,356,947
Due from banks	10	34,997,680	40,167,541
Investment securities	11	72,695,287	55,047,466
Loans and receivables	13	387,923,424	384,888,981
Islamic financing receivables	15	55,618,045	52,541,046
Positive fair value of derivatives	38	13,697,399	7,143,499
Investments in associates		201,628	134,452
Customer acceptances	41	8,837,724	10,227,557
Investment properties		584,724	613,223
Property and equipment		4,080,042	4,317,323
Goodwill and intangibles	16	6,313,171	6,607,421
Other assets	17	12,296,453	12,275,108
TOTAL ASSETS		698,087,473	683,320,564
LIABILITIES			
Due to banks	18	51,672,068	41,715,299
Customer deposits	19	377,518,700	385,810,220
Islamic customer deposits	20	86,678,334	86,370,611
Debt issued and other borrowed funds	21	54,662,670	49,317,315
Sukuk payable	22	5,510,933	3,679,921
Negative fair value of derivatives	38	10,775,231	5,565,219
Customer acceptances	41	8,837,724	10,227,557
Other liabilities	23	17,813,715	19,027,561
TOTAL LIABILITIES		613,469,375	601,713,703
EQUITY			
Issued capital	24	6,316,598	6,316,598
Treasury shares		(46,175)	(46,175)
Tier I capital notes	25	10,379,786	9,468,272
Share premium reserve	24	17,954,164	17,954,164
Legal and statutory reserve	26	3,158,299	3,158,299
Other reserves	26	2,945,393	2,945,393
Fair value reserve	26	476,692	131,484
Currency translation reserve	26	(3,607,673)	(1,706,736)
Retained earnings		47,014,778	43,375,416
TOTAL EQUITY ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP		84,591,862	81,596,715
Non-controlling interest		26,236	10,146
TOTAL EQUITY		84,618,098	81,606,861
TOTAL LIABILITIES AND EQUITY		698,087,473	683,320,564

The attached Notes 1 to 51 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 9.



Chairman



Vice Chairman



Chief Executive Officer

GROUP CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 AED 000	2019 AED 000
Interest and similar income	27	25,228,101	24,686,936
Interest and similar expense	27	(9,191,762)	(10,079,074)
Net interest income		16,036,339	14,607,862
Income from Islamic financing and investment products	28	2,789,375	3,334,758
Distribution on Islamic deposits and profit paid to Sukuk holders	29	(1,338,514)	(1,755,107)
Net income from Islamic financing and investment products		1,450,861	1,579,651
Net interest income and income from Islamic financing and investment products net of distribution to depositors		17,487,200	16,187,513
Fee and commission income		5,626,623	5,803,089
Fee and commission expense		(1,972,060)	(1,862,998)
Net fee and commission income	30	3,654,563	3,940,091
Net gain/(loss) on trading securities	31	180,044	208,800
Other operating income	32	1,888,901	2,082,111
Total operating income		23,210,708	22,418,515
General and administrative expenses	33	(7,856,307)	(7,207,079)
Operating profit before impairment		15,354,401	15,211,436
Net impairment loss on financial assets	34	(7,936,109)	(4,818,070)
Operating profit after impairment		7,418,292	10,393,366
Gain on disposal of stake in jointly controlled entity and fair value gain on retained interest		-	4,389,309
Share of profit/(loss) of associates and joint ventures		12,173	19,418
Gain on bargain purchase		-	92,020
Group profit for the year before tax		7,430,465	14,894,113
Taxation charge		(465,296)	(390,430)
Group profit for the year after tax		6,965,169	14,503,683
Attributable to:			
Equity holders of the Group		6,959,545	14,502,603
Non-controlling interest		5,624	1,080
Group profit for the year after tax		6,965,169	14,503,683
Adjusted earnings per share	37	1.00	1.68

The attached Notes 1 to 51 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 9.

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 AED 000	2019 AED 000
Group profit for the year after tax	6,965,169	14,503,683
Other comprehensive income		
Items that will not be reclassified subsequently to the income statement:		
Actuarial gains/(losses) on retirement benefit obligations	(52,397)	(26,549)
Movement in fair value reserve (equity instruments):		
- Net change in fair value	(468,848)	139,526
- Net amount transferred to retained earnings	-	(65,295)
Items that may be reclassified subsequently to the income statement:		
Cost of hedging for forward element of a forward and currency basis spread excluded from hedge effectiveness testing:		
Net changes in the cost of hedging	(13,776)	16,162
Cash flow hedges:		
- Effective portion of changes in fair value	509,082	(262,235)
Fair value reserve (debt instruments):		
- Net change in fair value	423,587	455,240
- Net amount transferred to income statement	(71,795)	(79,001)
- Related deferred tax	(33,042)	(65,304)
Currency translation reserve	(1,864,182)	(460,481)
Hedge of a net investment in foreign operations	(36,755)	(14,697)
Other comprehensive income for the year	(1,608,126)	(362,634)
Total comprehensive income for the year	5,357,043	14,141,049
Attributable to:		
Equity holders of the Group	5,351,419	14,139,969
Non-controlling interest	5,624	1,080
Total comprehensive income for the year	5,357,043	14,141,049

The attached Notes 1 to 51 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 9.

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

OPERATING ACTIVITIES

	2020 AED 000	2019 AED 000
Group profit before tax for the year	7,430,465	14,894,113
Adjustment for non-cash items (refer Note 45)	10,237,009	1,687,165
Operating profit before changes in operating assets and liabilities	17,667,474	16,581,278
(Increase)/decrease in interest free statutory deposits	7,033,996	(4,717,333)
(Increase)/decrease in certificate of deposits with Central Banks maturing after three months	100,000	(6,293,307)
(Increase)/decrease in amounts due from banks maturing after three months	(2,740,567)	5,009,609
Increase/(decrease) in amounts due to banks maturing after three months	7,868,678	13,087,642
(Increase)/decrease in other assets	(482,443)	(850,494)
Increase/(decrease) in other liabilities	(3,118,476)	2,569,025
(Increase)/decrease in positive fair value of derivatives	(6,095,348)	(2,175,814)
Increase/(decrease) in negative fair value of derivatives	5,210,012	940,892
Increase/(decrease) in customer deposits	(8,291,520)	(4,042,939)
Increase/(decrease) in Islamic customer deposits	307,723	29,425,509
(Increase)/decrease in loans and receivables	(9,347,686)	(22,693,243)
(Increase)/decrease in Islamic financing receivables	(4,639,297)	(3,452,431)
Net cash flows generated from/(used in) operations	3,472,546	23,388,394
Taxes paid	(388,641)	(438,214)
Net cash flows generated from/(used in) operating activities	3,083,905	22,950,180

INVESTING ACTIVITIES

(Increase)/decrease in investment securities	(18,087,312)	(20,771,328)
(Increase)/decrease in investments in associates and joint ventures	-	(7,008)
(Increase)/decrease of investment properties	-	(11,703)
(Increase)/decrease of property and equipment	(747,232)	(131,553)
Dividend income received	22,059	21,584
Disposal of stake in jointly controlled entity	-	4,222,307
Acquisition of a subsidiary	-	(3,755,167)
Net cash flows generated from/(used in) investing activities	(18,812,485)	(20,432,868)

FINANCING ACTIVITIES

Proceeds from rights issue	-	6,442,863
Issuance of debt issued and other borrowed funds	18,264,098	15,624,311
Repayment of debt issued and other borrowed funds	(13,487,491)	(11,230,938)
Repayment of debt on acquisition	-	(4,408,892)
Issuance of Sukuk	1,836,250	-
Issuance of Tier I capital notes	2,747,764	3,663,696
Repayment of Tier I capital notes	(1,836,250)	(3,672,500)
Interest on Tier I capital notes	(651,088)	(664,786)
Dividends paid	(2,524,278)	(2,220,749)
Net cash flows generated from/(used in) financing activities	4,349,005	3,533,005
(Decrease)/increase in cash and cash equivalents (refer Note 45)	(11,379,575)	6,050,317

The attached Notes 1 to 51 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 9.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium reserve (a)	Legal and statutory reserve (c)	Other reserves (c)	Fair value reserve (c)	Currency translation reserve (c)	Retained earnings	Total	Non-controlling interest	Group Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2020	6,316,598	(46,175)	9,468,272	17,954,164	3,158,299	2,945,393	131,484	(1,706,736)	43,375,416	81,596,715	10,146	81,606,861
Profit for the year	-	-	-	-	-	-	-	-	6,959,545	6,959,545	5,624	6,965,169
Other comprehensive income for the year	-	-	-	-	-	-	345,208	(1,900,937)	(52,397)	(1,608,126)	-	(1,608,126)
Tier I capital notes issued during the year (Note 25)	-	-	2,747,764	-	-	-	-	-	-	2,747,764	-	2,747,764
Tier I capital notes redeemed during the year (Note 25)	-	-	(1,836,250)	-	-	-	-	-	-	(1,836,250)	-	(1,836,250)
Gain/loss on sale of FVOCI equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(651,088)	(651,088)	-	(651,088)
Issuance of right shares	-	-	-	-	-	-	-	-	-	-	-	-
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	-	10,466	10,466
Dividends paid*	-	-	-	-	-	-	-	-	(2,524,278)	(2,524,278)	-	(2,524,278)
Transfer to reserves	-	-	-	-	-	-	-	-	-	-	-	-
Directors' fees (refer Note 35)	-	-	-	-	-	-	-	-	(31,000)	(31,000)	-	(31,000)
Zakat	-	-	-	-	-	-	-	-	(61,420)	(61,420)	-	(61,420)
Balance as at 31 December 2020	6,316,598	(46,175)	10,379,786	17,954,164	3,158,299	2,945,393	476,692	(3,607,673)	47,014,778	84,591,862	26,236	84,618,098

*Dividend paid is net of the amount attributable to treasury shares.

The attached Notes 1 to 51 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 9.

Notes:

- (a) For further details refer to Note 24
- (b) For further details refer to Note 25
- (c) For further details refer to Note 26

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium reserve (a)	Legal and statutory reserve (c)	Other reserves (c)	Fair value reserve (c)	Currency translation reserve (c)	Retained earnings	Total	Non-controlling interest	Group Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2019	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	(72,904)	(1,231,558)	32,412,538	64,015,297	9,066	64,024,363
Profit for the year	-	-	-	-	-	-	-	-	14,502,603	14,502,603	1,080	14,503,683
Other comprehensive income for the year	-	-	-	-	-	-	139,093	(475,178)	(26,549)	(362,634)	-	(362,634)
Tier I capital notes issued during the year (Note 25)	-	-	3,663,696	-	-	-	-	-	-	3,663,696	-	3,663,696
Tier I capital notes redeemed during the year (Note 25)	-	-	(3,672,500)	-	-	-	-	-	-	(3,672,500)	-	(3,672,500)
Gain/loss on sale of FVOCI equity instruments	-	-	-	-	-	-	65,295	-	(65,295)	-	-	-
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(664,786)	(664,786)	-	(664,786)
Issuance of right shares	758,823	-	-	5,684,040	-	-	-	-	-	6,442,863	-	6,442,863
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid*	-	-	-	-	-	-	-	-	(2,220,749)	(2,220,749)	-	(2,220,749)
Transfer to reserves	-	-	-	379,411	-	75,860	-	-	(455,271)	-	-	-
Directors' fees (refer Note 35)	-	-	-	-	-	-	-	-	(31,000)	(31,000)	-	(31,000)
Zakat	-	-	-	-	-	-	-	-	(76,075)	(76,075)	-	(76,075)
Balance as at 31 December 2019	6,316,598	(46,175)	9,468,272	17,954,164	3,158,299	2,945,393	131,484	(1,706,736)	43,375,416	81,596,715	10,146	81,606,861

*Dividend paid is net of the amount attributable to treasury shares.

The attached Notes 1 to 51 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 9.

Notes:

- (a) For further details refer to Note 24
- (b) For further details refer to Note 25
- (c) For further details refer to Note 26

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1 CORPORATE INFORMATION

Emirates NBD Bank PJSC (the "Bank") was incorporated in the United Arab Emirates on 16 July 2007 consequent to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"), under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company.

The consolidated financial statements for the year ended 31 December 2020 comprise the financial statements of the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The Bank is listed on the Dubai Financial Market (TICKER: "EMIRATESNBD"). The Group's principal business activities are corporate and institutional banking, retail banking, treasury and Islamic banking. The Bank's website is www.emiratesnbd.com. For details of activities of subsidiaries, refer to Note 40.

The registered address of the Bank is Post Box 777, Dubai, United Arab Emirates (UAE).

The parent company of the Group is Investment Corporation of Dubai, a company in which the Government of Dubai is the majority shareholder.

2 BASIS OF ACCOUNTING

Statement of Compliance

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

The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

3 FUNCTIONAL AND PRESENTATION CURRENCY

The presentation currency of the consolidated financial statements is the United Arab Emirates Dirham (AED). The functional currency for a significant proportion of the Group's assets, liabilities, income and expenses is also AED. However, certain subsidiaries have functional currencies other than AED and the AED is the presentation currency.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

4 BASIS OF MEASUREMENT

The Group consolidated financial statements have been prepared under the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments classified as trading and at fair value through profit or loss (FVTPL) are measured at fair value;
- financial assets at fair value through other comprehensive income; and
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 5.

5 USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant items where the use of estimates and judgments are required are outlined below:

(i) Financial Instruments

Judgments made in applying accounting policies that have most significant effects on the amounts recognised in the consolidated financial statements for the year ended 31 December 2020 pertain to:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.
- Calculation of Expected Credit Loss (ECL): Assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2020. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation

Key concepts that have the most significant impact and require a high level of judgment, as considered by the Group while determining the ECL, are:

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial Instruments (continued)

Inputs, assumptions and techniques used for ECL calculation (continued)

Assessment of Significant Increase in Credit Risk (continued)

credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

The Group's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. The Group has established thresholds for significant increase in credit risk based on movement in Probability of Default relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impaired is based on individual assessment of financial assets for objective evidence of impairment.

The Group reviews its loans and receivables portfolio and Islamic financing receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans and receivables or Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

Assessment of Significant Increase in Credit Risk (Covid-19)

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

During 2020, the Group has initiated a program of payment relief to support its impacted customers either by deferring interest/principal for a period or through adjustment of monthly installments. The Group believes that the extension of payment reliefs does not automatically trigger SICR where the impact on customer's business is expected to be short term. For all other customers, the Group continues to consider severity and extent of potential Covid-19 impact on economic sector and future outlook, cash flow and financial strength, agility and change in risk profile along with the past track record in determining SICR.

As per the disclosure requirements of the Central Bank of UAE (CBUAE) in the context of Covid-19, for the UAE operations, the Group has divided its customers benefitting from payment deferrals into two groups

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial Instruments (continued)

Inputs, assumptions and techniques used for ECL calculation (continued)

Assessment of Significant Increase in Credit Risk (Covid-19) (continued)

(Group 1 and Group 2). Customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues caused by Covid-19 crisis, are categorised in Group 1. Customers expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals are categorised in Group 2.

Customers expected to be significantly impacted by Covid-19 in the long term and that are expected to face substantial deterioration in their creditworthiness have been migrated to Stage 2 and categorised in Group 2. In exceptional circumstances, Stage 3 migration may have also been triggered where a customer's business, income streams and interest servicing capacity were expected to be permanently impaired. Such customers have also been categorised in Group 2.

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

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions.

The estimation and application of forward-looking information requires significant judgment based on the macroeconomic variables (or changes in macroeconomic variables) such as occupancy rates, oil prices, housing price index and GDP (where applicable), that are closely correlated with credit losses in the relevant portfolio and represent the underlying causal effects of changes in these economic conditions. Each macroeconomic scenario used in the Group's ECL calculation will have projected forecasts of the relevant macroeconomic variables.

The Group estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Base case scenario is based on macroeconomic forecasts published by the external experts and other publicly available data. Upside and downside scenarios are set relative to the Group base case scenario based on reasonably possible alternative macroeconomic conditions. Additionally, identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.

Scenarios are probability-weighted according to the Group's best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities. In some instances, the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Group's governance process for oversight.

Sensitivity assessment due to movement in each macroeconomic variable and the respective weights under the three scenarios is periodically assessed by the Group.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial Instruments (continued)

Inputs, assumptions and techniques used for ECL calculation (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (continued)

The table below summarises key macroeconomic indicators included in the economic scenarios for respective operating regions relevant to their markets at 31 December 2020 for the years ending 2020 to 2024:

	Base Scenario					Upside Scenario					Downside Scenario				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
UAE															
Oil Price - USD	43	48	58	63	65	43	53	65	69	71	43	30	28	42	50
GDP - Change %	(5.4)	1.8	2.7	2.2	2.4	(5.4)	6.3	5.3	2.0	2.0	(5.4)	(8.0)	(1.8)	3.8	5.1
Imports - AED in Bn	1,016	1,100	1,170	1,233	1,292	1,016	1,174	1,306	1,391	1,461	1,016	963	966	1,026	1,103
KSA															
Oil GDP - SAR in Trn	1.03	1.06	1.09	1.11	1.13	1.03	1.10	1.12	1.15	1.18	1.03	0.96	0.94	0.98	1.02
Unemployment - %	13.1	13.4	13.2	13.0	12.9	13.1	13.4	13.1	12.9	12.8	13.1	13.6	13.5	13.4	13.2
Turkey															
Real GDP - Growth%	(2.1)	3.0	4.6	4.3	-	1.0	2.6	5.4	4.6	-	(3.5)	2.0	4.5	3.5	-
Unemployment - %	14.5	14.0	13.5	13.0	-	14.0	13.5	12.8	12.0	-	15.0	14.5	14.0	13.5	-

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (Covid-19)

In light of the current uncertain economic environment, the Group continued to assess a range of possible macro economic scenarios and associated weights, and analysed their impact on ECL estimates for the year 2020. Accordingly, the Group updated its quarterly macro economic forecasts in 2020 to reflect the impact of Covid-19, using baseline, upside and downside scenarios with 40%-30%-30% weightings respectively with the exception of Turkey that uses 50%-25%-25%. The Group also applied portfolio-level ECL adjustments to corporate exposures based upon affected sectors, as well as to retail customers availing deferrals based upon employment status and level of salary inflows. The Group continues to assess individually significant exposures for any adverse movements due to Covid-19.

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

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial instruments (continued)

Inputs, assumptions and techniques used for ECL calculation (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (Covid-19) (continued)

Expected Life

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

Governance

In addition to the existing risk management framework, the Group has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and the Economist teams and are responsible for reviewing and approving key inputs and assumptions used in the Group ECL estimates. It also assesses the appropriateness of the overall allowance results to be included in the Group financial statements.

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Impairment of goodwill

On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(iv) Impairment loss on investment in associates and jointly controlled entities

Management reviews its share of investments in associates and jointly controlled entities to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and jointly controlled entities and choosing a suitable discount rate in order to calculate the present value of those cash flows.

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

6 CHANGES IN ACCOUNTING POLICIES

The Group has consistently applied the accounting policies as set out in Note 7 to all periods presented in these consolidated financial statements, except for the following accounting policies which are applicable from 1 January 2020:

IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS)

Effective from 1 January 2020, the Group implemented amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures relating to interest rate benchmark reforms. The amendments (referred as Phase 1 of IBOR transactions project) provides relief from the hedge accounting requirements for those hedges existing before the Inter Bank Offer Rate ("IBOR") replacement and the relief allow users to use the existing forward looking analysis/curves for period beyond year 2021. The Group has applied this hedging relief. The Group's exposure to hedging instruments (Interest Rate Swaps and Cross-Currency Swaps) and hedged items maturing from the year 2021 onwards which are in scope of the IFRS 9 amendments include Fair Value Hedges with notional values of USD 1.5 billion on the receiving leg and USD 3.3 billion on the paying leg; and Cash Flow Hedges with notional values of USD 1 billion on the receiving leg.

On 27 August 2020, Interest Rate Benchmark Reform — Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Phase 2 amendments (referred as Phase 2 of IBOR transactions project) was released by the IASB. The areas impacted by the amendments include application of practical expedient for accounting for modifications of financial assets and financial liabilities when transactions are updated for the new IBOR rates (will not result in derecognition), relief on changes to hedge designations and hedge documentation (a change to hedge designations and hedge documentation required by IBOR reform would not result in discontinuation of hedge accounting) and providing disclosures that enable users to understand nature and extent of risks arising from interest rate benchmark reform to which the Group is exposed and how it manages those risks. The amendments are effective from 1 January 2021 and are applied retrospectively with no restatement required for prior periods.

Management is running a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

7 SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these Group consolidated financial statements, except for the changes explained in Note 6.

(a) Principles of Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses 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. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The list of the Group's subsidiary companies is shown in Note 40.

Basis of Consolidation

The Group consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the Group consolidated financial statements are prepared for the same reporting date as the Bank with the exception of Emirates NBD Capital PSC, an insignificant subsidiary, whose year end is 31 March and hence the Group uses their reviewed 12 months accounts as at 31 December. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated.

Business combinations are accounted for by applying the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date, fair value of assets transferred by group, liability incurred and equity interest issued by the group in exchange for control of the acquiree. Identifiable assets acquired and liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of Consolidation (continued)

(i) Subsidiaries (continued)

Basis of Consolidation (continued)

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 9 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 7 (r). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of Consolidation (continued)

(ii) Special Purpose Entities

Special Purpose Entities (SPEs) are entities that are created to accomplish a well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if the Group is exposed to variable returns from its involvement in the SPE and has the ability to affect those returns through its power over the SPE based on an evaluation of the substance of its relationship with the Group.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- the Group has power over the SPE;
- the Group has exposure, or rights, to variable returns from its involvement with the SPE; and
- the Group has the ability to use its power over the SPE to affect the amount of the Group's returns.

The assessment of whether the Group has control over an SPE is carried out at inception and reassessed at each period end date or if there are changes in the structure/terms of additional transactions between the group and the SPE.

Information about the Group's securitisation activities is set out in Note 14.

(iii) Fund Management

The Group manages and administers funds on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management activity is set out in Note 47.

(iv) Fiduciary activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these Group consolidated financial statements. Income earned by the Group from its fiduciary activities is recognised in accordance with the accounting policies on fee and commission income.

(v) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the Group consolidated statement of comprehensive income and within equity in the Group consolidated balance sheet, separately from equity attributable to owners of the Bank.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of Consolidation (continued)

(vi) Joint Ventures

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The consolidated financial statements include the Group's share of the total recognised gains and losses of its jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

The carrying amounts of the jointly controlled entities are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The impairment loss is charged to income statement.

Upon loss of joint control, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the former joint venture entity upon loss of joint venture control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

(vii) Associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of over 20% of the voting rights, not being a subsidiary or a joint venture.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Under the equity method, the investment in associate is measured in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is shown on the face of the consolidated income statement.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of Consolidation (continued)

(vii) Associates (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the profit or loss.

The financial statements of the associates are prepared as of the same reporting date as for the Group. Where necessary, adjustments are made in the Group financial statements to align the accounting policies of the associates in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value.

Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

(b) Foreign Currencies

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting gain/loss on monetary items is taken to the 'Other operating income' in the income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the Group consolidated financial statements, assets and liabilities in foreign operations are translated into UAE Dirhams at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the currency translation reserve.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the reporting date.

Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to currency translation reserve.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedge is effective, are recognised in OCI.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest

Effective Interest Rate

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

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

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

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

Amortised Cost

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation of the difference between the initial amount and the maturity amount using the effective interest method and, for financial assets, adjusted for any loss allowance.

Gross Carrying Amount

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting any loss allowance.

Calculation of Interest Income and Expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost (as explained above) of the financial asset. If the financial asset is no longer credit-impaired, then the calculation of interest income reverts to the gross carrying amount (as explained above).

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest (continued)

Presentation

Interest Income and Expense Presented in the income statement include:

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

(d) Fees and Commission

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

Fee income is accounted for as follows:

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

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

(e) Net Trading Income

Net trading income comprises gains less losses to trading assets and liabilities, and includes all fair value changes, dividends and foreign exchange differences.

(f) Dividend Income

Dividend income is recognised when the Group's right to receive the dividend is established.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property Related Income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(h) Leases

Under IFRS 16, the Group recognises a right-of-use asset and a lease liability at lease commencement for all leases, except for short term leases and leases of low value assets.

The Group initially measures the right-of-use asset at cost and subsequently measures at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

The Group initially measures the lease liability at the present value of the future lease payments discounted using the discount rate implicit in the lease. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The Group has elected to apply the expedient allowed by IFRS 16 on its general requirements to short-term leases (i.e. one that does not include a purchase option and has a lease term at commencement date of 12 months or less) and leases of low value assets. For this, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term or another systematic basis if that basis is representative of the pattern of the lessee's benefits, similar to the current accounting for operating leases.

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

Where the Group leases out its investment property, the Group has classified these as operating leases.

(i) Income Taxes and Deferred Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be settled with the tax authorities.

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to be realised or the liability is expected to be settled.

Deferred tax assets are reviewed periodically to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Income Taxes and Deferred Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax asset against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and current tax liabilities on a net basis.

(j) Financial Assets and Financial Liabilities

(i) Classification of Financial Assets and Financial Liabilities

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

(ii) Recognition and Initial Measurement

The Group initially recognises loans and receivables, Islamic financing receivables, deposits, debts and sukuks issued on the date on which they are originated or acquired. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(ii) Recognition and Initial Measurement (continued)

Business Model Assessment:

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment whether contractual cash flows are solely payments of principal and interest:

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(ii) Recognition and Initial Measurement (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued)

See note on investment securities, loans and receivable and cash and cash equivalents for further details.

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

The Group classifies financial liabilities as held for trading when they have issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

(iii) Impairment

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the 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.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(iii) Impairment (continued)

Measurement of ECL

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured Financial Assets

If 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 borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(iii) Impairment (continued)

Credit-impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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 interest income is subsequently recognised based on a credit-adjusted EIR. Life time ECLs are only recognised or released to the extent that there is a subsequent change in the ECL.

Revolving Facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit 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 behaviour, 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.

Write-off

Loans and debt securities 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.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(iv) Financial Guarantees and Loan Commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortised cost when payment under the contract has become probable.

'Loans commitments' are firm irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or irrevocable commitments to provide credit are initially measured at fair value and their initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

(v) Foreign Currencies

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised through OCI.

(vi) Loans and Receivable

'Loans and receivable' captions in the statement of financial position include:

- Loans and receivable measured at amortised cost: they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method and are presented net of expected credit losses; and
- Loans and receivables measured at FVTPL or designated as at FVTPL: these are measured at fair value with changes recognised immediately in profit or loss, if applicable.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance or due from banks, and the underlying asset is not recognised in the Group's financial statements.

(vii) Investment Securities

The 'investment securities' caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVTPL or designated as at FVTPL: these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as FVOCI.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(vii) Investment Securities (continued)

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses on equity instruments recognised in OCI are transferred to retained earnings on disposal of an investment.

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of the ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards or ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(viii) Derecognition (continued)

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

(ix) Modification of Financial Assets and Financial Liabilities

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

(x) Offsetting

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

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

(xi) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of principal market, in the most advantageous market for the asset and liability.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(xi) Fair Value Measurement (continued)

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

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

Fair value is applicable to both financial and non-financial instruments.

(xii) Designated at FVTPL

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise rise.

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

- (a) The liabilities are managed, evaluated and reported internally on a fair value basis; or
- (b) The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

A description of the basis of each designation is set out in relevant notes for the asset or liability class.

(xiii) Sale and Repurchase Agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Group consolidated financial statements when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(k) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Trading Assets and Liabilities

Trading assets are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

(m) Derivatives Held for Risk Management Purposes and Hedge Accounting

The Group follows a hedge accounting model that aligns hedge accounting more closely with risk management. The model measures hedge effectiveness through an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

The Group also performs rebalancing of hedging relationships, whereby, if a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Group shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in 'income from trading activities' except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in 'other operating income'.

Hedging instruments include futures, forwards, options and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rates and currency risk.

Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
- Hedge of net investment in a foreign operation.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Derivatives Held for Risk Management Purposes and Hedge Accounting (continued)

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(i) Fair Value Hedge

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 profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash Flow Hedge

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 or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivative is recognised in other comprehensive income within 'Cash flow hedges – fair value gains/(losses)'. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the consolidated income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the consolidated income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, then hedge accounting is discontinued prospectively, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Derivatives Held for Risk Management Purposes and Hedge Accounting (continued)

(iii) Net Investment Hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and accumulated in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in consolidated income statement. The amount recognised in other comprehensive income is reclassified to the consolidated income statement as an adjustment on disposal of the foreign operation.

(iv) Derivatives that do not Qualify for Hedge Accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(v) Embedded Derivatives

Derivatives embedded in financial assets, liabilities and non-financial host contracts, are treated as separate derivatives and recorded at fair value if they meet the definition of a derivative, their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

(n) Islamic Financing Receivables

Islamic financing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These products are carried at amortised cost less impairment.

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istisna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Islamic Financing Receivables (continued)

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent instalments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement or substantially all the risks and returns related to the ownership.

Mudaraba

An agreement between two parties; wherein one of them provides the funds and is called Rab-ul-Mal and the other provides efforts and expertise and is called the Mudarib and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-ul-Mal would bear the loss of his funds while the Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rab-ul-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(ii) Revenue Recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istisna'a cost) are accounted for on a time proportion basis.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Islamic Financing Receivables (continued)

(ii) Revenue Recognition (continued)

Wakala

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(o) Inventory

Properties acquired in settlement of debt are held as inventory and are stated at lower of cost or net realisable value. Directly attributable costs incurred in the acquisition of inventory is included as part of cost of the inventory.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date.

(p) Property, Equipment and Depreciation

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

Subsequent costs are included in the asset's carrying amount or are 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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 - 60 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 - 5 years
Core banking software	5 - 7 years
Motor vehicles	3 - 5 years

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Investment Properties

The Group holds certain properties as investments to earn rental income, for capital appreciation, or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment (if any).

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in 'other operating income' in the year of retirement or disposal.

Transfers to and from investment properties are made only when there is a change in use based on the business model.

(r) Intangible Assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on Acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable net assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (bargain purchase), it is recognised immediately in the Group consolidated income statement.

Measurement

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the consolidated income statement. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Intangible Assets (continued)

(i) Goodwill (continued)

Measurement (continued)

amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Capitalised Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the Group consolidated income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use.

(iii) Other Intangible Assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite or indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the Group consolidated income statement in the expense category consistent with the function of the intangibles.

(s) Impairment of Non-financial Assets

The carrying amounts of the Group's non-financial assets are reviewed periodically to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the consolidated income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Impairment of Non-financial Assets (continued)

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

(t) Deposits, Debts and Sukuks Issued

Deposits, debts and sukuks issued are the main sources of funding for the Group.

Deposits, debts and sukuks issued are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, 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.

(v) Employee Benefits

(i) Pension Obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination Gratuity Benefit Scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the consolidated income statement.

The present value of the gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for gratuities include the discount rate. Any changes in these assumptions will impact the carrying amount of gratuity obligations. The value of the gratuity obligations is based on the report submitted by an independent actuarial firm.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Dividend on Shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders in the Annual General Meeting. Dividends approved after the year-end are recognised as a liability and paid in the subsequent period.

(x) Share Capital and Reserves

(i) Perpetual Bonds

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's perpetual bonds are not redeemable by holders and bear an entitlement to distributions that is non-cumulative and at the discretion of the board of directors. Accordingly, they are presented as a component of issued capital within equity. Distributions thereon are recognised in equity. Related income tax is accounted for in accordance with IAS 12 – Income taxes.

(ii) Share Issue Costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(y) Earnings Per Share

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

(z) Operating Segments

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the segments under their charge.

The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 39.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related Parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries:
 - controls, is controlled by, or is under common control with, the Group;
 - has an interest in the Group that gives it significant influence over the Group; or
 - has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(ab) Revenue Recognition

Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group also operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained.

8 STANDARDS ISSUED BUT NOT YET ADOPTED

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective date
Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.		1 January 2021

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

9 CASH AND DEPOSITS WITH CENTRAL BANKS

	2020 AED 000	2019 AED 000
Cash	4,488,333	4,461,421
Statutory and other deposits with Central Banks	42,942,928	49,976,924
Interest bearing placements with Central Banks	218,096	7,646
Murabahas and interest bearing certificates of deposits with Central Banks*	53,195,536	54,913,791
Less: Expected credit losses	(2,997)	(2,835)
	<u>100,841,896</u>	<u>109,356,947</u>

Certain interest bearing placements have been reclassified in 2019 to 'Statutory and other deposits with the Central Bank' as the Group is unlikely to meet the eligible thresholds to receive interest on such placements.

The reserve requirements which are kept with the Central Banks of the countries in which the Group operates are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the relevant Central Bank. The level of reserves required changes periodically in accordance with the directives of the respective Central Banks.

*Murabahas and certificates of deposits with Central Banks amounting to AED 5,150 million (September 2020: AED 3,447 million) were collateralised for the purpose of obtaining Zero Cost Funding from the CBUAE amounting to AED 5,058 million (September 2020: AED 3,415 million) presented under 'Due to banks'.

10 DUE FROM BANKS

	Local (UAE) AED 000	Foreign AED 000	Total AED 000
31 December 2020			
Time loans	3,089,380	27,387,759	30,477,139
Overnight, call and short notice	216,770	4,424,333	4,641,103
Gross due from banks	3,306,150	31,812,092	35,118,242
Less: Expected credit losses			(120,562)
			<u>34,997,680</u>
31 December 2019			
Time loans	6,320,562	27,600,461	33,921,023
Overnight, call and short notice	1,553,988	4,776,736	6,330,724
Gross due from banks	7,874,550	32,377,197	40,251,747
Less: Expected credit losses			(84,206)
			<u>40,167,541</u>

The average yield on these placements was 1.69% p.a. (2019: 2.36% p.a.).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

11 INVESTMENT SECURITIES

31 December 2020

TRADING SECURITIES
MEASURED AT FVTPL

	Domestic* AED 000	Regional** AED 000	International*** AED 000	Total AED 000
Government Bonds	370,832	2,195,355	457,835	3,024,022
Corporate Bonds	1,133,655	978,181	648,545	2,760,381
Equity	-	-	108,608	108,608
Others	-	-	2,891	2,891
	<u>1,504,487</u>	<u>3,173,536</u>	<u>1,217,879</u>	<u>5,895,902</u>

DESIGNATED AS AT FVTPL

Corporate Bonds	-	-	-	-
Equity	44,635	112,397	43,222	200,254
Others	543	3,041	75,529	79,113
	<u>45,178</u>	<u>115,438</u>	<u>118,751</u>	<u>279,367</u>

MEASURED AT AMORTISED
COST

Government Bonds	12,791,415	20,801,015	12,026,255	45,618,685
Corporate Bonds	2,130,368	1,288,540	562,324	3,981,232
	<u>14,921,783</u>	<u>22,089,555</u>	<u>12,588,579</u>	<u>49,599,917</u>
Less: Expected credit losses				(22,394)
				<u>49,577,523</u>

MEASURED AT FVOCI - DEBT
INSTRUMENTS

Government Bonds	-	1,685,804	10,162,174	11,847,978
Corporate Bonds	3,247,792	641,219	745,619	4,634,630
	<u>3,247,792</u>	<u>2,327,023</u>	<u>10,907,793</u>	<u>16,482,608</u>
Less: Expected credit losses				(30,690)
				<u>16,451,918</u>

MEASURED AT FVOCI -
EQUITY INSTRUMENTS

Equity	1,715	54,708	434,154	490,577
	<u>1,715</u>	<u>54,708</u>	<u>434,154</u>	<u>490,577</u>
Gross Investment securities	19,720,955	27,760,260	25,267,156	72,748,371
Net Investment securities				<u>72,695,287</u>

*Domestic: These are securities issued within the UAE.

**Regional: These are securities issued within the Middle East.

***International: These are securities issued outside the Middle East region.

Investment securities with a carrying value of AED 184 million (September 2020: AED 2,584 million) were collateralised for the purpose of obtaining Zero Cost Funding from the CBUAE amounting to AED 184 million (September 2020: AED 2,584 million) presented under 'Due to banks'.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

11 INVESTMENT SECURITIES (CONTINUED)

31 December 2019	Domestic* AED 000	Regional** AED 000	International*** AED 000	Total AED 000
<u>TRADING SECURITIES MEASURED AT FVTPL</u>				
Government Bonds	149,724	1,251,160	459,499	1,860,383
Corporate Bonds	563,802	280,033	1,192,055	2,035,890
Equity	-	-	94,751	94,751
Others	-	-	1,247	1,247
	713,526	1,531,193	1,747,552	3,992,271
<u>DESIGNATED AS AT FVTPL</u>				
Corporate Bonds	-	-	21,925	21,925
Equity	131,236	166,032	89,289	386,557
Others	762	79,736	84,431	164,929
	131,998	245,768	195,645	573,411
<u>MEASURED AT AMORTISED COST</u>				
Government Bonds	4,121,228	12,385,407	16,464,473	32,971,108
Corporate Bonds	804,904	1,194,750	1,898,882	3,898,536
	4,926,132	13,580,157	18,363,355	36,869,644
Less: Expected credit losses				(18,641)
				36,851,003
<u>MEASURED AT FVOCI - DEBT INSTRUMENTS</u>				
Government Bonds	-	876,623	8,652,752	9,529,375
Corporate Bonds	1,971,055	355,724	825,978	3,152,757
	1,971,055	1,232,347	9,478,730	12,682,132
Less: Expected credit losses				(11,172)
				12,670,960
<u>MEASURED AT FVOCI - EQUITY INSTRUMENTS</u>				
Equity	1,689	66,087	892,045	959,821
	1,689	66,087	892,045	959,821
Gross Investment securities	7,744,400	16,655,552	30,677,327	55,077,279
Net Investment securities				55,047,466

*Domestic: These are securities issued within the UAE.

**Regional: These are securities issued within the Middle East.

***International: These are securities issued outside the Middle East region.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

12 ACQUISITION OF DENIZBANK A.S

During 2019, the Group acquired the entire equity in DenizBank A.S for a consideration of TRY 15,078 million (AED 10,015 million).

DenizBank's revenue included in the consolidated income statement is AED 7,257 million (2019: AED 3,643 million). DenizBank also contributed profit of AED 1,369 million (2019: AED 609 million).

13 LOANS AND RECEIVABLES

	2020 AED 000	2019 AED 000
(a) <u>By Type</u>		
At Amortised Cost		
Overdrafts	147,606,488	150,166,905
Time loans	244,809,965	233,270,602
Loans against trust receipts	7,915,401	8,054,202
Bills discounted	3,594,752	4,475,928
Credit card receivables	12,842,426	12,711,497
Total loans and receivables	416,769,032	408,679,134
Less: Expected credit losses	(28,845,608)	(23,790,153)
	387,923,424	384,888,981
Total of credit impaired loans and receivables	23,997,211	21,155,908
(b) <u>By Business Units</u>		
Corporate and institutional banking	309,643,112	307,296,769
Retail banking	78,280,312	77,592,212
	387,923,424	384,888,981

Expected credit losses on loans and receivables have been disclosed in further detail in Note 49 (I).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

14 LOANS SECURITISATION

(a) Incorporation of Emirates NBD Asset Finance Companies in Ireland and Cayman Islands for asset securitisation

On 8 June 2012, ENBD Asset Finance Company No.1 Designated Activity Company (DAC) and on 1 June 2012, ENBD Asset Finance Company No. 2 Limited were incorporated under the respective Companies Law (Ireland and Cayman Islands) as Special Purpose Entities (SPEs). The principal activities of these companies are to purchase portfolios of loans through issuance of notes.

On 9 October 2012, the Group transferred corporate loans and receivables amounting to AED 1,876 million to ENBD Asset Finance Company No.1 DAC. However, the Group is exposed to all the credit risk and rewards associated with the transferred assets and hence the Group continues to recognise these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 1,876 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost. The assets and liabilities in the entity has since been derecognised and ENBD Asset Finance Company No.1 DAC is under liquidation.

On 28 October 2014, the Group transferred out loans and receivables amounting to AED 918 million to ENBD Asset Finance Company No.2 Limited and through ENBD Asset Finance Company No.2 Limited, entered into a total return swap contract referencing such loans and receivables thereby retaining all the risks and rewards associated with the loan exposure. The funding of AED 918 million secured by these assets is included under debt issued and other borrowed funds carried at amortised cost.

Since the Group is exposed to variable returns from its involvement in the SPEs and has the ability to affect those returns through its power over the SPEs, these SPEs are consolidated in compliance with IFRS 10.

As at 31 December 2020, the corporate loans and receivables balance transferred to Ireland and Cayman SPEs is AED 918 million (2019: AED 918 million) and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 918 million (2019: AED 918 million).

(b) Securitisation of Islamic Financing Receivables

Sukuk issuances of AED 3.7 billion and AED 1.8 billion were made during the year 2016 and 2020 respectively to raise US Dollar denominated medium term finance via a Sharia'a compliant sukuk financing arrangement. As at 31 December 2020 the total outstanding sukuk payable is AED 5.5 billion (2019: AED 3.7 billion).

The Group transferred certain identified Ijara and Murabaha assets totaling to AED 4.8 billion (the "co-owned assets") of its Subsidiary, Emirates Islamic Bank, to EIB Sukuk company limited – (the "Issuer"), a special purpose vehicle formed for the issuance of these sukuk. This medium term finance is carried at amortised cost.

In substance, the co-owned assets remain in control of the Group; accordingly these assets continue to be recognised by the Group. In case of any default, the Group has provided an undertaking to make good all losses to the sukuk holders. The assets are in the control of the Group and shall continue to be serviced by the Group.

The Issuer will pay a 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 distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, the Group has undertaken to repurchase the assets at the exercise price.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

15 ISLAMIC FINANCING RECEIVABLES

	2020 AED 000	2019 AED 000
At Amortised Cost		
Murabaha	39,841,875	36,528,944
Ijara	20,263,477	19,431,136
Wakala	454,006	882,328
Istisna'a	1,141,483	1,257,196
Credit cards receivable	1,483,910	1,491,354
Others	293,847	160,753
Total Islamic financing receivables	63,478,598	59,751,711
Less: Deferred income	(1,721,350)	(1,774,423)
Less: Expected credit losses	(6,139,203)	(5,436,242)
	55,618,045	52,541,046
Total of credit impaired Islamic financing receivables	5,820,703	4,868,545

Corporate Ijara assets amounting to AED 4.6 billion (2019: AED 2.3 billion) and Murabaha assets amounting to AED 0.2 billion (2019: AED 1.4 billion) were securitised for the purpose of issuance of Sukuk liability (refer Note 22 and 14b).

Expected credit losses on Islamic financing receivables have been disclosed in further detail in Note 49 (I).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

16 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles on Acquisition				Total
		Banking license	Customer relationships	Core deposit intangibles	Brands	
31 December 2020	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cost						
Balance as at 1 January	5,560,355	159,482	509,704	923,667	348,820	7,502,028
Foreign exchange movement*	1,359	3,597	(38,266)	(28,194)	(69,450)	(130,954)
	5,561,714	163,079	471,438	895,473	279,370	7,371,074
Less: Amortisation and impairment						
Balance as at 1 January	4,903	-	196,667	693,037	-	894,607
Amortisation and impairment for the year	-	-	94,024	69,272	-	163,296
Balance as at 31 December	4,903	-	290,691	762,309	-	1,057,903
Net Goodwill and Intangibles	5,556,811	163,079	180,747	133,164	279,370	6,313,171
31 December 2019						
Cost	5,560,355	159,482	509,704	923,667	348,820	7,502,028
Less: Amortisation and impairment	4,903	-	196,667	693,037	-	894,607
Net Goodwill and Intangibles	5,555,452	159,482	313,037	230,630	348,820	6,607,421

*Foreign exchange movement relates to translation of acquired Goodwill and intangibles pertaining to Emirates NBD Egypt and DenizBank using the period end exchange rate.

The goodwill and intangibles were acquired through business combinations. Goodwill and brands have indefinite life and are reviewed annually for impairment.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

16 GOODWILL AND INTANGIBLES (CONTINUED)

Impairment Testing of Goodwill

The goodwill acquired through business combinations with indefinite life is reviewed annually for impairment by comparing the recoverable amount based on value-in-use calculations for cash generating units (CGUs) to which goodwill has been allocated with its carrying value.

The goodwill has been allocated to four cash-generating units:

- Corporate and Institutional Banking
- Retail Banking and Wealth Management
- Global Markets and Treasury
- Emirates NBD Egypt

Based on the current impairment assessment, goodwill is not impaired as at 31 December 2020.

Key Assumptions used in Impairment Testing for Goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period and by applying a terminal growth rate thereafter.

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the projection period;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product (GDP); and
- Local inflation rates.

Interest Margins

Interest margins are based on prevailing market rates at the start of the budget period. These are changed over the budget period for anticipated market conditions.

Discount Rates

Discount rates reflect management's estimate of Return on Capital Employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

16 GOODWILL AND INTANGIBLES (CONTINUED)

Projected Growth Rate, GDP and Local Inflation Rates

Assumptions are based on published industry research.

The recoverable amount of goodwill of CGUs, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with an appropriate terminal growth rate applied thereafter. The forecast cash flows have been discounted using the WACC (5.22% for UAE and 19.33% for Egypt) in the jurisdiction where the CGU operates. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount of the CGUs as mentioned in the table below:

Cash Generating Units (CGUs)	Goodwill allocated to CGUs	Recoverable amount (AED million)	One percentage change in discount rate (AED million)	One percentage change in terminal growth rate (AED million)
Corporate and Institutional Banking	3,589	139,366	33,278	29,406
Retail Banking and Wealth Management	1,700	149,767	35,761	31,601
Global Markets and Treasury	206	26,412	6,242	5,516
Emirates NBD Egypt S.A.E	-	2,456	143	86

Based on the current impairment assessment, goodwill is not impaired as at 31 December 2020.

Intangibles

Acquired intangibles are recognised at their "fair value" upon initial recognition.

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles excluding banking license and brand are amortised using the straight-line method over the useful life of the asset, which is estimated to be between 3 and 11 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

The banking license and brand has an indefinite life and is tested for impairment annually. For impairment testing purposes, the banking license and brand are allocated to the relevant cash generating unit.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

17 OTHER ASSETS

	2020 AED 000	2019 AED 000
Accrued interest receivable	4,784,330	4,649,040
Islamic profit receivable	129,884	114,657
Prepayments and other advances	909,724	1,026,233
Sundry debtors and other receivables	3,046,706	2,504,710
Inventory	1,266,689	1,296,001
Deferred tax asset	882,845	626,610
Others	1,276,275	2,057,857
	<u>12,296,453</u>	<u>12,275,108</u>

18 DUE TO BANKS

	2020 AED 000	2019 AED 000
Demand and call deposits	4,075,248	2,543,717
Balances with correspondent banks	1,154,569	2,250,185
Repurchase agreements with banks*	5,988,940	501,000
Time and other deposits	40,453,311	36,420,397
	<u>51,672,068</u>	<u>41,715,299</u>

The interest paid on the above averaged 1.83% p.a. (2019: 3.03% p.a).

*This includes Zero Cost Funding obtained from the CBUAE under its 'Targeted Economic Support Scheme (TESS)' program amounting to AED 5,242 million which has been fully utilized to provide payment relief to the impacted customers.

19 CUSTOMER DEPOSITS

(a) <u>By Type</u>	2020 AED 000	2019 AED 000
Demand, call and short notice	164,239,579	137,894,750
Time	164,407,206	205,510,466
Savings	41,996,161	36,319,483
Others	6,875,754	6,085,521
	<u>377,518,700</u>	<u>385,810,220</u>

(b) <u>By Business Units</u>	2020 AED 000	2019 AED 000
Corporate and Institutional Banking and Treasury	164,399,736	184,560,219
Retail banking	213,118,964	201,250,001
	<u>377,518,700</u>	<u>385,810,220</u>

The interest paid on the above deposits averaged 1.55% p.a. (2019: 2.05% p.a.).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

20 ISLAMIC CUSTOMER DEPOSITS

	2020 AED 000	2019 AED 000
(a) <u>By Type</u>		
Demand, call and short notice	20,894,958	17,987,619
Time	50,862,923	56,729,289
Savings	14,747,031	11,265,223
Others	173,422	388,480
	<u>86,678,334</u>	<u>86,370,611</u>
(b) <u>By Business Units</u>		
Corporate and Institutional Banking and Treasury	47,560,402	36,752,541
Retail banking	39,117,932	49,618,070
	<u>86,678,334</u>	<u>86,370,611</u>

The profit paid on the above deposits averaged 1.40% p.a. (2019: 2.29% p.a.).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

21 DEBT ISSUED AND OTHER BORROWED FUNDS

	2020 AED 000	2019 AED 000
Medium term note programme	46,408,605	41,075,715
Term loans from banks	7,335,940	7,323,475
Borrowings raised from loan securitisations (refer Note 14)	918,125	918,125
	<u>54,662,670</u>	<u>49,317,315</u>

Some of the debts issued and other borrowed funds have been hedged for cash flow and fair value risks and amount to AED 25,187 million (2019: AED 20,156 million). For details of hedging instruments please refer to Note 38.

	2020 AED 000	2019 AED 000
Balance as at 1 January	49,317,315	40,715,230
Additions through acquisition	-	3,795,768
New issues	18,264,098	15,624,311
Repayments	(13,487,491)	(11,230,938)
Other movements*	568,748	412,944
Balance at end of year	<u>54,662,670</u>	<u>49,317,315</u>

*Represents exchange rate and fair value movements on debts issued in foreign currency. The Group hedges the foreign currency risk on public issuances through derivative financial instruments.

As at 31 December 2020, the outstanding medium term borrowings totaling AED 54,663 million (2019: AED 49,317 million) is falling due as below:

	2020 AED millions	2019 AED millions
2020	-	14,121
2021	13,396	12,128
2022	10,347	9,706
2023	3,235	1,941
2024	2,374	2,289
Beyond 2024	25,311	9,132
	<u>54,663</u>	<u>49,317</u>

The interest rate paid on the above averaged 3.32% p.a. in 2020 (2019: 3.82% p.a.).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

22 SUKUK PAYABLE

	2020 AED 000	2019 AED 000
Balance as at 1 January	3,679,921	3,685,160
New issues*	1,836,250	-
Other movements	(5,238)	(5,239)
Balance at end of year	5,510,933	3,679,921

*These are the US Dollar denominated Sukuk issued during September 2020 under a Sharia'a compliant Sukuk financing arrangement and will mature in September 2025.

As at 31 December 2020, the outstanding Sukuk payable totaling AED 5,511 million (31 December 2019: AED 3,680 million) is falling due as follows:

	2020 AED million	2019 AED million
2021	3,675	3,680
2025	1,836	-
	5,511	3,680

23 OTHER LIABILITIES

	2020 AED 000	2019 AED 000
Accrued interest payable	2,951,170	3,414,732
Profit payable to Islamic depositors	89,488	157,021
Managers' cheques	1,482,690	1,228,374
Trade and other payables	4,172,156	4,037,808
Staff related liabilities	1,326,558	1,304,970
Provision for taxation (refer Note 36)	311,961	235,306
Others	7,479,692	8,649,350
	17,813,715	19,027,561

24 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 6,316,598,253 ordinary shares of AED 1 each (2019: 6,316,598,253 ordinary shares).

During 2019, the Bank completed a rights issue exercise by issuing 758,823,529 new shares for an amount of AED 6,450,000,000.

At the forthcoming Annual General Meeting, the Group is proposing a cash dividend of AED 0.40 per share for the year (2019: AED 0.40 per share) amounting to AED 2,527 million (2019: AED 2,527 million).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

25 TIER I CAPITAL NOTES

The Group has issued a number of regulatory Tier 1 capital notes with details mentioned in the table below. The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default. The notes carry no maturity date and have been classified as equity.

Issuance Month/Year	Issued Amount	Coupon Rate
July 2020	USD 750 million (AED 2.75 billion)	Fixed interest rate with a reset after six years
March 2019	USD 1 billion (AED 3.67 billion)	Fixed interest rate with a reset after six years
June 2009	AED 4 billion	Fixed interest rate for the first five years and on a floating rate basis thereafter.

The Group has exercised its option to call back the following notes in September 2020 and as a result these have been repaid in full.

Issuance Month/Year	Issued Amount	Coupon Rate
September 2014	USD 500 million (AED 1.83 billion)	Fixed interest rate with a reset after six years

26 RESERVES

Legal and statutory reserves

In accordance with the Bank's Articles of Association, and in compliance with Decretal Federal Law No. (14) of 2018, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Since the legal and statutory reserve is equal to 50% of the Bank's issued capital, profit was not appropriated to the legal and statutory reserve during the year.

Other reserve

10% of the profit is also transferable to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital. Since the regular reserve is equal to 10% of the Bank's issued capital, profit was not appropriated to the regular reserve during the year.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2020	3,158,299	631,660	2,313,733	6,103,692
Transfer from retained earnings*	-	-	-	-
At 31 December 2020	3,158,299	631,660	2,313,733	6,103,692

*Prior year comparatives are shown in the consolidated statement of changes in equity.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

26 RESERVES (Continued)

Fair value reserve

Fair value reserve includes the net change in fair value of FVOCI financial assets and the net effective portion of changes in fair value of cash flow hedges.

Currency translation reserve

Currency translation reserve represents the exchange differences arising from re-translating the opening net investment in foreign operations.

27 NET INTEREST INCOME

	2020 AED 000	2019 AED 000
<u>Interest and similar income</u>		
Loans and receivables to customers	21,815,102	21,148,169
Loans and receivables to banks	1,181,785	1,945,362
Investment securities at FVOCI	943,310	691,301
Investment securities at amortised cost	1,140,980	761,300
Trading securities and designated at FVTPL investment securities	116,849	89,252
Others	30,075	51,552
Total interest income	25,228,101	24,686,936
<u>Interest and similar expense</u>		
Deposits from customers	(5,959,148)	(7,078,700)
Borrowings from banks and financial institutions	(916,690)	(728,552)
Debt issued and other borrowed funds	(2,103,703)	(2,061,396)
Others	(212,221)	(210,426)
Total interest expense	(9,191,762)	(10,079,074)
Net interest income	16,036,339	14,607,862

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

28 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2020 AED 000	2019 AED 000
Murabaha	1,358,502	1,737,660
Ijara	695,626	875,455
Istisna'a	48,041	51,253
Others	687,206	670,390
	2,789,375	3,334,758

29 DISTRIBUTION ON ISLAMIC DEPOSITS AND PROFIT PAID TO SUKUK HOLDERS

	2020 AED 000	2019 AED 000
Distribution to depositors	1,202,568	1,628,544
Profit paid to Sukuk holders	135,946	126,563
	1,338,514	1,755,107

Distribution on Islamic deposits represents the share of income between depositors and equity holders. The allocation and distribution to depositors is approved by the Fatwa and Sharia'a Supervisory Board of the Islamic banking subsidiaries.

Profit paid to Sukuk holders represents the distribution of returns received in respect of leased assets transferred to the EIB Sukuk Company Limited which was specifically formed for this transaction.

30 NET FEE AND COMMISSION INCOME

	2020 AED 000	2019 AED 000
Commission income on trade finance products/services	817,001	890,039
Fee income	4,631,953	4,744,801
Brokerage fees	34,124	33,228
Portfolio and other management fees	143,545	135,021
Total fee and commission income	5,626,623	5,803,089
Fee and commission expense	(1,972,060)	(1,862,998)
	3,654,563	3,940,091

Asset management fees relate to fees earned by the Group on trust and fiduciary activities in which the Bank holds or invests assets on behalf of its customers.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

31 NET GAIN/(LOSS) ON TRADING SECURITIES

	2020 AED 000	2019 AED 000
Realised gain/(loss) on trading securities	211,643	224,508
Unrealised gain/(loss) on trading securities	(31,599)	(15,708)
	<u>180,044</u>	<u>208,800</u>

32 OTHER OPERATING INCOME

	2020 AED 000	2019 AED 000
Dividend income on equity investment measured at FVOCI	5,228	6,963
Dividend income on equity investments measured at VTPL	16,831	14,621
Gain from sale of debt investment securities measured at FVOCI	71,795	79,001
Gain/(loss) from investment securities designated at fair value through profit or loss	(314,973)	(149,534)
Rental income	32,618	29,137
Gain/(loss) on sale of properties (investment properties/inventories)	(34)	2,005
Foreign exchange income*	1,855,252	1,755,621
Derivative income/(loss)	(82,617)	(172,955)
Other income (net)	304,801	517,252
	<u>1,888,901</u>	<u>2,082,111</u>

*Foreign exchange income comprises trading and translation gain and gain on dealings with customers.

33 GENERAL AND ADMINISTRATIVE EXPENSES

	2020 AED 000	2019 AED 000
Staff cost	4,616,680	4,196,703
Occupancy cost	321,071	285,354
Equipment and supplies	220,854	195,459
Information technology cost	312,638	296,904
Communication cost	265,037	236,057
Service, legal and professional fees	224,881	186,286
Marketing related expenses	165,251	182,066
Depreciation	840,285	722,483
Amortisation of intangibles	163,296	68,040
Others	726,314	837,727
	<u>7,856,307</u>	<u>7,207,079</u>

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

34 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The charge to the income statement for the net impairment loss on financial assets is made up as follows:

	2020 AED 000	2019 AED 000
Net impairment of cash and deposits with central bank	122	(6,693)
Net impairment of due from banks/other assets	123,349	(14,253)
Net impairment of investment securities	22,955	(11,734)
Net impairment of loans and receivables (refer Note 49 I)	6,313,242	4,332,473
Net impairment of Islamic financing receivables (refer Note 49 I)	1,562,297	777,872
Net impairment of unfunded exposures	70,914	37,557
Bad debt written off/(recovery) and modification adjustment - net	(156,770)	(297,152)
	<u>7,936,109</u>	<u>4,818,070</u>

35 DIRECTOR'S FEES

This comprises of fees payable to the Director's of the Group of AED 31 million (2019: AED 31 million).

36 TAXATION

At 31 December 2020 provisions for tax on overseas branch operations and subsidiary amount to AED 312 million (2019: AED 235 million) (refer Note 23).

37 EARNINGS PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for interest expense on Tier I capital notes) of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

	2020 AED 000	2019 AED 000
Profit for the year attributable to equity holders	6,959,545	14,502,603
Deduct: Interest on Tier 1 capital notes	(651,088)	(664,786)
Net profit attributable to equity holders	6,308,457	13,837,817
Deduct: Gain on disposal of stake in jointly controlled entity and fair value of retained interest	-	(4,389,309)
	<u>6,308,457</u>	<u>9,448,508</u>
Weighted average number of equity shares in issue ('000)	6,310,696	5,620,478
Adjusted earnings per share* (AED)	<u>1.00</u>	<u>1.68</u>

*The diluted and basic EPS were the same at the year end.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

38 DERIVATIVES

A. Derivatives held for risk management

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

31 December 2020 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	1,824,632	(1,435,225)	284,477,968	185,325,169	68,300,374	25,946,875	4,533,446	372,104
Foreign exchange options	23,029	(28,850)	5,000,963	3,807,260	436,641	276,106	64,878	416,078
Interest rate swaps/caps	9,854,841	(8,343,567)	437,154,696	43,250,310	84,381,622	119,865,584	99,118,642	90,538,538
Commodity options	18,117	(18,508)	1,052,878	74,488	508,469	469,921	-	-
	11,720,619	(9,826,150)	727,686,505	232,457,227	153,627,106	146,558,486	103,716,966	91,326,720
Derivatives held as cash flow hedges:								
Interest rate swaps	549,448	(106,004)	40,741,351	7,806,808	13,797,719	8,169,901	6,003,404	4,963,519
Derivatives held as fair value hedges:								
Interest rate swaps	1,427,332	(804,474)	26,699,467	35,620	615,838	4,814,034	5,365,134	15,868,841
Derivatives held as hedge of a net investment in foreign operations:								
Forward foreign exchange contracts	-	(38,603)	520,792	-	520,792	-	-	-
Total	13,697,399	(10,775,231)	795,648,115	240,299,655	168,561,455	159,542,421	115,085,504	112,159,080

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain loans and receivables amounting to AED 12,805 million (Note 13), investment securities amounting to AED 6,486 million (Note 11), customer deposits amounting to AED 21,907 million (Note 19) and debt issued and borrowed funds amounting to AED 25,187 million (Note 21). All the hedges were determined to be effective as on 31 December 2020.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

38 DERIVATIVES (CONTINUED)

A. Derivatives held for risk management (continued)

31 December 2019 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	1,429,777	(880,947)	289,960,752	157,372,727	100,986,935	27,711,804	3,470,649	418,637
Foreign exchange options	38,931	(44,107)	14,839,726	9,010,690	5,396,655	298,220	134,161	-
Interest rate swaps/caps	5,349,659	(3,815,855)	352,950,859	41,038,764	76,307,026	106,027,219	67,449,539	62,128,311
Commodity options	7,184	(7,152)	1,774,959	245,832	876,488	652,639	-	-
	6,825,551	(4,748,061)	659,526,296	207,668,013	183,567,104	134,689,882	71,054,349	62,546,948
Derivatives held as cash flow hedges:								
Interest rate swaps	187,912	(169,280)	26,622,355	3,052,318	6,796,372	12,693,347	1,830,318	2,250,000
Derivatives held as fair value hedges:								
Interest rate swaps	130,036	(646,030)	16,782,081	135,320	222,822	3,121,834	5,564,563	7,737,542
Derivatives held as hedge of a net investment in foreign operations:								
Forward foreign exchange contracts	-	(1,848)	293,235	-	293,235	-	-	-
Total	7,143,499	(5,565,219)	703,223,967	210,855,651	190,879,533	150,505,063	78,449,230	72,534,490

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain loans and receivables amounting to AED 6,770 million (Note 13), investment securities amounting to AED 6,237 million (Note 11), customer deposits amounting to AED 10,547 million (Note 19) and debt issued and borrowed funds amounting to AED 20,156 million (Note 21). All the hedges were determined to be effective as on 31 December 2019.

The hedged forecast cash flows which are expected to occur over the future years and are expected to affect profit or loss are insignificant.

38 DERIVATIVES (CONTINUED)

A. Derivatives held for risk management (continued)

Derivative Product Types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative Related Credit Risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group and potential future fluctuations. The majority of the fair value of favourable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities, and in many cases are collateralised under Credit Support Annex (CSA). The Group takes a Credit Value Adjustment (CVA) on outstanding derivative transactions. The methodology for CVA calculation relies on three components: the probability of default of the counterparty, the expected positive exposure and the recovery rate. CVA is computed on all asset classes including Foreign Exchange, Interest Rates and Commodities.

Derivatives Held or Issued for Trading Purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives Held or Issued for Hedging Purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

The Group designates its derivatives held or issued for hedging purposes as:

- Fair value hedges: Hedges of the fair value of recognised assets or liabilities or firm commitments;
- Cash flow hedges: Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction; and
- Net investment hedges: Hedges of net investments in foreign operations.

38 DERIVATIVES (CONTINUED)

A. Derivatives held for risk management (continued)

Further, in terms of the hedging transactions carried out by the Group, the Group documents:

- At the inception of the transaction, the relationship between hedging instruments and hedged items, the risk being hedged and the Group's risk management objective and strategy for undertaking a hedge transaction.
- The manner in which effectiveness will be measured throughout the life of the hedge relationship.
- The Group's assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge effectiveness is measured by the Group on a prospective basis at inception, as well as retrospectively (where applicable) and prospectively over the term of the hedge relationship. Sources of ineffectiveness in hedge accounting include the impact of derivative related credit risk on the valuation of the hedging derivative and hedged item. To mitigate this credit risk, the Group executes hedging derivatives with high quality counterparties and the majority of the Group's hedging derivatives are collateralised.

Fair Value Hedges:

The Group uses interest rate swaps to hedge against changes in value of investment securities due to interest rate movements. These are designated by the Group as fair value hedges and, therefore the fair value hedge accounting is applied to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk, as well as assets and liabilities subject to foreign exchange risk.

Subsequent to initial designation, changes in the fair value of derivatives designated as fair value hedges are accounted for in the 'other operating income', along with any changes in the fair value of the hedged asset or liability attributable to the hedged risk.

Cash Flow Hedges:

The Group uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate customer deposits and medium term borrowings. Interest rate swaps are also used to hedge against the cash flow risks arising on certain floating rate loans and receivables. These are designated by the Group as cash flow hedges, and, as such, the Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities, and assets and liabilities subject to foreign exchange risk.

The effective portion of changes in the fair value of derivatives designated as cash flow hedges are recognised in the fair value reserve within equity. Any gain or loss relating to the ineffective portion is recognised immediately in the Group consolidated income statement.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

38 DERIVATIVES (CONTINUED)

A. Derivatives held for risk management (continued)

Net Investment Hedges:

Net investment hedging instruments often consist of derivatives such as forward rate which are accounted for in the same manner as cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the Group consolidated income statement.

39 OPERATING SEGMENTS

The Group is organised into the following main businesses:

- Corporate and Institutional Banking represents current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate customers, investment banking, Islamic products under Al Watani Al Islami and structured financing primarily in the UAE and Egypt;
- Retail Banking and Wealth Management represents retail loans and deposits, private banking and wealth management, equity broking services, asset management and consumer financing primarily in the UAE and Egypt;
- Global Markets and Treasury activities comprise of managing the Group's portfolio of investments, funds management and interbank treasury operations primarily in the UAE and Egypt;
- Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiaries;
- DenizBank, which the Group acquired DenizBank in 2019, is considered as a separate operating segment; and
- Other operations of the Group include Tanfeeth, property management, operations and support functions.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

39 OPERATING SEGMENTS (CONTINUED)

	Corporate and Institutional banking AED 000	Retail banking and Wealth Management AED 000	Global Markets and Treasury AED 000	Islamic banking AED 000	DenizBank AED 000	Others AED 000	Total AED 000
31 December 2020							
Net interest income and income from Islamic products net of distribution to depositors	4,570,556	5,481,502	(561,939)	1,693,952	5,667,153	635,976	17,487,200
Net fees, commission and other income	1,350,970	2,282,842	129,757	394,069	1,589,583	(23,713)	5,723,508
Total operating income	5,921,526	7,764,344	(432,182)	2,088,021	7,256,736	612,263	23,210,708
General and administrative expenses	(605,071)	(2,049,943)	(170,637)	(1,083,942)	(2,266,354)	(1,680,360)	(7,856,307)
Net impairment loss on financial assets	(1,905,637)	(1,159,178)	(18,399)	(1,486,304)	(3,348,176)	(18,415)	(7,936,109)
Gain on disposal of stake in jointly controlled entity and fair value gain on retained interest	-	-	-	-	-	-	-
Share of profit of associates and joint ventures	-	-	-	-	-	12,173	12,173
Gain on bargain purchase	-	-	-	-	-	-	-
Taxation charge	(44,561)	(65,959)	(54,380)	-	(273,555)	(26,841)	(465,296)
Group profit for the year	3,366,257	4,489,264	(675,598)	(482,225)	1,368,651	(1,101,180)	6,965,169
Segment Assets	315,166,839	60,679,005	123,448,106	67,286,626	131,011,659	495,238	698,087,473
Segment Liabilities and Equity	189,956,732	166,853,227	31,151,233	57,165,818	119,058,802	133,901,661	698,087,473

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

39 OPERATING SEGMENTS (CONTINUED)

	Corporate and Institutional banking AED 000	Retail banking and Wealth Management AED 000	Global Markets and Treasury AED 000	Islamic banking AED 000	DenizBank AED 000	Others AED 000	Total AED 000
31 December 2019							
Net interest income and income from Islamic products net of distribution to depositors	4,754,727	5,494,626	401,596	1,880,992	2,534,015	1,121,557	16,187,513
Net fees, commission and other income	1,460,044	2,696,995	215,997	789,361	1,108,749	(40,144)	6,231,002
Total operating income	6,214,771	8,191,621	617,593	2,670,353	3,642,764	1,081,413	22,418,515
General and administrative expenses	(631,161)	(2,274,943)	(151,316)	(1,126,538)	(1,247,294)	(1,775,827)	(7,207,079)
Net impairment loss on financial assets	(2,200,684)	(656,432)	35,821	(482,761)	(1,532,055)	18,041	(4,818,070)
Gain on disposal of stake in jointly controlled entity and fair value gain on retained interest	-	-	-	-	-	4,389,309	4,389,309
Share of profit of associates and joint ventures	-	-	-	-	-	19,418	19,418
Gain on bargain purchase	-	-	-	-	-	92,020	92,020
Taxation charge	(32,196)	(16,265)	(71,418)	-	(254,435)	(16,116)	(390,430)
Group profit for the year	3,350,730	5,243,981	430,680	1,061,054	608,980	3,808,258	14,503,683
Segment Assets	311,592,311	63,143,939	108,839,327	61,515,657	133,186,634	5,042,696	683,320,564
Segment Liabilities and Equity	171,219,189	155,447,038	53,740,538	52,340,462	122,872,070	127,701,267	683,320,564

Comparatives have been represented to reflect the presentation of Emirates NBD Egypt operations in the respective business segments which were previously being presented in 'Others'.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

40 SUBSIDIARIES AND ASSOCIATES

The direct subsidiaries and associates of the Group are as follows:

	Group % Share holding	Nature of business	Country of incorporation
As at 31 December 2020			
<u>Subsidiaries:</u>			
1 Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
2 DenizBank Anonim Sirketi	100	Banking	Turkey
3 Dubai Bank PJSC	100	Islamic banking	Dubai, U.A.E.
4 Emirates Funds LLC	100	Asset management	Dubai, U.A.E.
5 Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey, England
6 Emirates Islamic Bank PJSC	99.9	Islamic banking	Dubai, U.A.E.
7 Emirates Money Consumer Finance LLC	100	Consumer finance	Dubai, U.A.E.
8 Emirates NBD Asset Management Limited	100	Asset management	Dubai, U.A.E.
9 Emirates NBD Capital (KSA) LLC	100	Investment services	KSA
10 Emirates NBD Capital PSC	100	Funds management	Dubai, U.A.E.
11 Emirates NBD Egypt S.A.E	100	Banking	Egypt
12 Emirates NBD Global Funding Limited	100	Medium term borrowing and money market transactions	Cayman Islands
13 Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.
14 Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
15 Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey, England
16 ENBD London Branch Nominee Company	100	Asset management	England
17 Tanfeeth LLC	100	Shared services organisation	Dubai, U.A.E.
18 The Emirates National Dubai Real Estate Company LLC	100	Nominee company for mortgage business	KSA
<u>Associate:</u>			
1 National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.

Other entities consolidated by the Group based on an assessment of control are as follows:

Names	Nature of business
1 Group Tranche of Emblem Finance Company No. 2 Limited	SPE for asset securitisation
2 Emirates NBD Global Markets Limited	SPE for funding purpose
3 ENBD Asset Finance Company No.1 DAC (under liquidation)	SPE for asset securitisation
4 ENBD Asset Finance Company No.2 Limited	SPE for asset securitisation
5 Emirates NBD Tier 1 Limited	SPE for funding purpose
6 Emirates NBD 2014 Tier 1 Limited	SPE for funding purpose
7 EIB Sukuk Company Limited	SPE for asset securitisation
8 EI Funding Limited	SPE for asset securitisation

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

41 COMMITMENTS AND CONTINGENCIES

(a) At 31 December, the Groups commitments and contingencies are as follows:

	2020 AED 000	2019 AED 000
Letters of credit	10,731,079	12,131,599
Guarantees	58,473,299	66,209,785
Liability on risk participations	113,037	175,090
Irrevocable loan commitments*	33,506,436	42,324,795
	<u>102,823,851</u>	<u>120,841,269</u>

*Irrevocable loan commitments represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled the total contract amounts do not necessarily represent exact future cash requirements.

As at 31 December 2020 ECL on unfunded exposures amounted to AED 598 million in Stage 1 (exposure of AED 80,262 million) and AED 104 million in Stage 2 (exposure of AED 6,670 million).

As at 31 December 2019 ECL on unfunded exposures amounted to AED 439 million in Stage 1 (exposure of AED 111,550 million) and AED 48 million in Stage 2 (exposure of AED 7,841 million).

Unfunded exposure includes guarantees, standby letter of credits and irrevocable loan commitments.

(b) Acceptance

Under IFRS 9, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

(c) Capital Commitments

The Group has commitments as at 31 December 2020 for branch refurbishments and automation projects of AED 699 million (2019: AED 648 million).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

42 RELATED PARTY TRANSACTIONS

Emirates NBD Group is partly owned by Investment Corporation of Dubai (55.75%), a company in which the Government of Dubai is the majority shareholder.

Deposits from and loans to government related entities, other than those that have been individually disclosed, amount to 6% (2019: 6%) and 5% (2019: 5%) respectively, of the total deposits and loans of the Group. These entities are independently run business entities, and all financial dealings with the Group are on normal commercial terms.

The Group has also entered into transactions with certain other related parties who are non government related entities. Such transactions were also made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party balances and transactions are carried out on normal commercial terms and are as follows:

Loans and receivables:

To majority shareholder of the parent
To parent
To directors and related companies
To associates

2020 AED 000	2019 AED 000
157,723,504	160,753,924
1,487,463	1,456,858
850,367	897,830
-	64
<u>160,061,334</u>	<u>163,108,676</u>

Customer and Islamic deposits:

From majority shareholder of the parent
From parent
From associates

2020 AED 000	2019 AED 000
4,423,770	4,845,014
1,797,459	2,094,077
90,675	38,315
<u>6,311,904</u>	<u>6,977,406</u>

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

42 RELATED PARTY TRANSACTIONS (CONTINUED)

	2020 AED 000	2019 AED 000
Investment in Government of Dubai bonds	6,474,854	18,841
Commitments to associates	78,877	76,471
Payments made to associates and joint ventures	14,754	123,417
Payments received from associates and joint ventures	-	5,960
Payments made to other related parties	20,871	23,401
Fees received in respect of funds managed by the Group	13,812	21,685
Interest (paid by)/paid to joint ventures	-	3,979
Directors sitting fee	16,836	15,042
<u>Key management compensation:</u>		
Short term employment benefits	95,858	79,959
Post employment benefits	1,435	1,738
	<u>97,293</u>	<u>81,697</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

43 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into account any collateral held or other credit enhancement, can be analysed by the following regions:

	UAE AED 000	Other GCC AED 000	International AED 000	Total AED 000
31 December 2020				
ASSETS				
Cash and deposits with Central Banks	75,071,600	5,134,972	20,635,324	100,841,896
Due from banks	3,306,150	5,724,308	25,967,222	34,997,680
Investment securities	19,720,955	21,885,658	31,088,674	72,695,287
Loans and receivables	285,057,039	4,492,544	98,373,841	387,923,424
Islamic financing receivables	46,523,926	7,252,256	1,841,863	55,618,045
Investments in associates	183,962	-	17,666	201,628
Positive fair value of derivatives	4,128,287	255,505	9,313,607	13,697,399
Investment properties	426,144	-	158,580	584,724
Customer acceptances	7,440,889	87,833	1,309,002	8,837,724
Property and equipment	2,322,415	85,755	1,671,872	4,080,042
Goodwill and intangibles	5,495,528	-	817,643	6,313,171
Other assets	5,584,090	134,486	6,577,877	12,296,453
TOTAL ASSETS	455,260,985	45,053,317	197,773,171	698,087,473
LIABILITIES				
Due to banks	7,823,081	5,452,719	38,396,268	51,672,068
Customer deposits	235,194,668	17,090,517	125,233,515	377,518,700
Islamic customer deposits	59,169,709	26,066,933	1,441,692	86,678,334
Debt issued and other borrowed funds	-	-	54,662,670	54,662,670
Sukuk payable	5,510,933	-	-	5,510,933
Negative fair value of derivatives	1,337,680	223,669	9,213,882	10,775,231
Customer acceptances	7,440,889	87,833	1,309,002	8,837,724
Other liabilities	11,473,633	268,777	6,071,305	17,813,715
Total equity	84,618,098	-	-	84,618,098
TOTAL LIABILITIES AND EQUITY	412,568,691	49,190,448	236,328,334	698,087,473
Geographical distribution of letters of credit and guarantees	39,168,388	5,005,808	25,030,182	69,204,378
31 December 2019				
Geographical distribution of assets	446,404,718	37,240,479	199,675,367	683,320,564
Geographical distribution of liabilities and equity	399,697,010	54,249,254	229,374,300	683,320,564
Geographical distribution of letters of credit and guarantees	47,632,204	5,338,301	25,370,879	78,341,384

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

44 FINANCIAL ASSETS AND LIABILITIES

A. Classification of financial assets and financial liabilities

The table below sets out the Group's classification of each class of financial assets and liabilities, and their carrying values.

<u>31 December 2020</u>	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI-debt instruments AED 000	FVOCI-equity instruments AED 000	Amortised cost AED 000	Hedging instruments AED 000	Total carrying value* AED 000
Financial assets							
Cash and deposits with Central Banks	-	-	-	-	100,841,896	-	100,841,896
Due from banks	-	-	-	-	34,997,680	-	34,997,680
Investment securities	5,895,902	279,367	16,451,918	490,577	49,577,523	-	72,695,287
Loans and receivables	-	-	-	-	387,923,424	-	387,923,424
Islamic financing receivables	-	-	-	-	55,618,045	-	55,618,045
Positive fair value of derivatives	11,720,619	-	-	-	-	1,976,780	13,697,399
Others	-	-	-	-	18,074,919	-	18,074,919
	<u>17,616,521</u>	<u>279,367</u>	<u>16,451,918</u>	<u>490,577</u>	<u>647,033,487</u>	<u>1,976,780</u>	<u>683,848,650</u>
Financial liabilities							
Due to banks	-	-	-	-	51,672,068	-	51,672,068
Customer deposits	-	-	-	-	377,518,700	-	377,518,700
Islamic customer deposits	-	-	-	-	86,678,334	-	86,678,334
Debt issued and other borrowed funds	-	-	-	-	54,662,670	-	54,662,670
Sukuk payable	-	-	-	-	5,510,933	-	5,510,933
Negative fair value of derivatives	9,826,150	-	-	-	-	949,081	10,775,231
Others	-	-	-	-	26,651,439	-	26,651,439
	<u>9,826,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>602,694,144</u>	<u>949,081</u>	<u>613,469,375</u>

*The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

44 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

A. Classification of financial assets and financial liabilities (continued)

<u>31 December 2019</u>	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI-debt instruments AED 000	FVOCI-equity instruments AED 000	Amortised cost AED 000	Hedging instruments AED 000	Total carrying value* AED 000
Financial assets							
Cash and deposits with Central Banks	-	-	-	-	109,356,947	-	109,356,947
Due from banks	-	-	-	-	40,167,541	-	40,167,541
Investment securities	3,992,271	573,411	12,670,960	959,821	36,851,003	-	55,047,466
Loans and receivables	-	-	-	-	384,888,981	-	384,888,981
Islamic financing receivables	-	-	-	-	52,541,046	-	52,541,046
Positive fair value of derivatives	6,825,551	-	-	-	-	317,948	7,143,499
Others	-	-	-	-	20,180,431	-	20,180,431
	<u>10,817,822</u>	<u>573,411</u>	<u>12,670,960</u>	<u>959,821</u>	<u>643,985,949</u>	<u>317,948</u>	<u>669,325,911</u>
Financial liabilities							
Due to banks	-	-	-	-	41,715,299	-	41,715,299
Customer deposits	-	-	-	-	385,810,220	-	385,810,220
Islamic customer deposits	-	-	-	-	86,370,611	-	86,370,611
Debt issued and other borrowed funds	-	-	-	-	49,317,315	-	49,317,315
Sukuk payable	-	-	-	-	3,679,921	-	3,679,921
Negative fair value of derivatives	4,748,061	-	-	-	-	817,158	5,565,219
Others	-	-	-	-	29,255,118	-	29,255,118
	<u>4,748,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>596,148,484</u>	<u>817,158</u>	<u>601,713,703</u>

* The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

44 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments

The table below analyses financial instruments measured at fair value on a recurring basis. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

31 December 2020

Investment securities

Trading securities at FVTPL

	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Government Bonds	3,024,022	-	-	3,024,022
Corporate Bonds	2,760,381	-	-	2,760,381
Equity	108,608	-	-	108,608
Others	2,891	-	-	2,891
	5,895,902	-	-	5,895,902

FVOCI - debt instruments

Government Bonds	11,831,792	16,186	-	11,847,978
Corporate Bonds	4,562,585	72,045	-	4,634,630
	16,394,377	88,231	-	16,482,608

FVOCI - equity instruments

	483,941	871	5,765	490,577
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Designated at FVTPL

Corporate Bonds	-	-	-	-
Equity	40,941	-	159,313	200,254
Others	76,498	-	2,615	79,113
	117,439	-	161,928	279,367

Positive fair value of derivatives

Derivatives held for trading	-	11,720,619	-	11,720,619
Derivatives held as cash flow hedges:				
Interest rate swaps	-	549,448	-	549,448
Derivatives held as fair value hedges:				
Interest rate swaps	-	1,427,332	-	1,427,332
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	-	-	-
	-	13,697,399	-	13,697,399

Negative fair value of derivatives

Derivatives held for trading	-	(9,826,150)	-	(9,826,150)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(106,004)	-	(106,004)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(804,474)	-	(804,474)
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	(38,603)	-	(38,603)
	-	(10,775,231)	-	(10,775,231)
	22,891,659	3,011,270	167,693	26,070,622

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

44 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI- debt instruments AED 000	FVOCI- equity instruments AED 000	Total AED 000
Balance as at 1 January 2020	-	525,669	-	5,343	531,012
Total gains or losses:					
- in profit or loss	-	(367,699)	-	-	(367,699)
- in other comprehensive income	-	-	-	422	422
Purchases	-	4,515	-	-	4,515
Issues	-	-	-	-	-
Settlements and other adjustments	-	(557)	-	-	(557)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance as at 31 December 2020	-	161,928	-	5,765	167,693

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

44 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments (continued)

	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
31 December 2019				
Investment securities				
<u>Trading securities at FVTPL</u>				
Government Bonds	1,860,383	-	-	1,860,383
Corporate Bonds	2,035,890	-	-	2,035,890
Equity	94,751	-	-	94,751
Others	1,247	-	-	1,247
	3,992,271	-	-	3,992,271
<u>FVOCI - debt instruments</u>				
Government Bonds	9,513,060	16,315	-	9,529,375
Corporate Bonds	3,109,771	42,986	-	3,152,757
	12,622,831	59,301	-	12,682,132
<u>FVOCI - equity instruments</u>	953,605	873	5,343	959,821
<u>Designated at FVTPL</u>				
Corporate Bonds	-	-	21,925	21,925
Equity	43,767	-	342,790	386,557
Others	3,413	562	160,954	164,929
	47,180	562	525,669	573,411
<u>Positive fair value of derivatives</u>				
Derivatives held for trading	-	6,825,551	-	6,825,551
Derivatives held as cash flow hedges:	-	-	-	-
Interest rate swaps	-	187,912	-	187,912
Derivatives held as fair value hedges:	-	-	-	-
Interest rate swaps	-	130,036	-	130,036
Derivatives held as hedge of a net investment in foreign operations:	-	-	-	-
Forward foreign exchange contracts	-	-	-	-
	-	7,143,499	-	7,143,499
<u>Negative fair value of derivatives</u>				
Derivatives held for trading	-	(4,748,061)	-	(4,748,061)
Derivatives held as cash flow hedges:	-	-	-	-
Interest rate swaps	-	(169,280)	-	(169,280)
Derivatives held as fair value hedges:	-	-	-	-
Interest rate swaps	-	(646,030)	-	(646,030)
Derivatives held as hedge of a net investment in foreign operations:	-	-	-	-
Forward foreign exchange contracts	-	(1,848)	-	(1,848)
	-	(5,565,219)	-	(5,565,219)
	17,615,887	1,639,016	531,012	19,785,915

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

44 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI-debt instruments AED 000	FVOCI-equity instruments AED 000	TOTAL AED 000
Balance as at 1 January 2019	-	570,623	-	4,718	575,341
Total gains or losses:					
- in profit or loss	-	(93,963)	-	-	(93,963)
- in other comprehensive income	-	-	-	104	104
Purchases	-	63,709	-	521	64,230
Issues	-	-	-	-	-
Settlements and other adjustments	-	(14,700)	-	-	(14,700)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance as at 31 December 2019	-	525,669	-	5,343	531,012

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental.

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2020 and 31 December 2019.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

45 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

	2020 AED 000	2019 AED 000
(a) Analysis of changes in cash and cash equivalents during the year		
Balance at beginning of year	32,291,487	26,241,170
Net cash inflow / (outflow)	(11,379,575)	6,050,317
Balance at end of year	20,911,912	32,291,487
(b) Analysis of cash and cash equivalents		
Cash and deposits with Central Banks	100,841,896	109,356,947
Due from banks	34,997,680	40,167,541
Due to banks	(51,672,068)	(41,715,299)
	84,167,508	107,809,189
Less: deposits with Central Banks for regulatory purposes	(42,942,928)	(49,976,924)
Less: certificates of deposits / placements with Central Banks maturing after three months	(33,500,000)	(33,600,000)
Less: amounts due from banks maturing after three months	(20,784,914)	(18,044,347)
Add: amounts due to banks maturing after three months	33,972,246	26,103,569
	20,911,912	32,291,487
(c) Adjustment for non cash items		
Impairment loss / (reversal) on cash and deposits with central banks	122	(6,693)
Impairment loss on loans and receivables	6,313,242	4,332,473
Impairment loss on Islamic financing receivables	1,562,297	777,872
Impairment loss / (reversal) on investment securities	22,955	(11,734)
Impairment loss on unfunded exposures	70,914	37,557
Impairment loss / (reversal) on due from banks / other assets	123,349	(14,253)
Amortisation of fair value	123,015	160,137
(Discount) / premium on investment securities	(4,087)	(21,494)
Unrealised foreign exchange gain	(763,131)	(578,460)
Depreciation / impairment of property and equipment / investment property	856,895	739,169
Share of (profit) / loss of associates and joint ventures	(12,173)	(19,418)
Unrealised (gain) / loss on investments	342,319	161,780
Dividend income on equity investments	(22,059)	(21,584)
Unrealised (gain) / loss on FV Hedged item	1,460,021	567,107
(Gain) / loss on sale of properties (investment properties / inventories)	34	(2,005)
Gain on bargain purchase	-	(92,020)
Amortisation of intangibles	163,296	68,040
Gain on disposal of stake in jointly controlled entity and fair value gain on retained interest	-	(4,389,309)
	10,237,009	1,687,165

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

46 CAPITAL MANAGEMENT AND ALLOCATION

The 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.

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%.

For 2020, as per the TESS standards, CCB is required to be kept at 1% of the Capital base. CCyB is not in effect and is not required to be kept for 2020.

Over and above additional capital buffers, the Group as a Domestic Systematically Important Bank (D-SIB) is required to keep an additional D-SIB buffer of 1.5% of the Capital base, however this requirement is exempt as per the TESS standards.

Regulatory Capital

The Group'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 goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under CBUAE guidelines.
- AT1 capital comprises eligible non-common equity capital instruments.
- T2 capital comprises qualifying subordinated debt, and undisclosed reserve.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

46 CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

The capital overview as per Basel III framework is given below:

	2020 AED 000	2019 AED 000
Available capital		
Common equity Tier 1 capital	67,134,947	65,452,344
Tier 1 capital	77,514,733	74,559,700
Total eligible capital	82,434,262	79,375,840
Risk-weighted assets		
Credit risk	393,562,281	385,291,210
Market risk	14,600,122	10,190,488
Operational risk	38,291,452	33,027,671
Total risk-weighted assets	446,453,855	428,509,369
	2020	2019
Capital Ratio		
a. Total capital ratio for consolidated Group	18.46%	18.52%
b. Tier 1 ratio only for consolidated Group	17.36%	17.40%
c. CET1 ratio only for consolidated Group	15.04%	15.27%

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

46 CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

The capital adequacy ratios as per Basel III capital regulation are given below:

	2020 AED 000	2019 AED 000
Common Equity Tier 1 (CET1) Capital		
Share Capital	6,316,598	6,316,598
Share premium account	17,954,164	17,954,164
Eligible reserves	2,710,530	4,456,124
Transitional arrangement: Partial addback of IFRS 9 ECL impact to CET1	2,002,738	-
Retained earnings	47,014,778	43,375,416
Dividend expected/proposed	(2,526,639)	-
Eligible amount of non-controlling interest	22,124	3,638
CET1 capital before the regulatory adjustments and threshold deduction	73,494,293	72,105,940
Less: Regulatory deductions	(6,359,346)	(6,653,596)
Total CET1 capital after the regulatory adjustments and threshold deduction	67,134,947	65,452,344
Total CET1 capital after transitional arrangement for deductions (CET1) (A)	67,134,947	65,452,344
Additional Tier 1 (AT1) capital		
Eligible AT1 capital	10,379,786	9,107,356
Other AT1 capital (e.g. Share premium, non-controlling interest)	-	-
Total AT1 capital	10,379,786	9,107,356
Total AT1 capital after transitional arrangements (AT1) (B)	10,379,786	9,107,356
Tier 2 (T2) capital		
Tier 2 Instruments e.g. subordinated loan	-	-
Other Tier 2 capital (including General Provisions, etc.)	4,919,529	4,816,140
Total T2 capital	4,919,529	4,816,140
Total T2 capital after transitional arrangements (T2) (C)	4,919,529	4,816,140
Total Regulatory capital (A+B+C)	82,434,262	79,375,840

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

47 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group and further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 20,754 million at 31 December 2020 (2019: AED 22,466 million).

48 ASSETS HELD IN FIDUCIARY CAPACITY

The Group holds assets in a fiduciary capacity and provides custodian services for some of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the Group consolidated financial statements.

49 RISK MANAGEMENT

The primary risks to the Group arise from extending credit to corporate and institutional banking and retail banking customers. The Group is also exposed to a range of other risk types such as market, operational, liquidity, compliance, reputational, country, market conduct and legal that drive the direction of its risk management strategy, product range and risk diversification strategies.

Group Risk Management Framework (GRMF):

The GRMF enables the Group to manage group-wide risks with the objective of maximising returns while adhering to our risk appetite.

The Group uses a three lines of defense model to support its 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:

- Business units: required to ensure the effective management of risks within the scope of their direct organisational responsibilities. All employees within the business units are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled. Each business unit primarily owns the risk that it underwrites and is equally responsible for designing and implementing necessary controls to mitigate risks emanating from its activities.
- Risk control units: responsible for implementing policies and procedures, monitoring risks taken to ensure all risks are within the Group's risk appetite. Appropriate controls are designed and implemented with adequate reporting in place to anticipate future risks and improve the level of preparedness across the management chain.
- Group Internal Audit: provides independent assurance and reports its findings to all relevant management and governance bodies, accountable line managers, relevant oversight function and committee(s) of the Board.

A. Risk governance

The risk governance structure of the group ensures central oversight and control with clear accountability for and ownership of risk.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

A. Risk governance (continued)

The Board of Directors (the Board) has the ultimate responsibility for setting Group's risk appetite and for the establishment and oversight of the Group's risk management framework. This is managed through a number of committees; namely Board Risk Committee (BRC), Board Credit & Investment Committee (BCIC) and Board Audit Committee (BAC). The management level committees also actively manage risk particularly the Group Risk Committee (GRC), Management Credit Committee (MCC), Management Investment Committee (MIC), Retail Credit Committee (RCC) and Group Asset Liability Management Committee (Group ALCO).

BRC comprises of members of the Board and is responsible for risk oversight responsibilities of the Board with regards to risk governance, risk appetite and the risk management framework. The BRC receives reports on risk management including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy and is authorised to investigate or seek any information relating to any activity within its terms of reference.

BCIC is responsible for approval of credit and investment decisions above the MCC and MIC's authority. It oversees the execution of Group's credit risk management and reviews the credit profile of material portfolios to ensure that credit risk rating is aligned with business strategy and risk appetite.

The primary role BAC is to have oversight and review of financial, audit and internal control issues as well as oversee the independence and performance of Group's external and internal auditors.

MCC is management level committee which carries out credit lending decisions including but not limited to approval and renewal of credit facilities, review and monitor portfolio performance, decisions on debt settlement, provisioning write off and amendments to pricing, grades and waiver.

The role of the MIC is to support the Board in the management of the Investment Portfolios of the Group to ensure they conform to the strategic vision of the same and support the Board in monitoring and reporting the performance of these portfolios.

The Group ALCO is responsible for balance sheet management and quality of the funding plan as well as the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk. The committee also approves the contingency funding plan as well as the funds transfer pricing among other things.

The GRC is responsible for the management of all risks other than those delegated to MCC, MIC and Group ALCO and ensures the effective management of risk throughout the Group in support of the Group's business strategy and Group's risk appetite. The committee approves risk policies and analytical models to ensure effective management of credit, market, operational, business continuity and reputational, compliance, legal, market conduct and other risks confronting the Group.

B. The risk function

The GRMF is managed by the Group Enterprise and Regulatory Risk function. The function is independent of the business (origination, trading and sales functions) to ensure that the necessary balance in risk/return decisions is not compromised by pressures for better results in terms of revenues and to ensure transparency of decisions in accordance with Group standards and policies.

49 RISK MANAGEMENT (CONTINUED)

B. The risk function (continued)

Group Risk assists in controlling and actively managing the Group's overall risk profile. The role of the function is:

- To ensure the risk management framework is effectively communicated and implemented across the Group and is appropriate to the Group's activities;
- To exercise direct ownership for various risk types including but not limited to credit, market, country, operational, reputational risks;
- To ensure that the Group's business strategies, risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- To ensure the integrity of the Group's risk/return decisions guaranteeing their transparency;
- To ensure that appropriate risk management architecture and systems are developed and implemented.

C. Risk appetite

The Group Risk Appetite Statement (Group RAS) is an articulation of the risk that the Group would be willing to accept, underwrite and/or be exposed to in the normal course of its business conduct.

The Group RAS is a critical component and extension of the GRMF. It is a mechanism used by the Group to proactively establish and subsequently monitor the Group's risk profile using a set of pre-defined key risk metrics and respective thresholds.

D. Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligation to the Group. Credit risk arises mainly from interbank, corporate and institutional banking and retail banking loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letter of credit, endorsement and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures") including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

Credit risk management

Group's approach to credit risk management is based on the foundation of independence and integrity of risk management. This is ensured through a well-defined and robust organisation structure duly supported by various risk committees, forums, systems, policies, procedures and processes providing a strong risk infrastructure and management framework.

The Group's credit policy focuses on the core credit principles, lending guidelines and parameters, control and monitoring requirements, problem loan identification, management of high risk counterparties and provisioning. Standard procedures specific to businesses have been established to manage various types of risks across different business segments, products and portfolios.

Portfolio performance is periodically measured against RAS parameters and breaches if any are actioned by the Group's Executive Committee.

49 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk management (continued)

Corporate and institutional banking credit risk management:

Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers amongst other things the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customers' credit worthiness and standing within the industry.

The credit facility administration process is undertaken by an independent function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collaterals.

Operations are managed by independent units responsible for processing transactions in line with credit approvals and standard operating guidelines.

Management of Early Alert (EA), Watch List (WL) & Impaired Non Performing Loans (NPL) - The Group has a well-defined process for identification of EA, WL & NPL accounts and dealing with them effectively. There are policies which govern credit grading of EA, WL & NPL accounts and impairment, in line with IFRS and regulatory guidelines.

Retail banking credit risk management:

The Group has a structured management framework for retail banking risk management. The framework enables the Group in identification and evaluation of the significance of all credit risks that the Group faces, which may have an adverse material impact on its financial position.

In the retail banking portfolio, losses stem from outright default due to inability or unwillingness of a customer to meet commitments in relation to lending transactions.

The Group's provisioning policy, which is in line with the IFRS and the regulatory guidelines, allows the Group to prudently recognise impairment on its retail portfolios.

Model risk management and independent validation

The Group has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Group has implemented the Group Model Governance Framework (the Framework). The Framework is a group-wide policy and is applicable to models in all entities and subsidiaries of the Group. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

49 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk management (continued)

Model risk management and independent validation (continued)

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Group has an independent validation function that performs independent model validation. It provides Fit-for-Purpose (FFP), Conditional Approval (CA) or Not Fit-for-Purpose (NFFP) recommendation for the BRC or an appropriately delegated authority to approve the use of the new risk quantification / valuation models. In addition to new model validation, the validation function also evaluates the performance of existing models through an annual validation process. The independency of the team enables it to serve as an effective second line of defense for the bank.

Credit approving authorities

BCIC has delegated credit approving authorities to the MCC, MIC, RCC and members of senior management to facilitate and effectively manage the business. However, BCIC has retained the ultimate authority to approve credits beyond MCC authority.

Credit risk measurement

The estimation of credit risk for risk management purpose is complex and requires use of models, as the exposure varies with changes in market condition, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring and of the associated loss ratios. The Group measures credit risk using PD, EAD and LGD. This is similar to the approach used for the purpose of measuring ECL under IFRS 9.

Credit risk grading

The Group uses internal credit risk grading that reflects its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to various categories of counterparty. Borrower and loan specific information collected at the time of application such as disposable income, and level of collateral for retail exposure; and turnover and industry type considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated, such that the risk of default increases exponentially at each higher risk grade. For example, the difference in the PD between a 1A and 2A rating grade is lower than the difference in the PD between a 3A and 4A rating grade.

49 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

The following are additional considerations for each type of portfolio held by the Group:

Retail:

After the date of initial recognition, for retail business, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. Any other known information about the borrower which impacts their credit worthiness such as: unemployment and previous delinquency history is also incorporated into the behavior score. This score is mapped to a PD.

Corporate and Institutional banking:

For corporate and institutional banking business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessment into the credit system on an ongoing basis. In addition, the relationship manager also updates information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Treasury:

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

The Group's rating method comprises 24 rating levels for instruments not in default (1 to 24) and 4 default classes (25 to 28). The Group's internal rating scale are mapped with external ratings. The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating models are reviewed for recalibration so that they reflect the latest projections in the light of all actually observed defaults.

ECL Measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit-quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognised is classified in Stage 1 and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.
- Financial instrument in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on a lifetime basis.
- ECL is measured after factoring forward-looking information.
- ECL on Purchase or originated credit-impaired financial assets is measured on a lifetime basis.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Significant Increase in Credit Risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

Corporate and Institutional banking:

Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at reporting date.

Retail:

Thresholds have been set for each portfolio based on historical default rates. Facilities exceeding the threshold are considered for significant increase in credit risk.

Qualitative criteria:

The Group also considers in its assessment of significant increase in credit risk, various qualitative factors like significant adverse changes in business, extension of term granted, actual and expected forbearance or restructuring, early sign of cash flows and liquidity problems.

Backstop:

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative:

The borrower is more than 90 days past due on its contractual payments.

Qualitative:

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances like long-term forbearance, borrower is insolvent, borrower is entering bankruptcy, etc.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Curing

The Group continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12 months ECL (Stage 1).

The Group is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading such exposures from Stage 3 to 2.

Measuring ECL- Explanations of input, assumptions and estimation techniques

PD, EAD and LGD are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in earlier year) on annual basis. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in ECL computation is the original effective interest rate or an approximation thereof.

The Lifetime PDs are determined based on maturity profile. The maturity profile looks at how defaults develop on a portfolio throughout the remaining life of the loans. The maturity profile is based on historical observed data.

The EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over the 12 months and lifetime basis. This is also adjusted for any overpayments made by the borrower.
- For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default.

LGDs are computed at facility level. This is dependent upon information such as exposure, collateral, business segment characteristics and macroeconomic outlook.

Forward looking economic information is also included in determining the 12 month and lifetime PD, EAD and LGD.

49 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Forward-looking Information Incorporated in the ECL Model

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio.

These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecast of these economic variables (the "base, upside and downside economic scenario along with scenario weighting") are obtained externally on a quarterly basis.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

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

Credit Risk Monitoring

Corporate and Institutional banking: the Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, assessment of collateral and market intelligence and early alerts.

Early Alert accounts are identified based on oversight, vigilance and risk triggers. Account strategy and action plans on these accounts are regularly monitored and discussed in the Early Alert Committee meetings.

Additionally 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 IFRS 9 Governance Forum.

Retail banking: risks of the Group's loan 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 quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

49 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Group credit risk mitigation strategy

The Group operates within prudential exposure ceilings set by the Board in line with UAE Central Bank guidelines. There are well laid out processes for exception management and escalation.

The Group has adopted measures to diversify the exposures to various sectors. Diversification is achieved by limiting concentration through setting customer, industry and geographical limits.

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the Group, where appropriate, to limit its exposure.

Collateral management

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Group seeks to ensure enforceability of the collateral. Major categories of collaterals include cash/fixed deposits, inventories, shares, guarantees (corporate, bank and personal guarantees), immovable properties, receivables, gold and vehicles.

Collaterals are revalued regularly as per the Group'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 Group to assess the fair market value of the collateral and ensure that risks are appropriately managed. Security structures and legal covenants are also subject to regular review.

Please refer to Pillar 3 disclosures for additional information on collaterals.

Write offs

Loans and debt securities in corporate and institutional banking 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.

Non performing consumer loans, except for mortgage facilities and home financing, are written off at 181 days past due. All receivables remain active on the loan management system for recovery and any legal strategy the Group may deem fit to use.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

E. Analysis by economic activity for assets:

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2020			2019		
	AED 000			AED 000		
	Loans and Receivables	Islamic Financing	Others	Loans and Receivables	Islamic Financing	Others
Manufacturing	19,483,494	2,301,059	777,667	17,761,078	2,342,297	148,543
Construction	16,424,771	1,454,031	363,901	15,795,599	1,394,896	382,507
Trade	23,229,355	7,802,617	50,444	23,860,803	8,304,869	2,282
Transport and communication	12,048,179	1,350,371	746,580	7,593,431	803,391	718,531
Services	15,366,827	1,500,560	1,686,744	15,865,073	1,567,880	805,880
Sovereign	160,224,042	946,762	60,490,685	162,760,253	434,377	44,360,866
Personal	60,076,977	31,650,560	-	56,933,847	27,961,213	-
Real estate	47,712,754	8,468,048	543	43,359,153	8,204,863	241,166
Hotels and restaurants	14,133,848	785,409	-	15,911,904	746,809	-
Management of companies and enterprises	8,788,924	2,614,556	-	13,930,191	1,673,373	-
Financial institutions and investment companies	17,400,058	1,494,364	42,488,518	15,534,634	2,603,443	46,605,130
Agriculture	8,579,836	-	-	8,127,732	-	-
Others	13,299,967	3,110,261	1,463,159	11,245,436	3,714,300	2,198,573
Total Assets	416,769,032	63,478,598	108,068,241	408,679,134	59,751,711	95,463,478
Less: Deferred income	-	(1,721,350)	-	-	(1,774,423)	-
Less: Expected Credit Loss	(28,845,608)	(6,139,203)	(173,646)	(23,790,153)	(5,436,242)	(114,019)
	387,923,424	55,618,045	107,894,595	384,888,981	52,541,046	95,349,459

Others includes due from banks, investment securities and investments in associates.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

F. Classification of investment securities as per their external ratings

As of 31 December 2020

Ratings	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI-debt instruments AED 000	FVOCI-equity instruments AED 000	Amortised cost AED 000	Total AED 000
AAA	-	2,282	48,185	-	4,092,770	4,143,237
AA- to AA+	1,244,140	-	1,537,340	-	14,507,857	17,289,337
A- to A+	1,275,914	-	3,327,011	871	16,851,056	21,454,852
Lower than A-	2,731,698	3,041	11,229,881	801	7,692,034	21,657,455
Unrated	644,150	274,044	340,191	488,905	6,456,200	8,203,490
Less: Expected Credit Loss	-	-	(30,690)	-	(22,394)	(53,084)
	5,895,902	279,367	16,451,918	490,577	49,577,523	72,695,287

Of which issued by:

	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI-debt instruments AED 000	FVOCI-equity instruments AED 000	Amortised cost AED 000	Total AED 000
Governments	3,024,022	-	11,847,978	-	45,618,685	60,490,685
Public sector enterprises	2,442,923	-	3,237,837	74	2,876,280	8,557,114
Private sector and others	428,957	279,367	1,396,793	490,503	1,104,952	3,700,572
Less: Expected Credit Loss	-	-	(30,690)	-	(22,394)	(53,084)
	5,895,902	279,367	16,451,918	490,577	49,577,523	72,695,287

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

F. Classification of investment securities as per their external ratings (continued)

As of 31 December 2019

Ratings	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI-debt instruments AED 000	FVOCI-equity instruments AED 000	Amortised cost AED 000	Total AED 000
AAA	-	2,282	-	-	7,560,300	7,562,582
AA- to AA+	1,049,877	-	1,741,937	-	11,110,840	13,902,654
A- to A+	667,644	-	1,763,556	-	6,931,696	9,362,896
Lower than A-	1,942,381	2,972	8,841,623	783	8,399,344	19,187,103
Unrated	332,369	568,157	335,016	959,038	2,867,464	5,062,044
Less: Expected Credit Loss	-	-	(11,172)	-	(18,641)	(29,813)
	<u>3,992,271</u>	<u>573,411</u>	<u>12,670,960</u>	<u>959,821</u>	<u>36,851,003</u>	<u>55,047,466</u>

Of which issued by:

Ratings	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI-debt instruments AED 000	FVOCI-equity instruments AED 000	Amortised cost AED 000	Total AED 000
Governments	1,860,383	-	9,529,375	-	32,971,108	44,360,866
Public sector enterprises	1,476,609	-	1,402,199	74	2,454,469	5,333,351
Private sector and others	655,279	573,411	1,750,558	959,747	1,444,067	5,383,062
Less: Expected Credit Loss	-	-	(11,172)	-	(18,641)	(29,813)
	<u>3,992,271</u>	<u>573,411</u>	<u>12,670,960</u>	<u>959,821</u>	<u>36,851,003</u>	<u>55,047,466</u>

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

G. Risk gross maximum exposure:

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2020 AED 000	2019 AED 000
Deposits with Central Banks	96,353,563	104,895,526
Due from banks	34,997,680	40,167,541
Investment securities	71,813,844	53,440,161
Loans and receivables	387,923,424	384,888,981
Islamic financing receivables	55,618,045	52,541,046
Positive fair value of derivatives	13,697,399	7,143,499
Customer acceptances	8,837,724	10,227,557
Total (A)	<u>669,241,679</u>	<u>653,304,311</u>
Contingent liabilities	69,317,415	78,516,474
Irrevocable loan commitments	33,506,436	42,324,795
Total (B)	<u>102,823,851</u>	<u>120,841,269</u>
Total credit risk exposure (A + B)	<u>772,065,530</u>	<u>774,145,580</u>

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis:

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

AED 000 31 December 2020	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased originated credit-impaired	Total
Loans and receivables to customers - Corporate banking					
Performing (Grades 1a-4f)	297,378,381	15,852,185	-	-	313,230,566
Non performing (Grades 5a-5d)	-	-	19,647,341	1,212,693	20,860,034
Gross loans and receivables to customers - Corporate banking	297,378,381	15,852,185	19,647,341	1,212,693	334,090,600
Loans and receivables to customers - Retail banking					
Performing (Grades 1a-4f)	72,298,680	7,242,575	-	-	79,541,255
Non performing (Grades 5a-5d)	-	-	2,290,988	846,189	3,137,177
Gross loans and receivables to customers - Retail banking	72,298,680	7,242,575	2,290,988	846,189	82,678,432
Total gross loans and receivables to customers*	369,677,061	23,094,760	21,938,329	2,058,882	416,769,032
Expected credit losses	(3,659,321)	(5,271,329)	(19,037,235)	(877,723)	(28,845,608)
Carrying amount	366,017,740	17,823,431	2,901,094	1,181,159	387,923,424

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis (continued):

AED 000 31 December 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased originated credit-impaired	Total
Loans and receivables to customers - Corporate banking					
Performing (Grades 1a-4f)	297,269,660	12,129,418	-	-	309,399,078
Non performing (Grades 5a-5d)	-	-	16,611,817	1,490,850	18,102,667
Gross loans and receivables to customers - Corporate banking	297,269,660	12,129,418	16,611,817	1,490,850	327,501,745
Loans and receivables to customers - Retail banking					
Performing (Grades 1a-4f)	69,923,048	8,201,100	-	-	78,124,148
Non performing (Grades 5a-5d)	-	-	1,496,278	1,556,963	3,053,241
Gross loans and receivables to customers - Retail banking	69,923,048	8,201,100	1,496,278	1,556,963	81,177,389
Total gross loans and receivables to customers*	367,192,708	20,330,518	18,108,095	3,047,813	408,679,134
Expected credit losses	(3,701,749)	(3,221,584)	(16,717,467)	(149,353)	(23,790,153)
Carrying amount	363,490,959	17,108,934	1,390,628	2,898,460	384,888,981

Corporate and institutional banking – Performing includes AED 3,854 million (2019: AED 4,428 million) for exposure against watchlist customers.

*The credit impaired loans and receivables of AED 23,997 million comprises of AED 21,938 million credit impaired loans and receivables and AED 2,059 million classified as POCI acquired at fair value.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis (continued):

AED 000 31 December 2020	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
Islamic financing receivables - Corporate banking				
Performing (Grades 1a-4f)	23,155,316	3,237,254	-	26,392,570
Non performing (Grades 5a-5d)	-	-	4,888,039	4,888,039
Gross Islamic financing receivables - Corporate banking	23,155,316	3,237,254	4,888,039	31,280,609
Islamic financing receivables - Retail banking				
Performing (Grades 1a-4f)	28,901,097	642,878	-	29,543,975
Non performing (Grades 5a-5d)	-	-	932,664	932,664
Gross Islamic financing receivables - Retail banking	28,901,097	642,878	932,664	30,476,639
Total gross Islamic financing receivables	52,056,413	3,880,132	5,820,703	61,757,248
Expected credit losses	(953,362)	(425,869)	(4,759,972)	(6,139,203)
Carrying amount	51,103,051	3,454,263	1,060,731	55,618,045

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis (continued):

AED 000 31 December 2019	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
Islamic financing receivables - Corporate banking				
Performing (Grades 1a-4f)	22,354,483	3,370,960	-	25,725,443
Non performing (Grades 5a-5d)	-	-	4,037,665	4,037,665
Gross Islamic financing receivables - Corporate banking	22,354,483	3,370,960	4,037,665	29,763,108
Islamic financing receivables - Retail banking				
Performing (Grades 1a-4f)	26,804,371	578,929	-	27,383,300
Non performing (Grades 5a-5d)	-	-	830,880	830,880
Gross Islamic financing receivables - Retail banking	26,804,371	578,929	830,880	28,214,180
Total gross Islamic financing receivables	49,158,854	3,949,889	4,868,545	57,977,288
Expected credit losses	(973,980)	(409,830)	(4,052,432)	(5,436,242)
Carrying amount	48,184,874	3,540,059	816,113	52,541,046

Corporate and institutional banking – Performing includes AED 460 million (2019: AED 602 million) for exposure against watchlist customers.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

I. Amounts arising from ECL

Loans and receivables

AED 000
31 December 2020

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased originated credit - impaired	Total
Balance at 1 January	3,701,749	3,221,584	16,717,467	149,353	23,790,153
Allowances for impairment made during the year	(63,901)	1,742,389	4,237,394	701,993	6,617,875
Write back/recoveries made during the year	-	-	(304,633)	-	(304,633)
Amounts written off during the year	-	-	(1,241,754)	-	(1,241,754)
Exchange and other adjustments	21,473	307,356	(371,239)	26,377	(16,033)
Closing balance	3,659,321	5,271,329	19,037,235	877,723	28,845,608

AED 000
31 December 2019

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased originated credit - impaired	Total
Balance at 1 January	3,928,737	1,639,483	15,548,805	-	21,117,025
Allowances for impairment made during the year	66,397	1,797,281	3,530,838	149,353	5,543,869
Write back/recoveries made during the year	-	-	(1,211,396)	-	(1,211,396)
Amounts written off during the year	-	-	(1,145,807)	-	(1,145,807)
Exchange and other adjustments	(293,385)	(215,180)	(4,973)	-	(513,538)
Closing balance	3,701,749	3,221,584	16,717,467	149,353	23,790,153

The contractual amount outstanding on loans and receivables which were written off during the year, and are still subject to enforcement activity amounted to AED 1,242 million (2019: AED 1,146 million).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

I. Amounts arising from ECL (continued)

Islamic financing receivables

AED 000
31 December 2020

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at 1 January	973,980	409,830	4,052,432	5,436,242
Allowances for impairment made during the year	(20,587)	16,020	1,847,166	1,842,599
Write back/recoveries made during the year	-	-	(280,302)	(280,302)
Amounts written off during the year	-	-	(854,956)	(854,956)
Exchange and other adjustments	(31)	19	(4,368)	(4,380)
Closing balance	953,362	425,869	4,759,972	6,139,203

AED 000
31 December 2019

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at 1 January	1,122,321	752,284	3,710,878	5,585,483
Allowances for impairment made during the year	(102,586)	(341,752)	1,532,176	1,087,838
Write back/recoveries made during the year	-	-	(309,966)	(309,966)
Amounts written off during the year	-	-	(860,146)	(860,146)
Exchange and other adjustments	(45,755)	(702)	(20,510)	(66,967)
Closing balance	973,980	409,830	4,052,432	5,436,242

J. Covid-19 and Expected Credit Loss

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

In determination of ECL for the year 2020, the Group has considered potential impact caused by Covid-19 pandemic (based upon available information) and taken into account economic support and relief measures of governments and central banks. The Group has also considered the notices issued by the CBUAE with regards to the 'Targeted Economic Support Scheme (TESS)' and 'Treatment of IFRS 9 Expected Credit Loss in the context of Covid-19 crisis' as well as the guidance issued by the International Accounting Standards Board (IASB).

The Group has a dedicated IFRS 9 governance process established to review and approve IFRS 9 Stage migrations, management overlays to ECL estimates, and macroeconomic scenarios and weightings.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

K. Analysis of customers benefiting from payment deferrals

Deferral amount and outstanding balances of UAE customers

The table below contains analysis of the deferral amount and gross outstanding balances of UAE customers benefiting from deferrals:

	Corporate and Institutional banking	Retail banking and Wealth Management	Total
31 December 2020			
Deferral amount			
Loans and receivables	5,846,525	822,662	6,669,187
Islamic financing receivables	1,839,938	697,986	2,537,924
Less: Repayments made during the year	(3,483,418)	(565,124)	(4,048,542)
	<u>4,203,045</u>	<u>955,524</u>	<u>5,158,569</u>
Exposures (Gross)			
Loans and receivables	27,438,897	6,830,511	34,269,408
Islamic financing receivables	8,771,230	7,611,569	16,382,799
	<u>36,210,127</u>	<u>14,442,080</u>	<u>50,652,207</u>
Number of customers/accounts	393	102,701	103,094

During 2020, the Group drew AED 6,906 million of Zero Cost Funding under the CBUAE TESS program and after repaying AED 1,664 million, the balance at 31 December 2020 was AED 5,242 million.

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

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

For these customers, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers are subject to ongoing monitoring for any changes in their creditworthiness for the appropriateness of their grouping and IFRS 9 staging.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

K. Analysis of customers benefiting from payment deferrals (continued)

Deferral amount and outstanding balances of UAE customers (continued)

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

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

The impact of Covid-19 crisis continues to filter through into the real economy. In view of this, the Group has taken a proactive approach and on an ongoing basis for all customers, the Group continues to consider the severity and extent of potential Covid-19 impact on economic sectors and outlook, cash flow, financial strength, agility and change in risk profile along with the past track record and ongoing adaptation. Accordingly, all staging and grouping decisions are subject to regular review to ensure these reflect an accurate view of the Group's assessment of the customers' creditworthiness, staging and grouping as of the reporting date.

Outstanding balances and related ECL of UAE customers

The table below is an analysis of outstanding balances and related ECL of UAE customers that are benefiting from payment deferrals:

	Loans and receivables	Islamic financing receivables	Total
AED 000			
31 December 2020	AED 000	AED 000	AED 000
Corporate and Institutional banking			
Group 1			
Exposures	25,666,575	7,966,995	33,633,570
Less: Expected credit losses	(2,164,244)	(903,956)	(3,068,200)
	<u>23,502,331</u>	<u>7,063,039</u>	<u>30,565,370</u>
Group 2			
Exposures	1,772,322	804,235	2,576,557
Less: Expected credit losses	(538,558)	(582,408)	(1,120,966)
	<u>1,233,764</u>	<u>221,827</u>	<u>1,455,591</u>
Retail banking and Wealth Management			
Group 1			
Exposures	6,344,330	7,156,821	13,501,151
Less: Expected credit losses	(264,455)	(216,556)	(481,011)
	<u>6,079,875</u>	<u>6,940,265</u>	<u>13,020,140</u>
Group 2			
Exposures	486,181	454,748	940,929
Less: Expected credit losses	(153,017)	(173,919)	(326,936)
	<u>333,164</u>	<u>280,829</u>	<u>613,993</u>

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

K. Analysis of customers benefiting from payment deferrals (continued)

Change in ECL allowance by industry sector for UAE Corporate and Institutional banking customers

Below is an analysis of change in ECL allowance by industry sector since 31 December 2019 on UAE Corporate and Institutional banking customers benefiting from payment deferrals:

	Loans and receivables	Islamic financing receivables
	AED 000	AED 000
ECL allowance as at 1 January 2020	1,664,624	1,325,010
Manufacturing	(51,093)	(10,090)
Construction	(1,874)	785
Trade	161,119	178,320
Services	157,018	8,138
Personal	219,813	24,486
Real Estate	443,406	(51,053)
Others	109,789	10,768
ECL allowance as at 31 December 2020	2,702,802	1,486,364

Change in ECL allowance by products for Retail banking and Wealth Management customers

Below is an analysis of change in ECL allowance by products since 31 December 2019 on UAE Retail banking and Wealth Management customers benefiting from payment deferrals:

	Loans and receivables	Islamic financing receivables
	AED 000	AED 000
ECL allowance as at 1 January 2020	128,009	143,128
Personal Finance	221,213	144,532
Home Finance	21,649	(8,002)
Auto Loans	11,532	61,557
Credit Cards	6,212	1,156
Others	28,857	48,104
ECL allowance as at 31 December 2020	417,472	390,475

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

L. Impairment reserve under the CBUAE guidance

The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BS/2018/458 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, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

Impairment reserve: General

General provisions under Circular 28/2010 of CBUAE

Less: Stage 1 and Stage 2 provisions under IFRS 9

General provision transferred to the impairment reserve*

Impairment reserve: Specific

Specific provisions under Circular 28/2010 of CBUAE

Less: Stage 3 provisions under IFRS 9

Specific provision transferred to the impairment reserve*

Total provision transferred to the impairment reserve

	2020 AED 000	2019 AED 000
General provisions under Circular 28/2010 of CBUAE	5,903,434	5,779,368
Less: Stage 1 and Stage 2 provisions under IFRS 9	(10,309,881)	(8,307,143)
General provision transferred to the impairment reserve*	-	-
Specific provisions under Circular 28/2010 of CBUAE	24,377,584	20,749,922
Less: Stage 3 provisions under IFRS 9	(24,674,930)	(20,919,252)
Specific provision transferred to the impairment reserve*	-	-
Total provision transferred to the impairment reserve	-	-

*In the case where provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

M. Market Risk

Market Risk is the risk that the value of financial instruments in the Group's books – with the inclusion of some other financial assets and liabilities could produce a loss because of changes in future market conditions.

The Group takes on market risks in the pursuit of its strategic and business objectives.

The Group predominantly pursues opportunities in the market that exposes itself to the following categories of market risk - which are actively managed and monitored:

1. Interest Rate Risk: losses in value due to changes in the level, slope and curvature of yield curves, the volatility of interest rates and changes in credit spreads;
2. FX Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of currency rates;
3. Credit Spread Risk: Losses in the value due to change in credit spreads driven by associated credit risk of the security issuer/underlying;
4. Commodity Price Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of commodities such as petrochemicals, base and precious metals, and food stocks.

Respective portfolio managers are accountable for managing market risk within the approved limits. These managers have extensive knowledge of markets and products, their risk exposures and of the financial instruments available to hedge their exposures.

The Group's risk exposures to market risk are segregated into Trading and Banking Books. The Trading Book include those financial instruments held with trading intent arising from market-making, position-taking and other so designated financial instruments accounted for at fair value daily. The Banking Book include financial instruments not held with trading intent that arise from the management of Interest Rate risk and FX risk from the Group's retail and corporate and institutional banking assets and liabilities, and other financial investments designated as either FVOCI or Amortised Cost.

Market risk oversight and management process

As part of the Group's enterprise-wide risk management framework, an extensive governance processes is applied to the market risk taking activities. This governance framework includes, inter alia:

- Approval by the Board Risk Committee and Group Asset-Liability Committee of a set of risk limits with appropriate monitoring, reporting and limits excesses' escalation procedures;
- Independent valuation of financial instruments in the Trading Book and measurement of market risk;
- A comprehensive set of policies, procedures and limits; and
- Monitoring a wide range of risk metrics appropriate for the respective trading activities - such as risk sensitivities, Gross and Net open positions, Value-at-Risk (VaR) and stop-loss limits.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

M. Market Risk (continued)

Market risk oversight and management process (continued)

The Group uses appropriate and independently validated market standard models for the revaluation and risk measurement of its linear and non-linear financial products and receives regular market information from independent market data providers in order to measure and monitor market risk.

Details of allocation of assets and liabilities subject to market risk between trading and non-trading portfolios are as follows:

	December 2020		
	Market risk measure		
	AED 000	Trading portfolio AED 000	Non-trading portfolio AED 000
<u>Assets subject to market risk</u>			
Cash and deposits with Central Banks	100,841,896	-	100,841,896
Due from banks	34,997,680	-	34,997,680
Loans and receivables	387,923,424	-	387,923,424
Islamic financing receivables	55,618,045	-	55,618,045
Investment securities	72,695,287	5,895,902	66,799,385
Investments in associates	201,628	-	201,628
Positive fair value of derivatives	13,697,399	11,720,619	1,976,780
<u>Liabilities subject to market risk</u>			
Due to banks	51,672,068	-	51,672,068
Customer deposits	377,518,700	-	377,518,700
Islamic customer deposits	86,678,334	-	86,678,334
Debt issued and other borrowed funds	54,662,670	-	54,662,670
Sukuk payable	5,510,933	-	5,510,933
Negative fair value of derivatives	10,775,231	9,826,150	949,081

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

M. Market Risk (continued)

Market risk oversight and management process (continued)

	December 2019		
	Market risk measure		
	AED 000	Trading portfolio AED 000	Non-trading portfolio AED 000
<u>Assets subject to market risk</u>			
Cash and deposits with Central Banks	109,356,947	-	109,356,947
Due from banks	40,167,541	-	40,167,541
Loans and receivables	384,888,981	-	384,888,981
Islamic financing receivables	52,541,046	-	52,541,046
Investment securities	55,047,466	3,992,271	51,055,195
Investments in associates	134,452	-	134,452
Positive fair value of derivatives	7,143,499	6,825,551	317,948
<u>Liabilities subject to market risk</u>			
Due to banks	41,715,299	-	41,715,299
Customer deposits	385,810,220	-	385,810,220
Islamic customer deposits	86,370,611	-	86,370,611
Debt issued and other borrowed funds	49,317,315	-	49,317,315
Sukuk payable	3,679,921	-	3,679,921
Negative fair value of derivatives	5,565,219	4,748,061	817,158

The impact of sensitivity analysis on foreign exchange risk and equity price risk on the income statement and other comprehensive income is immaterial.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

M. Market Risk (continued)

Trading book oversight by Group Market & Treasury Credit Risk (MTCR)

MTCR monitors the limits' utilisation in the Trading Book of the Group on a daily basis through a multi-layered Limit Monitoring System which uses independently sourced data and reports from the GM&T IT systems. Depending on the trading exposure and as appropriate, MTCR uses appropriate metrics including:

1. Non statistical metrics: Interest rate sensitivity, (DV01/PV01), FX sensitivity (FX01), Net open/ Net Gross outstanding positions, Maximum notional and tenor measures, Derivatives' Greek sensitivities (Delta, Gamma, Vega), and Stop Loss limits;
2. Statistical metrics: Value-at-Risk (VaR), by Desk as well as total for the whole Trading Book.

The Group is not significantly exposed to structural FX Risk - which is a component of market risk - since the majority of the assets and liabilities of the Group are denominated predominately in either AED or in USD-pegged currencies from other GCC countries.

Value-at-Risk

To better capture the multi-dimensional aspects of market risk, the Group's primary market risk metric is a statistical one, Value-at-Risk, which is used for short-term risk holding periods. VaR metrics are calculated daily for the specific Trading Desk, such as Interest Rate Desk VaR, Foreign Exchange Desk VaR and overall Trading Book VaR.

The Group's year-end VaR numbers reported below have been calculated using the following parameters:

- Statistical level of confidence: 99%
- Holding period: 1 business day
- Methodology: Full Revaluation, Historical Simulation using over 2 years of historical market data

	2020 AED 000				2019 AED 000			
	Average	Maximum	Minimum	Actual*	Average	Maximum	Minimum	Actual*
By Trading desk								
Interest rate risk	6,505	12,637	3,449	11,921	5,467	11,228	3,101	3,856
Foreign exchange risk	2,258	10,394	257	2,703	2,175	8,442	379	1,085
Credit trading risk	3,105	7,627	559	5,589	1,503	3,445	439	1,340
Total	8,017	14,714	4,378	12,890	7,308	18,215	4,258	5,039

*Note that the sum of asset class VaR metrics does not add up to the reported Total VaR metric due to diversification and cross correlation effects.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

M. Market Risk (continued)

Value-at-risk (continued)

Major currency-wise open positions of the Group are as follows:

	2020	2019
	Long/(Short)	Long/(Short)
	AED 000	AED 000
U.S. Dollar (USD)	(2,067,219)	(977,451)
Oman Riyal (OMR)	(273,127)	(268,762)
Euro (EUR)	1,735,894	565,274
Saudi Riyal (SAR)	(682,897)	(1,066,290)
Turkish Lira (TRY)	4,146	(1,981)
Egyptian Pound (EGP)	288,466	239,527
Bahraini Dinar (BHD)	(258,688)	(256,385)
Indian Rupee (INR)	157,788	(241,817)

N. Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. This definition includes legal risks (described as exposure to fines, penalties and punitive damages resulting from supervisory actions, as well as private settlements), regulatory risks, and the risk arising from change initiatives.

Operational Risk Governance Framework

The Group applies a three line of defense model for operational risk management. The business and support units form the first line of defense. They have the primary responsibility and accountability for identifying operational risk in their areas and to promptly mitigate any issues.

The Group Operational Risk function as the second line of defense, provide consistent and standardized methods and tools to business and support functions for managing operational risk.

The Group's Internal Audit as the third line of defense, provides independent assurance to the Board of Directors.

Operational Risk Management Process

The Group has set up the Group Operational Risk function within Group Risk to establish the framework and governance structure set out in the operational risk policy. The risk management process comprises mainly of the below elements,

- Risk Assessment
- Risk Monitoring and Review
- Risk Treatment
- Risk Reporting

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

N. Operational Risk (continued)

Operational Risk Management Process (continued)

The function supports business and other support units to monitor and manage their individual operational risks. Furthermore, the Group Operational Risk function also provides analysis and reports on operational risks to management committees (Board Risk Committee, Group Risk Committee, Local Risk Committee), and to the CBUAE as per regulations, guidelines/circulars and conducts independent oversight and monitoring of risks and mitigating measures.

Insurance Management

The Group obtains comprehensive and tailored insurance cover to protect the Group against unexpected and unforeseeable losses. The requirements for insurance are reviewed periodically and the insurance cover is aligned to changes of the Group's risk exposure.

Fraud Management

The Group is continuously investing into advanced systems and controls for the interdiction of frauds perpetrated against the Group.

The Group has a specialised Fraud Prevention and Investigation (FP&I) team which focuses on investigation of fraud attempts against the bank, spreading fraud awareness to stakeholders, identification and mitigation of fraud risks. The team has independent reporting to Board Risk Committee.

FP&I is guided by group policies which demands a Zero Tolerance to fraud. Some of these policies are the Fraud Response Plan, Fraud Prevention, Anti-Bribery and Corruption and Whistleblower.

FP&I uses Analytics and Fraud Monitoring Systems to identify trends, monitor patterns and carry out penetration tests.

Whistleblowing

Whilst the Group has instituted a wide range of rules, regulations, procedures and codes of practice to deliver on its commitments, fraud, malpractice, abuse and/or wrongdoing may occur.

As such, the Group as part of 'Whistleblowers Policy', provides the platform to employees for reporting of malpractices. The policy is designed to encourage employees to report suspected internal fraud and other breaches, through specified channels, while safeguarding the employee from retribution.

Cyber Security Management

The Group has established a comprehensive cyber security framework based on three line of defense model. The Group applies latest defensive techniques and technologies to safeguard the bank from cyber-attacks.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

N. Operational Risk (continued)

Business Continuity Management

Business Continuity Management (BCM) is defined as a holistic management process that identifies potential threats to an organisation and the impacts to business operations that those threats, if realised, might cause, and which provides a framework for building organisational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.

The business continuity process across the Group is based on the international standard ISO22301:2012 (E). The BRC is responsible for providing oversight and strategy for Business Continuity Management. Business and support units are responsible to ensure appropriate Business Continuity Plans are in place and tested for their respective areas.

O. Liquidity Risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they become due (Structural Funding Risk), or the inability to convert assets into cash at reasonable prices (Market Liquidity Risk). The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure

The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments (under both normal and stressed conditions) can be met when due, and that access to the wholesale markets is coordinated and cost effective. To this end, the Group maintains a diversified funding base comprising core retail and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Group to respond quickly and smoothly to unforeseen liquidity requirements.

Policies and Procedures

Specifically, liquidity and funding management process includes:

- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- mismatch analysis between assets and liabilities for different periods with a focus on shorter time frames. These gap reports are based on contractual cash flow, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments;
- monitoring balance sheet liquidity and advances to deposits ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring customer depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of distress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimising adverse long-term implications for the business.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

P. Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities based on their carrying value:

	31 December 2020	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Banks		85,989,483	14,852,413	-	-	-	100,841,896
Due from banks		19,383,642	12,801,891	2,316,883	110,967	384,297	34,997,680
Investment securities		14,791,375	5,271,681	11,576,405	10,994,210	30,061,616	72,695,287
Loans and receivables		190,972,250	44,092,821	56,522,765	60,604,437	35,731,151	387,923,424
Islamic financing receivables		18,206,574	7,124,794	9,818,059	7,941,159	12,527,459	55,618,045
Investments in associates		-	-	-	-	201,628	201,628
Positive fair value of derivatives		1,671,024	1,329,055	2,870,783	2,461,429	5,365,108	13,697,399
Investment properties		-	-	-	-	584,724	584,724
Customer acceptances		8,837,724	-	-	-	-	8,837,724
Property and equipment		-	-	-	-	4,080,042	4,080,042
Goodwill and intangibles		-	-	-	-	6,313,171	6,313,171
Other assets		8,870,644	-	-	-	3,425,809	12,296,453
TOTAL ASSETS		348,722,716	85,472,655	83,104,895	82,112,202	98,675,005	698,087,473

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

P. Maturity analysis of assets and liabilities (continued)

	31 December 2020	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
LIABILITIES							
Due to banks	23,129,655	14,796,690	9,377,279	4,128,912	239,532	51,672,068	
Customer deposits	310,407,421	54,272,536	11,268,710	1,091,351	478,682	377,518,700	
Islamic customer deposits	61,117,879	21,032,849	2,056,229	2,451,377	20,000	86,678,334	
Debt issued and other borrowed funds	1,456,069	11,940,144	13,581,904	9,093,916	18,590,637	54,662,670	
Sukuk payable	-	3,674,683	-	1,836,250	-	5,510,933	
Negative fair value of derivatives	1,533,536	990,516	2,116,384	2,142,051	3,992,744	10,775,231	
Customer acceptances	8,837,724	-	-	-	-	8,837,724	
Other liabilities	4,679,177	5,654,846	-	-	7,479,692	17,813,715	
Total equity	-	-	-	-	84,618,098	84,618,098	
TOTAL LIABILITIES AND EQUITY	411,161,461	112,362,264	38,400,506	20,743,857	115,419,385	698,087,473	
OFF BALANCE SHEET							
Letters of credit and guarantees	28,892,649	20,557,314	8,896,108	804,956	10,053,351	69,204,378	

31 December 2019

ASSETS	368,206,334	84,871,309	81,881,304	73,034,962	75,326,655	683,320,564
LIABILITIES AND EQUITY	389,890,217	120,075,201	61,367,180	9,372,656	102,615,310	683,320,564
OFF BALANCE SHEET ITEMS	30,817,124	24,363,382	11,377,116	2,078,511	9,705,251	78,341,384

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

Q. Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 based on contractual undiscounted repayment obligations.

Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2020	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	51,672,068	(52,709,201)	(23,612,403)	(15,133,712)	(9,534,696)	(4,146,227)	(282,163)
Customer deposits	377,518,700	(379,020,237)	(311,169,149)	(54,770,431)	(11,464,977)	(1,133,870)	(481,810)
Islamic customer deposits	86,678,334	(87,264,735)	(61,333,064)	(21,147,808)	(2,190,412)	(2,573,312)	(20,139)
Debt issued and other borrowed funds	54,662,670	(64,538,113)	(1,841,542)	(13,712,800)	(15,997,014)	(11,076,141)	(21,910,616)
Sukuk payable	5,510,933	(5,726,239)	(40,908)	(3,721,776)	(68,148)	(1,895,407)	-
	576,042,705	(589,258,525)	(397,997,066)	(108,486,527)	(39,255,247)	(20,824,957)	(22,694,728)
Letters of credit and guarantees	69,204,378	(69,204,378)	(28,892,649)	(20,557,314)	(8,896,108)	(804,956)	(10,053,351)
Irrevocable loan commitments	33,506,436	(33,506,436)	(13,472,660)	(13,408,543)	(6,501,605)	(5,860)	(117,768)

49 RISK MANAGEMENT (CONTINUED)

Q. Analysis of financial liabilities by remaining contractual maturities (continued)

As at 31 December 2019	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	41,715,299	(43,941,833)	(20,670,257)	(10,965,384)	(9,214,909)	(2,747,621)	(343,662)
Customer deposits	385,810,220	(388,798,550)	(298,529,957)	(70,372,579)	(17,712,401)	(1,291,640)	(891,973)
Islamic customer deposits	86,370,611	(87,344,524)	(50,430,578)	(27,536,312)	(9,031,102)	(125,545)	(220,987)
Debt issued and other borrowed funds	49,317,315	(56,106,917)	(8,340,579)	(7,900,515)	(24,012,101)	(5,193,435)	(10,660,287)
Sukuk payable	3,679,921	(3,866,368)	(32,881)	(99,367)	(3,734,120)	-	-
	566,893,366	(580,058,192)	(378,004,252)	(116,874,157)	(63,704,633)	(9,358,241)	(12,116,909)
Letters of credit and guarantees	78,341,384	(78,341,384)	(30,817,124)	(24,363,382)	(11,377,116)	(2,078,511)	(9,705,251)
Irrevocable loan commitments	42,324,795	(42,324,796)	(15,972,670)	(16,508,446)	(9,744,516)	-	(99,164)

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

R. Interest rate risk in the banking book

Interest Rate Risk in the Banking Book (IRRBB) is defined as the exposure of the non-trading products of the Group to interest rates. Non-trading portfolios include all banking book positions that arise from the interest rate on the Group's retail and corporate and institutional banking assets and liabilities, and financial investments designated as FVOCI and amortised cost/held to maturity. IRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of interest rate changes.

In order to manage this risk optimally, IRRBB in non-trading portfolios is transferred to Group Treasury under the supervision of the Group ALCO, through Funds Transfer Pricing (FTP) Systems. Group ALCO is required to regularly monitor all such interest rate risk positions to ensure they comply with interest rate risk limits.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating parallel shifts to the yield curve(s) ranging from 50 basis points to 200 basis points, and assessing the corresponding impact on its Net Interest Income.

	As at 31 December 2020		As at 31 December 2019	
	Amount AED 000	Variance AED 000	Amount AED 000	Variance AED 000
Rates Up 200 bp	18,947,846	2,426,410	22,169,490	2,333,073
Base Case	16,521,436	-	19,836,417	-
Rates Down 200 bp	16,142,537	(378,899)	16,677,990	(3,158,427)

The interest rate sensitivities set out in the table above are based on a set scenario i.e. the projections above assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential effect on net interest income of some rates changing while others remain unchanged. The projections also make the assumption that all positions run to maturity. This effect does not incorporate actions that would be taken by Group Treasury or in the business units to mitigate the impact of this interest rate risk. In practice, Group Treasury seeks proactively to change the interest rate risk profile to minimise losses and optimise net revenues.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

S. Interest rate repricing analysis*

31 December 2020	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Banks	24,236,333	14,322,135	11,051,153	3,801,014	-	47,431,261	100,841,896
Due from banks	11,919,126	7,467,624	4,437,618	3,223,535	2,180,280	5,769,497	34,997,680
Investment securities	14,184,081	3,682,987	3,752,468	3,018,385	47,175,923	881,443	72,695,287
Loans and receivables	210,100,396	61,014,633	24,214,849	16,863,134	75,730,412	-	387,923,424
Islamic financing receivables	16,237,679	20,190,357	4,730,202	3,031,413	11,428,394	-	55,618,045
Investments in associates	-	-	-	-	-	201,628	201,628
Positive fair value of derivatives	-	-	-	-	-	13,697,399	13,697,399
Investment properties	-	-	-	-	-	584,724	584,724
Customer acceptances	-	-	-	-	-	8,837,724	8,837,724
Property and equipment	-	-	-	-	-	4,080,042	4,080,042
Goodwill and intangibles	-	-	-	-	-	6,313,171	6,313,171
Other assets	-	-	-	-	-	12,296,453	12,296,453
TOTAL ASSETS	276,677,615	106,677,736	48,186,290	29,937,481	136,515,009	100,093,342	698,087,473

*Represents when the interest rate will be repriced for each class of assets and liabilities.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

S. Interest rate repricing analysis* (continued)

31 December 2020	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
LIABILITIES AND EQUITY							
Due to banks	12,894,206	16,508,911	2,249,984	5,349,984	10,789,617	3,879,366	51,672,068
Customer deposits	137,273,269	44,153,127	23,540,883	30,495,664	12,435,474	129,620,283	377,518,700
Islamic customer deposits	24,068,910	15,473,733	8,705,215	12,327,634	4,527,606	21,575,236	86,678,334
Debt issued and other borrowed funds	1,758,821	16,644,811	1,421,900	1,307,133	33,530,005	-	54,662,670
Sukuk payable	-	-	3,674,683	-	1,836,250	-	5,510,933
Negative fair value of derivatives	-	-	-	-	-	10,775,231	10,775,231
Customer acceptances	-	-	-	-	-	8,837,724	8,837,724
Other liabilities	-	-	-	-	-	17,813,715	17,813,715
Total equity	-	-	-	-	-	84,618,098	84,618,098
TOTAL LIABILITIES AND EQUITY	175,995,206	92,780,582	39,592,665	49,480,415	63,118,952	277,119,653	698,087,473
ON BALANCE SHEET GAP	100,682,409	13,897,154	8,593,625	(19,542,934)	73,396,057	(177,026,311)	-
OFF BALANCE SHEET GAP	(1,417,733)	(10,191,766)	(683,058)	(2,662,129)	14,954,686	-	-
INTEREST RATE SENSITIVITY GAP - 2020	99,264,676	3,705,388	7,910,567	(22,205,063)	88,350,743	(177,026,311)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP - 2020	99,264,676	102,970,064	110,880,631	88,675,568	177,026,311	-	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP - 2019	102,318,607	118,676,011	111,826,319	90,897,009	155,190,140	-	-

*Represents when the interest rate will be repriced for each class of assets and liabilities.

49 RISK MANAGEMENT (CONTINUED)

T. Reputational Risk

Reputational Risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution.

Reputational risk can arise as a consequence of failures with a strong negative perception amongst clients, shareholders, creditors or the public. The Group has measures to ensure a positive perception of the Group and that overall risk management ensures appropriate management of reputational risk.

U. ICAAP and Stress-Testing:

Stress testing is an integral part of the Group's risk management process. It includes scenario analysis and is conducted regularly. In particular, the ICAAP (a group-wide exercise spanning risk types) is performed annually. On top of this, additional stress tests are carried out in response to microeconomic and macroeconomic conditions or portfolio and branch/subsidiary level. Every stress test is documented and the results are discussed at the EXCO level and approved by the GRC and the BRC.

Stress testing alerts senior management to the Group's potential vulnerability to exceptional but plausible adverse events. As such, stress testing enables us to assess capital adequacy and identify potentially risky portfolio segments as well as inherent systematic risks. This then allows us to develop the right contingency plans, exit strategies and mitigating actions beforehand.

V. Regulatory/Compliance Risk

Regulatory/Compliance risk is the risk of reputational and/or financial losses due to the failure to comply with applicable laws, regulations or sanctions.

The Group has an independent compliance function, with the necessary mandate and authority to enforce and monitor compliance on a Group-wide basis. This includes compliance with the applicable laws and regulations across the various jurisdictions where the Group operates as well as those of the USD/EU clearing centres.

Compliance policies covering key areas such as Sanctions, Anti Money Laundering (AML), Counter Terrorist Financing (CTF), Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) are applicable Group wide and are supplemented where necessary to address any unique local requirements. These policies are supported by automated screening and monitoring systems and associated investigation teams to help comply with the Sanctions, AML, CTF, FATCA and CRS requirements. Independent Compliance Monitoring is undertaken to provide assurance over the effectiveness of controls. Mandatory Compliance Training is provided to all relevant staff both at onboarding and periodically thereafter to help ensure that key requirements are complied with.

W. Internal Audit's role in overall risk management

Emirates NBD Group Internal Audit is an independent appraisal function established by the Board of Directors to examine and evaluate the activities of the Emirates NBD Group including all aspects of the Group Risk Management. The department is organisationally independent of all other functions in the bank. The unit is headed by the Group Chief Audit Officer, who is accountable to the Board of Directors through the Board Audit Committee.

49 RISK MANAGEMENT (CONTINUED)

W. Internal Audit's role in overall risk management (continued)

The primary objectives of Group Internal Audit is to provide assurance on risks to which the Group's business are exposed, evaluate the adequacy and effectiveness of financial/operating controls and the Corporate Governance environment, assess the extent to which assets are accounted for and safeguarded from losses and conduct follow-up activities to assess and report on the degree to which management has addressed risks and compliance with action plans previously agreed.

The unit's mission is achieved through a risk based annual audit plan approved by the Board Audit Committee. A formal report is prepared at the end of each quarter which includes a summary of audit activity completed during the period and an update on the status of previously reported matters for Board Audit Committee attention.

The Board Audit Committee reviews and approves Group Internal Audit's plans and resources, and evaluates the effectiveness of the Internal Audit function. External advisers also periodically conduct an assessment of the function.

X. Risk management framework and processes at Group entities

In establishing risk management policies and processes at the Group entities level, due consideration is given to the entities' specific regulatory environment.

Y. Risk Management at DenizBank

Emirates NBD Group (Group) achieved a significant milestone in reviewing the Risk Management practices of DenizBank and understanding the extent of alignment necessary with respect to the practices followed at the Group, closing the first phase of integration within the first 90 days. The first phase confirms broad alignment across different areas of risk management. As a first step the Group has placed strategic risk controls to oversee the existing risk management practices currently in place at DenizBank. The risk management framework is governed by the following policies:

- Credit Risk Policy
- Concentration Risk Policy
- Model Risk Policy
- Liquidity Risk Policy
- Structural Interest Rate Risk Policy
- Market Risk Policy
- Exchange Rate Risk Policy
- Operational Risk Policy
- Reputation Risk Policy
- Country Risk Policy
- Compliance Risk Policy
- Tax Risk Policy

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

Y. Risk Management at DenizBank (continued)

All of these policies govern the following areas of risk:

Credit Risk

The Group has added an additional layer of supervision over and above the credit risk policies in force at DenizBank, this supervisory layer is conditional to exceptional approvals for substantial exposures. From a reporting standpoint all exposures (irrespective of materiality) are periodically reported to the Group by DenizBank for internal alignment within the Group.

For calculation of credit risk-weighted assets DenizBank complies with BRSA's and Basel II standards. While for Pillar II DenizBank calculates the annual general stress tests in accordance with its plans and scenarios that are compliant with Basel II's credit risk internal assessment methods.

The quantitative risk management disclosures comply with TFRS (Turkish Financial Reporting Standards) that are aligned to the IFRS (International Financial Reporting Standards) standards including IFRS 9 followed by the Group.

- Both on and off balance sheet instruments that are material to TFRS/IFRS 9 expected credit loss calculation are considered in the financial statements
- Models exist for PD, EAD and LGD that have long term calibrations and forward looking scenarios to adjust for economic assumptions
- New or re-structured processes of TFRS/IFRS 9 are advanced and complex in nature in order to ensure high quality implementation
- Estimations, assumptions and scenarios used in expected credit losses are fairly complex
- Complex and comprehensive disclosures are published in line with TFRS/IFRS 9 requirements

Enterprise Risk Management

DenizBank specifies its limiting setting, monitoring and reporting process in its risk appetite statement. It also includes the process of phased limit lists and prescribes the remediation actions in cases where the limit exceeds the limit in each phase. The document encompassing these policies are reviewed every year, and are approved by Board of Directors (BoD).

Market Risk

All activities related to money and capital markets are in accordance with the internally recognised measure of Value at Risk (VaR) method, which is also used by the Group to gauge changing market conditions. These VaR analysis are adequately supported by scenario analysis and stress tests.

Liquidity Risk

Liquidity adequacy is actively monitored as per the rules defined by BoD. The liquidity adequacy and the reserve opportunities are tested periodically against worst case scenarios and other scenarios, all of these assumptions are documented for traceability.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

49 RISK MANAGEMENT (CONTINUED)

Y. Risk Management at DenizBank (continued)

Operational Risk

Events that trigger operational risks are recorded along with the causes and impacts on specific functions and mitigation measures are taken to prevent reoccurrences of such events in the future. Events that are either frequent or significant are discussed within the relevant committees that include Audit and impacted departments. Business Continuity Plan is kept up to date and testing of these plans are done periodically.

Concerned risk teams are working to ensure comprehensive alignment in different spheres of risk keeping in view the local and European regulatory requirements. As part of this process policies and procedures are being reviewed for any necessary alignment with Group.

50 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2020 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

51 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 89.9 million (2019: AED 76.4 million).