EMIRATES DEVELOPMENT BANK PJSC

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

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for the year ended 31 December 2020

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF EMIRATES DEVELOPMENT BANK PJSC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 (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 ("UAE"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF EMIRATES DEVELOPMENT BANK PJSC (continued)

Key audit matters (continued)

Estimation uncertainty with respect to impairment allowance for financing assets measured at amortised cost
The Bank's financing assets are carried in the statement of financial position at AED 4.2 billion as at 31 December 2020 (2019: AED 1.9 billion). The expected credit loss (ECL) allowance was AED 233.0 million (2019: AED 211.6 million) as at this date, which comprised an allowance of AED 53.2 million (2019: AED 52.6 million) against Stage 1 and 2 exposures and an allowance of AED 179.8 million (2019: AED 159.0 million) against exposures classified under Stage 3. The audit of the impairment of credit facilities and financing assets is a key area of focus because of its size (representing 46.7% of total assets) and due to the significance of the estimates and judgments used in classifying credit facilities and financing assets into various stages, determining related allowance requirements and the complexity of the judgements, assumptions and estimates used in the ECL models. Refer to Note 3.3.7 to the financial statements for the accounting policy, Note 4 for critical judgements and estimates used by management and Note 5.2.6 for disclosures about credit risk. The Bank recognizes allowances for ECLs at an amount equal to 12-month ECL (Stage 1) or full lifetime ECL (Stage 2). A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate. The Bank employs statistical models for ECL calculations and the key variables used in these calculations are probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 5.2 to the consolidated financial statements. The material portion of the corporate and SME, government entities and financial institutions portfolio of financing assets measured at amortised cost is assessed individually for the SICR and measurement of ECL. There is the risk that management does not capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management bias may also be involved in manual staging override in accordance with the Bank's policies. There is also the risk that judgements, assumptions, estimates, proxies and practical expedients implemented previously, are not consistently applied throughout the current reporting period or there are any unjustified movements in management overlays. The measurement of ECL amounts for the 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 went through a validation process.

Key audit matters (continued)

Estimation uncertainty with respect to impairment allowance for financing assets measured at amortised cost (continued)

The impact of the COVID-19 pandemic and the resulting economic support and relief measurement programmes of government and central bank have been incorporated in the Bank's measurement of ECL. The Bank has updated its macro-economic forecasts by taking into account the impact of the Covid-19 pandemic.

For further information on the accounting policies relating to impairment of financing assets measured at amortised cost as well as the Bank's management of credit risk, refer to Note 5.2 to the consolidated financial statements.

How our audit addressed the key audit matter

We obtained a detailed understanding of the financing origination process, credit risk management process and the estimation process of determining impairment allowances for financial assets measured at amortised cost and tested the design, implementation and operating effectiveness of relevant controls within these processes.

We understood and evaluated the theoretical soundness of the ECL models by involving our internal specialists to ensure its compliance with the requirements of IFRSs. We tested the mathematical integrity of the ECL models by performing recalculations on a sample of the financing assets measured at amortised cost and assessed the consistency of the various inputs and assumptions used by management to determine impairment.

For allowances against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Bank's methodology to determine the allowance, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. We assessed the appropriateness of the Bank's determination of the significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we assessed the appropriateness of the Bank's staging.

For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information.

Key audit matters (continued)

Estimation uncertainty with respect to impairment allowance for financing assets measured at amortised cost (continued)
How our audit addressed the key audit matter (continued)
On a sample basis, we selected individual samples and performed a detailed review of these exposures and challenged the Bank'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, such as estimated future cash flows, collateral valuations and estimates of recovery, underlying the impairment allowance calculation. We evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for the computation of impairment allowances for the financing assets measured at amortised cost. We evaluated 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. We evaluated 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 Bank's forecasts of future economic conditions at the reporting date. We evaluated the approach employed by the Bank to measure the impact of Covid-19 on ECL by evaluating controls over the governance process that reviews and approves all stage migrations and macro-economic scenarios and weightings. We also tested the impact on individual financing facilities through our detailed credit reviews referenced above. We assessed the adequacy of the disclosures in the consolidated financial statements against the requirements of IFRSs.

Key audit matters (continued)

Valuation of unquoted equity investment securities

The Group has investments in unquoted equity securities with a carrying amount of AED 138.0 million as at 31 December 2020 (2019: AED 157.6 million). These instruments are classified as financial assets at fair value through other comprehensive income.

As disclosed in Note 5.7, the valuation of investments in unquoted securities uses inputs other than observable market data and therefore are inherently subjective. It also requires significant judgement to be applied by management in determining the appropriate valuation methodology and the use of various assumptions, for example financial multiples of comparable entities, discount rates, market risk adjustments etc. The valuations were performed by management of the Group.

Given the inherent subjectivity and judgment required in the valuation of unquoted investments, which are classified under level 3 of the fair value hierarchy, we determined this to be a key audit matter.

The significant reduction in market transactions and uncertainty in relation to future cash flows due to the current COVID-19 crisis, posed additional challenges, resulting to a higher estimation uncertainty in valuing unlisted assets.

How our audit addressed the key audit matter

We obtained an understanding of the process adopted by management to determine the fair value of unquoted securities.

We assessed the design and implementation of controls in the valuation of unquoted securities.

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

With the assistance of our internal specialists, we assessed both the methodology and assumptions including key inputs used by management appointed independent valuation experts in estimating the fair values, including the changes made to the key assumptions on the basis of a COVID-19 economic environment. We considered whether the application of methodologies is consistent with generally accepted valuation methodologies and prior periods and that assumptions and inputs used are consistent, in all material respects, with the business' past performance and management business strategy.

We agreed the inputs into the valuation to supporting documentation on a sample basis, where applicable.

Key audit matters (continued)

Valuation of unquoted equity investment securities (continued)
How our audit addressed the key audit matter (continued)
We further involved our internal valuation specialists in assessing market related information for the valuation of a sample of direct investments (level 3), and in assessing whether the valuations were within a pre-defined range. We assessed the accuracy of key inputs and assumptions driving the valuation, which includes the assessment of the appropriateness of comparable market multiples, adjusted for comparability differences such as size and liquidity, and the assessment of the reasonability of the expected cash flows, risk free rates and credit spreads. We performed sensitivity analysis in consideration of the potential impact of reasonably possible upside or downside changes in these key assumptions. We assessed the adequacy of the Bank's disclosures including the accuracy of the categorization into the fair value measurement hierarchy and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, and the sensitivity to key assumptions.
Valuation of investment properties
The Bank's investment property portfolio amounted to AED 509.8 million as at 31 December 2020 (2019: AED 535.5 million) and the net fair value loss recorded in the consolidated statement of profit or loss amounted to AED 25.6 million (2019: AED 46.1 million). The Bank measures its investment properties at fair value. The determination of fair value of these investment properties is based on external valuations using an investment approach and market comparable approach. The Bank's undiscounted future cash flows analysis and the assessment of the expected remaining holding period and income projections on the existing operating assets requires management to make significant estimates and assumptions related to future rental rates, capitalisation rates and discount rates. The valuation of the portfolio is a significant judgement area and is based on a number of assumptions. The existence of significant estimation uncertainty warrants specific audit focus in this area as any bias or error in determining the fair value could lead to a material misstatement in the consolidated financial statements.

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Key audit matters (continued)

Valuation of investment properties (continued)
The COVID 19 pandemic created lower investor confidence, resulting to market activity being impacted in many sectors. This lack of market activity is creating a dearth of comparable transactions that valuers would normally benchmark to, creating a higher estimation uncertainty in the valuation of real estate market. In the event that the fair value of a real estate asset is higher or lower than its carrying amount, the Group will recognise a fair value adjustment in its consolidated statement of profit or loss. We have identified the of investment properties as a key audit matter as the fair value is determined based on level 3 valuation methodologies and it requires management to apply significant judgements in determining the fair value of investment property. Refer to note 5.7 for disclosures relating to this matter.
How our audit addressed the key audit matter
We evaluated the design and implementation of controls in the determination of the fair value of investment properties. We assessed the competence, independence and integrity of the independent valuers and read their terms of engagement with the Bank to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work. With the assistance of our internal specialists, we performed an understanding and reviewed the methodology and assumptions used in the valuation of investment properties. We held a meeting with the independent valuers to understand the valuation process adopted and to identify and challenge the critical judgment areas in the valuation model, including the changes made to the key assumptions on the basis of a COVID-19 economic environment. We assessed whether the valuation approach is in accordance with appraisal and valuation standards suitable for use in determining the fair value in the consolidated statement of financial position in line with the requirements of IFRS 13. We assessed the accuracy of the input data, on a sample basis, used by the independent valuers, such as rental income, occupancy rates, discount rate and terminal capitalisation rate, by agreeing them back to management's records and other supporting documents. We assessed the reasonableness of forecasted rental income and related expenses by comparing them against current year actual results and historical growth rates.

Key audit matters (continued)

Valuation of investment properties (continued)
How our audit addressed the key audit matter (continued)
We challenged the key assumptions used by the independent valuers, including discount rates and terminal capitalisation rates applied on income streams generated by the properties, by comparing the rates to those adopted in the previous year and the rates adopted by comparable entities. We assessed the adequacy of the disclosures in the consolidated financial statements against the requirements of IFRSs.
Risk of inappropriate access or changes to information technology systems
We identified IT systems and controls over the Bank's 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. 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. Therefore, we considered this area as key audit matter.
How our audit addressed the key audit matter
Our audit approach relies on automated controls and therefore the following procedures were designed to test access and control over IT systems: 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 centre and network operations. We examined computer generated information used in financial reports from relevant applications and key controls over their report logics. We performed testing on the key automated controls on significant IT systems relevant to business processes.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF EMIRATES DEVELOPMENT BANK PJSC (continued)

Other information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Other Matter

The Company's financial statements as at 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 21 April 2020.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (7) of 2011, 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.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 of 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.

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

Deloitte & Touche (M.E.)

Mohammad Khamees Al Tah
Registration No.717
25 February 2021
Abu Dhabi
United Arab Emirates

Consolidated statement of financial position
as at 31 December 2020

	Notes	**31 December 2020 AED'000**	31 December 2019 As restated AED'000	1 January 2019 As restated AED'000
Assets				
Cash and balances with the UAE Central Bank	*27*	**167,893**	49,137	40,848
Balances and deposits with banks	*6*	**2,731,048**	4,691,853	3,299,576
Loans and advances to customers	7	**3,182,761**	1,355,280	1,121,292
Murabaha, Ijarah and Estisnaa contracts	*8*	**1,061,109**	595,135	350,889
Investment securities	*9*	**1,322,659**	1,196,960	790,187
Investment properties	*10*	**509,837**	535,480	581,540
Property and equipment	*12*	**31,742**	34,305	35,845
Other assets	*11*	**51,944**	66,198	35,277
Total assets		**9,058,993**	8,524,348	6,255,454
Liabilities				
Deposits and funds from governmental institutions	*13*	**865,673**	694,881	1,847,858
Term borrowing	*14*	**2,752,343**	2,751,533	-
Other liabilities	*15*	**166,296**	295,193	185,742
Total liabilities		**3,784,312**	3,741,607	2,033,600
Equity				
Paid up capital	*16*	**4,458,390**	4,008,390	3,558,390
Special reserve	*17*	**577,757**	570,593	563,542
Retained earnings		**174,576**	111,802	49,116
Investment revaluation reserve		**46,103**	74,101	32,951
Revaluation surplus		**17,855**	17,855	17,855
Total equity		**5,274,681**	4,782,741	4,221,854
Total liabilities and equity		**9,058,993**	8,524,348	6,255,454

H.E. Dr. Sultan Bin Ahmed Al Jaber
Chairman

Faisal Aqil Al Bastaki
Chief Executive Officer

Samer Babelli
Chief Financial Officer

Consolidated statement of profit or loss for the year ended 31 December 2020

	Note	2020 AED'000	2019 AED'000
Income			
Interest income	*19*	**226,475**	246,291
Interest expense	*20*	**(101,037)**	(104,650)
Net interest income		**125,438**	141,641
Profit from Murabaha, Ijarah and Estisnaa		**31,146**	20,598
Net interest and profit income		**156,584**	162,239
Investment income	*21*	**11,850**	13,061
Fees and commission income – net	*22*	**11,898**	10,395
Other income	*23*	**21,524**	17,236
Total operating income		**201,856**	202,931
Expenses			
Salaries and employee benefits		**(55,169)**	(51,813)
Operating and administrative expenses	*24*	**(29,858)**	(27,223)
Impairment charge	*25*	**(25,448)**	(19,370)
Profit before fair value changes on investment properties and financial assets at fair value through profit or loss (FVTPL)		**91,381**	104,525
Fair value loss on investment properties and financial assets at FVTPL	*9, 10*	**(19,743)**	(34,015)
Profit for the year		**71,638**	70,510

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

Consolidated statement of comprehensive income
for the year ended 31 December 2020

	Note	2020 AED'000	2019 AED'000
Profit for the year		**71,638**	70,510
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value (loss)/ gain on investments in equity instruments designated at FVTOCI		**(29,698)**	40,377
Total comprehensive income for the year		**41,940**	110,887

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

Consolidated statement of changes in equity for the year ended 31 December 2020

	Paid up capital AED'000	Special reserve AED'000	Retained earnings AED'000	Investment revaluation reserve AED'000	Revaluation surplus AED'000	Total equity AED'000
Balance at 31 December 2018	3,558,390	563,542	49,116	32,951	-	4,203,999
Prior period adjustments (note 31)	-	-	-	-	17,855	17,855
Balance at 1 January 2019 (as restated)	3,558,390	563,542	49,116	32,951	17,855	4,221,854
Increase in paid up capital	450,000	-	-	-	-	450,000
Transfer to special reserve	-	7,051	(7,051)	-	-	-
Profit for the year	-	-	70,510	-	-	70,510
Fair value gain on investments in equity instruments designated at FVTOCI	-	-	-	40,377	-	40,377
Total comprehensive income for the year	-	-	70,510	40,377	-	110,887
Fair value loss transferred within equity upon disposal of investments in equity instruments designated at FVTOCI	-	-	(773)	773	-	-
Balance at 31 December 2019 (as restated)	4,008,390	570,593	111,802	74,101	17,855	4,782,741
Increase in paid up capital	450,000	-	-	-	-	450,000
Transfer to special reserve	-	7,164	(7,164)	-	-	-
Profit for the year	-	-	71,638	-	-	71,638
Fair value loss on investments in equity instruments designated a FVTOCI	-	-		(29,698)	-	(29,698)
Total comprehensive income (loss) for the year	-	-	71,638	(29,698)	-	41,940
Fair value loss transferred within equity upon disposal of investments in equity instruments designated at FVTOCI	-	-	(1,700)	1,700	-	-
Balance at 31 December 2020	**4,458,390**	**577,757**	**174,576**	**46,103**	**17,855**	**5,274,681**

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

Consolidated statement of cash flows for the year ended 31 December 2020

	Notes	2020 AED'000	2019 AED'000
Cash flows from operating activities			
Profit for the year		**71,638**	70,510
Adjustments for:			
Depreciation	*12*	**7,163**	8,408
Fair value changes on financial assets at FVTPL	*9*	**(5,900)**	(12,045)
Fair value loss on investment properties	*10*	**25,643**	46,060
Dividend income	*21*	**(11,365)**	(12,687)
Amortization of premium (discount) on investment securities		**1,144**	(100)
Amortization of issuance cost – term borrowing		**810**	-
Provision for employees' end of service benefits		**1,433**	1,416
Provision for impairment of loans and advances to customers- net	*25*	**25,448**	19,370
Operating cash flow before changes in working capital		**116,014**	120,932
Working capital changes:			
Deposits with banks maturing after three months		**2,180,000**	(2,710,000)
Loans and advances to customers		**(1,849,300)**	(249,316)
Murabaha, Ijarah and Estisnaa contracts		**(470,783)**	(247,063)
Other assets		**14,254**	(31,012)
Deposits and funds from governmental authorities		**170,792**	(1,152,977)
Other liabilities		**(129,976)**	108,137
Employees' end of service benefits paid		**(354)**	(295)
Net cash generated from / (used in) operating activities		**30,647**	(4,161,594)
Cash flows from investing activities			
Purchase of property and equipment		**(4,600)**	(6,675)
Dividend received		**11,365**	12,778
Investment securities purchased		**(400,000)**	(693,888)
Investment securities sold		**249,162**	339,218
Net cash used in investing activities		**(144,073)**	(348,567)
Cash flows from financing activities			
Increase in paid up capital		**450,000**	450,000
Issuance of bonds		**-**	2,751,533
Net cash generated from financing activities		**450,000**	3,201,533
Net increase/ (decrease) in cash and cash equivalents		**336,574**	(1,308,628)
Cash and cash equivalents at 1 January		**683,418**	1,992,046
Cash and cash equivalents at 31 December (note 27)		**1,019,992**	683,418

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

Notes to the consolidated financial statements for the year ended 31 December 2020

1 Legal status and principal activities

Emirates Development Bank ("EDB" or "the Bank"), was incorporated as a shareholding company, fully owned by the Federal Government of United Arab Emirates as per the decree issued by the President, Sheikh Khalifa bin Zayed Al Nahyan, Federal Law No. 7 (the "EDB Law") issued on 18 September 2011, by merging the operations and assets and liabilities of Emirates Industrial Bank ("EIB") and Real Estate Bank ("REB"), both existing Federal banks that were established under separate laws ("the merged banks"). The EDB Law became effective from 30 September 2011.

The registered address of the Bank is P.O. Box 51515, Abu Dhabi, United Arab Emirates.

The main objectives of the Bank are to promote economic development growth in the United Arab Emirates and diversify its sources of income through establishing new industries and strengthening existing ones.

The Bank, together with its subsidiary, Emirates Integrated Registries Company, (together referred to as the "Group") is engaged in providing industrial and real estate loans; and managing the integrated registries services in UAE.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 February 2021.

2 Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the Federal Decree Law No. 7 issued on 18 September 2011.

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except as modified by the revaluation of investment properties, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are carried at fair value.

2.3 Functional and presentation currency

These consolidated financial statements are prepared and presented in United Arab Emirates Dirham ("AED"), which is the Group's functional and presentation currency. Amounts have been rounded to nearest thousand except where otherwise indicated.

2.4 Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2 Basis of preparation *(continued)*

2.5 Basis of consolidation

Subsidiaries are investees that are controlled by the Group. The Group controls the investee if it meets the control criteria. Control is achieved when the Group:

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

The Group reassesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The consolidated financial statements comprise the financial statements of the Bank and its following subsidiary:

Legal Name	Country of incorporation	Year of incorporation	Holding %
Emirates Integrated Registries Company - Sole Proprietorship L.L.C	United Arab Emirates	2018	100%

3 Summary of significant accounting policies

3.1 New and revised IFRSs that are effective for the current year

The following new and revised IFRSs that are mandatorily effective for accounting periods that begins on or after 1 January 2020 have been adopted by the Group. The application of these revised IFRSs has not had any material impact on the disclosures or on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32
- Amendment to IFRS 3 *Business Combinations* relating to definition of a business
- Amendments to IAS 1 and IAS 8 relating to definition of “material”
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).
- COVID-19-related Rent Concessions (Amendment to IFRS 16)

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.1 New and revised IFRSs that are effective for the current year (continued)

Management 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 and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The impact of the replacement of interbank offered rates (IBOR) with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBOR, such as LIBOR and EIBOR, extending past 2021 when it is likely that these IBORs will cease being published. The Group does not have exposure to cash flow hedges and fair value hedges linked to IBOR maturing beyond the year 2021.

Management will assess the impact in 2021 and consider the potential changes in its products, services, systems and reporting during the Group's transition to new rate regimes after 2021.

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 16 *Property, Plant and Equipment,* Proceeds before intended use	1 January 2022
Annual Improvements 2018-2020 cycle	1 January 2022
Amendments to IFRS 3 *Business Combination*	1 January 2022
Amendments to IAS 37 *Onerous Contracts*, Cost of fulfilling a contract	1 January 2022
Amendments to IAS 1 *Classification of Liabilities as Current or Non-Current*	1 January 2023
IFRS 17 *Insurance Contracts*	1 January 2023
Amendments to IFRS 10 *Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these IFRSs and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. Management assessed that adoption of these amendments will not have a significant impact on the Group's financial statements.

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities

3.3.1 Recognition

The Group initially recognises loans and advances to customers, Murabaha, Ijarah and Estisnaa contracts, balances and deposits with banks and Central Bank, investment securities, deposits and funds from governmental institutions, term borrowing and other financial assets and liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3.3.2 Classification and Initial Measurement

Financial Assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

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

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

- The financial 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 FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the 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.

By default, all other financial assets are measured subsequently at FVTPL.

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 OCI. This election is made on an investment- by-investment basis.

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.2 Classification and Initial Measurement (continued)

Financial Assets (continued)

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 FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- 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; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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 of 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, prepayment and extension terms, terms that limit the Group's claim to cash flows from specified assets and features that modify consideration of the time value of money.

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.2 Classification and Initial Measurement (continued)

Financial Assets (continued)

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

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

Debt instruments measured at FVTOCI

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

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

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

Equity instruments designated at FVTOCI

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

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.2 Classification and Initial Measurement (continued)

Financial Assets (continued)

Equity instruments designated at FVTOCI (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments 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.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

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.

Islamic financing

Following terminologies in Islamic financing, classified under each of the financial instrument classification mentioned above, have been used in the preparation of these consolidated financial statements:

Murabaha contracts represent financing for the purchase of industrial goods by the borrowers on a deferred payment basis. A Murabaha contract is recognised when money is disbursed to the supplier for the supply of industrial goods to the borrower.

Estisnaa contracts represent financing for the construction of industrial civil works on a deferred payment basis. An Estisnaa contract is recognised when money is disbursed to the contractor for the construction of civil works for the borrower.

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.2 Classification and Initial Measurement (continued)

Financial Assets (continued)

Islamic financing (continued)

Other Estisnaa contracts are followed by Ijarah contract between the Bank and Emirates Real Estate Corporation, whereby Emirates Real Estate Corporation, based on an order from the Bank, undertakes to construct and subsequently lease the subject matter of the contract according to a specific price and method of payment.

Ijarah contracts are finance lease contracts. The Ijarah contract term constitutes the major part of the economic life of the asset, and the significant risks and rewards incidental to ownership, are substantially transferred to the lessee. Title may or may not eventually be transferred to the lessee.

Financial Liabilities

The Group has classified and measured its financial liabilities at amortised cost.

3.3.3 Derecognition

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control of the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.4 Modification of financial assets and liabilities

Financial Assets

If the terms of a financial asset are modified, then 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 derecognized and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVTOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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 calculated using the effective interest rate method.

Financial Liabilities

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 derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.5 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

3.3.6 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 between market participants at the measurement date in the principal market of the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability which the Group has access to as at that date. The fair value of a liability reflects its non-performance risk.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Further information on the carrying amounts of these assets and the sensitivity of those amounts to changes in unobservable inputs are provided in note 5.7.1.

3.3.7 Impairment

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments; and
- Loan commitments and financial guarantee contracts.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

No impairment loss is recognised on equity instruments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.7 Impairment (continued)

12-month ECL are the portion of ECL that result from default events on financial instruments that are possible with the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as “Stage 1”.

Life-time ECL are the ECL that results from all possible default events over the expected life of the financial instruments. Financial instruments for which a life-time ECL is recognised but which are not credit-impaired are referred to as “Stage 2”.

Impairment and ECL are used interchangeably throughout these consolidated financial statements.

Measurement of ECL

ECL are a 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.

For more details in relation to ECL measurement, please refer to note 5.2.6.

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 that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.7 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 FVTOCI are credit impaired. Credit-impaired financial assets are referred to as "Stage 3". 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.

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision; and
- *debt instruments measured at FVTOCI*: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

3.3.8 Write-off

Loans and debt securities shall be written off (either partially or in full) when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. 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. Recoveries of amounts previously written off are included in 'Impairment charge' in the statement of profit or loss.

3 Summary of significant accounting policies (continued)

3.4 Provision for staff end of service benefits

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. 7, 1999 for Pension and Social Security. The provision for staff end of service benefits, a defined benefit scheme, is calculated as per the approved Group staff regulations is usually higher than the estimated provision based on actuarial techniques in accordance with IAS 19.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to the date of the statement of financial position. Provision is also made for the end of service benefits due to employees in accordance with the UAE Labour Law and the Group's policy and internal regulations for their periods of service up to the date of the statement of financial position.

An actuarial valuation has not been performed on employees' end of service benefits as the net impact of the discount rate and future salary and benefit levels on the present value of the benefits obligation are not likely to be significant.

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.5 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with the UAE Central Bank, money in call accounts, placements and balances and deposits with banks with original maturities of less than three months.

3.6 Balances and deposits with banks

Balances and deposits with banks are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Balances and deposits with banks are initially measured at cost, being the fair value of the consideration given. Following the initial recognition, these are stated at amortised cost.

3.7 Investment properties

Investment properties principally comprise of commercial lands and buildings held by the Group for long term rental yields or for capital appreciation or both. Such properties are measured initially at cost including all transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Changes in fair values are recorded in the statement of profit or loss in the period in which they arise. When the use of a property changes such that it is transferred from investment property, the property’s deemed cost for subsequent accounting is its fair value at the date of change in use.

3 Summary of significant accounting policies (continued)

3.7 Investment properties (continued)

The fair values of investment properties are based on the highest and best use of the properties, which is their current use. The fair value of the Group's investment property has been arrived at on the basis of a valuation carried out at the end of reporting period by the independent valuers engaged by the Group. The valuation conforms to Royal Institution of Chartered Surveyors Valuation – Global Standards. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties and investment approach that is determined through the analysis of income flow and projected expenditures of the property.

Investment properties is derecognised upon disposal or when the investment properties is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains or losses arising from the retirement or disposal of investment properties, calculated as the difference between the net disposal proceeds and the carrying amount are included in the statement of profit or loss in the period in which the property is derecognised.

The Bank shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. If an owner-occupied property becomes an investment property that will be carried at fair value, the Bank shall apply IAS 16 for owned property up to the date of change in use. Any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value shall be treated in the same way as a revaluation in accordance with IAS 16.

Investment properties under development

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

3.8 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Group at the spot exchange rates at the date of the transactions

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

3 Summary of significant accounting policies (continued)

3.8 Foreign currency transactions (continued)

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 is recognised as part of statement of other comprehensive income.

3.9 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

3.10 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on straight-line basis so as to write down the cost of assets over its useful life. Lands granted from the Federal Government (shareholder) are not depreciated and are measured at nominal amount of AED 1.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. If significant parts of an item of property or equipment have different useful lives then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3 Summary of significant accounting policies (continued)

3.10 Property and equipment (continued)

The Group annually reviews the useful life estimates for all major asset categories and revises these to align them with reassessed expected useful lives, if required.

Asset class	**Estimated useful life**
Buildings	40 years
Furniture, fixtures and vehicles	5 years
Computers	3 to 5 years

3.11 Impairment of non-financial assets

At the end of each reporting date, the Group reviews the carrying amounts of its assets in order to assess whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3.12 Leases

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

3 Summary of significant accounting policies (continued)

3.12 Leases (continued)

Group acting as a lessee

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

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

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of- use asset has been reduced to zero.

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

Short-term leases and leases of low-value assets

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

3 Summary of significant accounting policies (continued)

3.12 Leases (continued)

Group acting as a lessor

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

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases. Subsequent to initial recognition, the Group regularly reviews the estimated unguaranteed residual value and applies the impairment requirements of IFRS 9, recognising an allowance for ECL on the receivables.

3.13 Deposits and funds from governmental institutions

Deposits and funds of the Sheikh Zayed Housing Program, Mohammad Bin Rashid Innovation Fund and the Ministry of Finance vested with and managed by the Group are accounted for within the financial liabilities of the Group (note 13).

3.14 Term borrowing

Term borrowings consist of debt securities and are the Group's sources of debt funding. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Debt securities in issue are initially measured at fair value minus incremental direct transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method.

3.15 Proceeds from sale of investment properties

Proceeds from sale of apartment units of the investment properties are recognised as a liability until the delivery of the unit and transfer of risks and rewards to the customer.

3.16 Dividend distribution

Dividend distribution to the Bank's shareholder is recognised as a liability in the Bank's financial statement in the period in which the dividends are approved by the shareholder.

3 Summary of significant accounting policies (continued)

3.17 Revenue and expense recognition

Interest income and expense

Interest income and expense for financial instruments are recognised in ‘Net interest income’ as ‘Interest income’ and ‘Interest expense’ in the statement of profit or loss using the effective interest method.

The interest income or expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI), the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Profit from Murabaha, Ijarah and Estisnaa

Profit on Murabaha, Ijarah and Estisnaa contracts are recognised on accrual basis and time-apportioned using the effective profit rate method.

Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Fees and commission income

Fee and commission income and expense include fees other than those that are an integral part of EIR. The fees included in this part of the Group’s consolidated statement of profit or loss include among other things fees charged for providing a transaction service, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and others.

Fee and commission expenses with regards to services are accounted for as the services are received.

Rental income

Rent arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is presented as part of ‘Other income’ in profit or loss.

Fair value gain / (loss) on investment properties and financial assets at FVTPL

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

3 Summary of significant accounting policies (continued)

3.18 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below- market interest rate are included within other liabilities.

4 Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with the IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

Following are the estimates and judgements which are applicable from 1 January 2020.

Impairment charge on financial assets

a) Significant increase in credit risk

As explained in note 5.2.6, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

b) Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

4 Critical accounting estimates and judgments (continued)

Classification and measurement of investment securities

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Group's investment in securities are appropriately classified and measured. Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Financial assets that are measured at FVTOCI are investments in equity instruments that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

For more details on the valuation of investment securities, refer note 5.7.

Fair valuation of investment securities

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in assumptions about these factors could affect the reported fair value of the investment securities.

Valuation techniques used to calculate fair values are discussed in note 5.7.1.

Fair valuation of investment properties

The fair values of investment properties is based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on the comparable method of valuation, the investment valuation method and the residual valuation method, refer to note 10 for more details.

5 Risk management

5.1 Overview

The Group’s activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance. Below are the type of risks the Group is exposed to:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Group has management committees to oversee the risk management process. The Board Risk & Credit Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit, market and operational risks. The Group also has a Credit Risk function, which independently reviews adherence to all risk management policies and procedures. The Group's internal audit function, which is part of risk framework, primarily evaluates the effectiveness of the controls addressing operational risk.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group's management regularly reviews the risk management policies and systems to reflect changes in markets, products and emerging best practice.

5.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment securities.

Credit risk also arises through the downgrading of counterparties, whose credit instruments are held by the Group, thereby resulting in the value of the assets to fall. As credit risk is the Group's most important risk, considerable resources, expertise and controls are devoted to managing this risk within the Group.

Management is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

The credit policy provides the development of a systematic and consistent approach to identifying and managing borrower and counter party risks.

The credit risk function in addition to the credit team are responsible for the recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the Group's credit policy. The Group manages limits and controls concentration of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries.

5 Risk management (continued)

5.2 Credit risk (continued)

The Group manages credit risk through diversification of investment activities to avoid undue concentrations of risks in specific locations or industry segments. The Group also monitors credit exposures by limiting transactions with specific counterparties, and continually assesses the creditworthiness of counterparties.

The carrying amount of financial assets represents the maximum credit exposure.

For risk management purposes, credit risk arising on financial assets at fair value through profit or loss is managed independently, and reported as a component of market risk exposure.

The Group's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Credit Manager, the Head of Credit, Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investments).
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading system consists of ten grades reflecting various degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/ committee as appropriate. Risk grades are subject to regular reviews.
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

In addition, the Group manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments, if any, is limited to those with positive fair values.

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.1 Collateral and other credit enhancements

Collateral risk

The Group obtains collateral and other credit enhancements in ordinary course of business from counterparties. Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

On an overall basis, during the year there was no material deterioration in the quality of collateral held by the Group. In addition, there were no changes in collateral policies of the Group.

As at 31 December 2020, the Group held credit risk mitigants with an estimated value of AED 68,820 thousand *(2019: AED 81,860 thousand)* against watch list and credit impaired receivables from Loans and advances to customers, Murabaha, Ijarah and Estisnaa contracts and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against placements with banks and other financial institutions, and no such collateral was held at 31 December 2020 or 31 December 2019.

The table below stratifies credit exposures from mortgage loans and advances (including Islamic facilities) to retail customers by ranges of loan-to-value (LTV) ratio.

	2020	2019
	AED'000	AED'000
LTV ratio		
Less than 50%	**5,267**	2,641
51 - 70%	**32,723**	22,924
71 - 90%	**313,453**	174,567
91 - 100%	**2,050,356**	1,302,203
At 31 December	**2,401,799**	1,502,335

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to the statement of financial position assets are as follows:

	2020 AED'000	2019 AED'000
Cash and balances with the UAE Central Bank	**167,893**	49,137
Balances and deposits with banks	**2,731,048**	4,691,853
Loans and advances	**3,182,761**	1,355,280
Murabaha, Ijarah and Estisnaa contracts	**1,061,109**	595,135
Investment securities - debt securities	**1,017,240**	853,543
Other assets - interest receivable	**39,161**	54,090
At 31 December	**8,199,212**	7,599,038

The above table represents the maximum exposure of credit risk for amortised cost financial instruments as at 31 December 2020 and 31 December 2019, without taking into account any collateral held or other credit enhancements attached. For statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

5.2.3 Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risk is controlled and managed accordingly. An analysis of concentration of credit risk at the reporting date by sectors is shown below.

AED'000	**Public Sector**	**Financial Sector**	**Private / retail Sector**	**Total**
31 December 2020				
Cash and balances with UAE Central bank	**167,893**	-	-	**167,893**
Balances and deposits with banks	**-**	**2,731,048**	-	**2,731,048**
Loans and advances to customers	**1,510,117**	**30,529**	**1,642,115**	**3,182,761**
Murabaha, Ijarah and Estisnaa contracts	**-**	-	**1,061,109**	**1,061,109**
Investment securities - debt instruments	**317,186**	**661,119**	**38,935**	**1,017,240**
Other assets - interest receivable	**14,855**	**17,892**	**6,414**	**39,161**
At 31 December	**2,010,051**	**3,440,588**	**2,748,573**	**8,199,212**

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.3 Concentration of credit risk (continued)

	Public Sector AED'000	Financial Sector AED'000	Private / retail Sector AED'000	Total AED'000
31 December 2019				
Cash and balances with the UAE Central bank	49,137	-	-	49,137
Balances and deposits with banks	-	4,691,853	-	4,691,853
Loans and advances to customers	313,799	59,898	981,583	1,355,280
Murabaha, Ijarah and Estisnaa contracts	-	-	595,135	595,135
Investment securities - debt instruments	246,301	369,012	238,230	853,543
Other assets - interest receivable	904	43,730	9,456	54,090
At 31 December	610,141	5,164,493	1,824,404	7,599,038

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentration of credit risk at the reporting date by geographical location is shown below.

	UAE AED'000	GCC AED'000	Total AED'000
31 December 2020			
Cash and balances with the UAE Central bank	**167,893**	-	**167,893**
Balances and deposits with banks	**2,731,048**	-	**2,731,048**
Loans and advances to customers	**3,178,175**	**4,586**	**3,182,761**
Murabaha, Ijarah and Estisnaa contracts	**1,061,109**	-	**1,061,109**
Investment securities - debt instruments	**1,017,240**	-	**1,017,240**
Other assets - interest receivable	**39,161**	**-**	**39,161**
	8,194,626	**4,586**	**8,199,212**

	UAE AED'000	GCC AED'000	Total AED'000
31 December 2019			
Cash and balances with the UAE Central bank	49,137	-	49,137
Balances and deposits with banks	4,691,853	-	4,691,853
Loans and advances to customers	1,332,352	22,928	1,355,280
Murabaha, Ijarah and Estisnaa contracts	595,135	-	595,135
Investment securities - debt instruments	853,543	-	853,543
Other assets - interest receivable	54,090	-	54,090
	7,576,110	22,928	7,599,038

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.4 Impact of COVID-19 and Expected credit loss

The existence of novel coronavirus was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus.

The Group has considered the impact of the pandemic on its customers (i.e. individuals, corporate, financial institutions and government related entities (GREs)). The UAE Government and the Central Bank have introduced considerable stimulus economic packages to support the banking industry in UAE through this disruption. Although the measures may not fully counteract the impact of COVID-19 in the short run, they are expected to mitigate the long-term negative impact of the pandemic.

During the year, the Group has undertaken some measures in response to the COVID-19 outbreak. On a case by case basis, the Group has approved payment holidays to certain customers ranging from 1 to 6 months deferrals. The Management Risk and Credit Committee has approved a detailed delegation of authority in order to facilitate the deferral of payment process and extensively reviewed the customers' profile and payment history of customers requesting for deferral, prior to approval. A more intensive approval and requirement process was implemented for those customers applying for payment deferral who have lost their jobs or are on temporary unpaid leave or are subject to a deduction of salary due to the pandemic.

Credit exposures, whether GRE, corporate or individuals, are affected due to borrowers' reduced ability to meet their obligations. The negative growth in the overall world economy for 2020 have its reflections on the higher number of defaults among customers, increased restructuring requirements, and more breach of covenants. Consequently, it is very likely to have customers moving from stage 1 to stage 2 due to the significant increase in credit risk (SICR).

In addition to the possible impact on the probability of default, the ECL would also suffer from the increased loss given default, since the current market dynamics have negatively affected the value of most collateral, and the value of assets pledged in favour of the banks.

The Group's Risk Management has carried out portfolio analysis for all its credit exposures to estimate the possible effects of the COVID-19 and to formulate standard measures to tackle the credit requirements of the impacted customers.

The credit portfolio analysis is performed based on the profile of the customers' employers. The analysis showed that the number of individual obligors under home finance that will likely be impacted by the crisis is not significant, mainly due to the fact that the significant portion of the individual obligors are Emirati nationals working for government and semi-government, and thus, management assessed that the impact would be at the minimum and most likely would be self-cured by the end of 2020. For loans to SMEs and GREs, the analysis showed that the high-risk categories (i.e. companies already showing weakness before COVID-19 and companies that were impacted by COVID-19 and have already requested for a deferral) are not significant and accordingly, there is no expectation of any major or immediate threat to the quality of the portfolio in the near future.

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.4 Impact of COVID-19 and Expected credit loss (continued)

Other credit exposure is in the form of outstanding money market placements with UAE national banks, which are less than one year. The Central Bank of the UAE's Targeted Economic Support Scheme (TESS) provides relief for the affected customers and indirectly to their lenders. The UAE banking sector shows strong position without any immediate threat to their ability to honour their obligation once due over a one-year horizon.

In light of the current uncertain economic environment, the Group has re-assessed the scenario weighting to reflect the impact of current uncertainty in measuring the estimated credit losses for the year ended 31 December 2020. In making estimates, the Group assessed a range of possible outcomes by stressing the previous basis (that includes upside, based case and downside scenarios) and changed the downside weightings through to 100%. This has a general reflection on the increased Probability of Default for all credit exposures across all asset classes and segments in stage 1 and stage 2.

The increase in the downturn weighting of the macro economic scenario result in an additional ECL of AED 3.76 million for the Group. The impact of such uncertain economic environment is judgmental and the Group will continue to reassess its position and the related impact on a regular basis.

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.

5.2.5 Credit quality

The Group has management committees to oversee the risk management process. The Board Risk & Credit Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit, market and operational risks.

The Group maintains a risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading system consists of ten grades reflecting various degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews.

Balances and deposits with banks

As at 31 December 2020, the Group's money market placements and balances in current and call accounts with banks, with gross amounts amounting to AED 2,732 thousand (*2019: AED 4,694 thousand*) are deposited only in banks that are directly, or comparably with the peer institutions, rated as investment grade (i.e. ranges from 'BBB+' to 'A-') by a global external rating agency. Accordingly, placements in these banks are considered to be low credit risk investments and are classified as Stage 1. These are carried at amortised cost.

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.5 Credit quality (continued)

Loans and advances to customers, Murabaha, Ijarah and Estisnaa contracts

The following table sets out information about loans and advances to customers, Murabaha, Ijarah and Estisnaa contracts. These are carried at amortised cost.

	2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Low risk	4,180,591	-	-	4,180,591
Watch list	-	53,554	-	53,554
Doubtful	-	-	116,934	116,934
Loss	-	-	125,771	125,771
	4,180,591	53,554	242,705	4,476,850
Less: Loss allowance	(49,910)	(3,279)	(179,791)	(232,980)
Carrying amount	**4,130,681**	**50,275**	**62,914**	**4,243,870**

	2019			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	1,848,656	-	-	1,848,656
Watch list	-	59,020	-	59,020
Doubtful	-	-	119,797	119,797
Loss	-	-	134,529	134,529
	1,848,656	59,020	254,326	2,162,002
Less: Loss allowance	(48,851)	(3,760)	(158,976)	(211,587)
Carrying amount	1,799,805	55,260	95,350	1,950,415

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.5 Credit quality (continued)

Loans and advances to customers, Murabaha, Ijarah and Estisnaa contracts

Following table sets out information about the movement in gross exposures by stages of loans and advances to customers, Murabaha, Ijarah and Estisnaa contracts.

	2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Balance as at 1 January	1,848,656	59,020	254,326	2,162,002
Transfer to Stage 1	34,556	(34,556)	-	-
Transfer to Stage 2	(15,827)	26,202	(10,375)	-
Transfer to Stage 3	(2,916)	(4,452)	7,368	-
New financial assets originated	2,368,219	15,161	-	2,383,380
De-recognition of financial assets	(64,114)	(7,334)	(1,189)	(72,637)
Write offs	-	-	(4,583)	(4,583)
Other movements within the same stage	12,017	(487)	(2,842)	8,688
Carrying amount	**4,180,591**	**53,554**	**242,705**	**4,476,850**

	2019			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 1 January	1,399,696	17,969	261,972	1,679,637
Transfer to Stage 1	7,414	(7,414)	-	-
Transfer to Stage 2	(44,341)	44,505	(164)	-
Transfer to Stage 3	(10,050)	(2,238)	12,288	-
New financial assets originated	411,535	8,759	-	420,294
De-recognition of financial assets	(23,623)	(2,271)	(5,006)	(30,900)
Write offs	-	-	(14,014)	(14,014)
Other movements within the same stage	108,025	(290)	(750)	106,985
Carrying amount	1,848,656	59,020	254,326	2,162,002

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.5 Credit quality (continued)

Investment securities

The following table sets out information about debt investment securities which are carried at amortised cost:

	2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Low risk	677,008	-	-	677,008
	677,008	-	-	677,008
Less: Loss allowance	(634)	-	-	(634)
Carrying amount	**676,374**	-	-	**676,374**

	2019			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	544,672	-	-	544,672
	544,672	-	-	544,672
Less: Loss allowance	(437)	-	-	(437)
Carrying amount	544,235	-	-	544,235

During the year, no transfers to other stages occurred in the gross exposures of debt securities carried at amortised cost. Movement within the same stage (Stage 1) is disclosed in note 9.

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.6 Inputs, assumptions and techniques used for estimating impairment

a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience and forward-looking information. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure. The Group uses three criteria for determining whether there has been a significant increase in credit risk:

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

b) Credit risk grades

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade.

c) Generating the term structure of Probability of Default (PD)

The Group employs statistical models to analyze the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group has exposures.

d) Renegotiated financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.6 Inputs, assumptions and techniques used for estimating impairment (continued)

d) Renegotiated financial assets (continued)

Facilities which are restructured due to credit reasons in past 12 months are classified under Stage 2. A borrower would need to demonstrate consistently good payment history over a period of time before the exposure is no longer considered to be credit-impaired and the exposure is upgraded to Stage 1.

e) Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation ;or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

In assessing whether a borrower is in default, the Group also considers indicators that are:

- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group;
- qualitative - e.g. borrowers' cooperation and the clarity and availability of the information requested; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

f) Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macro - economic parameters are statistically significant or the results of forecasted PDs deviate from the present forecast of the economic conditions, qualitative PD overlays are used by management after analyzing the portfolio.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information. The Group uses mathematical function, which links the credit cycle index (CCI) with PD as a key input to ECL. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of instrument, a mean reversion approach has been used.

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.6 Inputs, assumptions and techniques used for estimating impairment (continued)

f) Incorporation of forward-looking information (continued)

Scenarios are incorporated through the forward looking factors selected which are CCI factors that are conditioned and then used as an input to the various ECL components. The CCI calculation is derived through the construction of suitable credit cycles based on economic variables that can be used as proxy to describe credit activities within each country of operation. CCI can be derived from a number of historical factors, such as risky yields, credit growth, credit spreads, default or NPL rates data. Interdependency exists between macro-economic factors such as GDP (6.6) % to 2.6% and the CCI, given its integral part in driving the economic or business cycles.

g) Measurement of ECL

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

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

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

PD constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.6 Inputs, assumptions and techniques used for estimating impairment (continued)

g) Measurement of ECL (continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- credit risk grading;
- product type; and
- geographic location of the borrower.

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

5.2.7 Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

Balances and deposits with banks

	ECL provision 2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total ECL AED'000**
Balance as at 1 January	2,428	-	-	2,428
Net re-measurement of loss allowance		-	-	
New financial assets originated - net	1,051	-	-	1,051
De-recognition of financial assets	(2,428)	-	-	(2,428)
Balance as at 31 December	**1,051**	**-**	**-**	**1,051**

	ECL provision 2019			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
Balance as at 1 January	1,622	-	-	1,622
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated - net	2,428	-	-	2,428
De-recognition of financial assets	(1,622)	-	-	(1,622)
Balance as at 31 December	2,428	-	-	2,428

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.7 Loss allowance (continued)

Loans and advances to customers, Murabaha, Ijarah and Estisnaa contracts

	ECL provision 2020			
AED'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL**
Balance as at 1 January	48,851	3,760	158,976	211,587
Transfers to Stage 1	296	(296)	-	-
Transfers to Stage 2	(1,201)	2,006	(805)	-
Transfers to Stage 3	(1,451)	(2,973)	4,424	-
Net re-measurement of loss allowance	(6,756)	435	21,779	15,458
New financial assets originated - net	10,483	596	-	11,079
Write-off	-	-	(4,583)	(4,583)
De-recognition of financial assets	(312)	(249)	-	(561)
Balance as at 31 December	**49,910**	**3,279**	**179,791**	**232,980**

	ECL provision 2019			
AED'000	Stage 1	Stage 2	Stage 3	Total ECL
Balance as at 1 January	37,519	1,045	168,892	207,456
Transfers to Stage 1	44	(44)	-	-
Transfers to Stage 2	(333)	441	(108)	-
Transfers to Stage 3	(63)	(190)	253	-
Net remeasurement of loss allowance	8,785	2,160	8,279	19,224
New financial assets originated - net	3,120	432	533	4,085
Write off	-	-	(13,872)	(13,872)
De-recognition of financial assets	(221)	(84)	(5,001)	(5,306)
Balance as at 31 December	48,851	3,760	158,976	211,587

For the impairment of loans and advances to customers, Murabaha, Ijarah and Estisnaa contracts, the Bank maintains a management overlay which is calculated as the difference between the ECL as per the IFRS 9 model and the collective provision requirements as per UAE Central Bank guidelines equivalent to 1.5% of the risk-weighted assets. As at 31 December 2020, management overlay amounted to AED 25.3 million (*2019: AED 37.1 million*).

5 Risk management (continued)

5.2 Credit risk (continued)

5.2.7 Loss allowance (continued)

Investment securities (Debt)

	ECL provision 2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total ECL AED'000**
Balance as at 1 January	437	-	-	**437**
Net remeasurement of loss allowance	173	-	-	**173**
New financial assets originated - net	30	-	-	**30**
Derecognition of financial assets	(6)	-	-	**(6)**
Balance as at 31 December	**634**	-	-	**634**

	ECL provision 2019			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total ECL AED'000**
Balance as at 1 January	18	-	-	18
Net remeasurement of loss allowance	6	-	-	6
New financial assets originated - net	413	-	-	413
Balance as at 31 December	437	-	-	-

5.3 Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. Management of the Group meet on a regular basis to monitor and manage market risks.

Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the statement of financial position at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the management.

The table below summarizes the impact of a 10% increase / decrease of the prices of this portfolio, on the Group's results and equity for the year ended 31 December 2020 and 2019. The analysis is based on the assumptions that all other variables will remain constant and where applicable, the Group's investments moved according to the historical correlation of the relevant index.

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

5 Risk management (continued)

5.3 Market risk (continued)

Price risk (continued)

	Impact on equity of the Group	
	2020	2019
	AED'000	AED'000
+/-10 % change in equity prices: Other comprehensive income	+/- **30,542**	**+/-** 34,342

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group's management monitors interest rates on a regular basis.

Interest sensitivity of assets and liabilities

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements.

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities with this regard.

A portion of the Group's assets and liabilities are re-priced within three months. Accordingly, there is a limited exposure to interest rate risk in this regard.

The effective interest rate of a monetary financial instrument is the rate that, when applied in a present value calculation of future contractual cash flows, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

5 Risk management (continued)

5.3 Market risk (continued)

The following table sets out the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

At 31 December 2020	**Up to 3 months AED'000**	**3 to 12 months AED'000**	**Non-interest sensitive AED'000**	**Total AED'000**
Assets				
Cash and balances with the UAE Central Bank	**-**	**-**	**167,893**	**167,893**
Balances and deposits with banks	**1,199,529**	**1,479,420**	**52,099**	**2,731,048**
Loans and advances to customers	**131,966**	**3,050,795**	**-**	**3,182,761**
Murabaha, Ijarah and Estisnaa contracts	**130,913**	**930,196**	**-**	**1,061,109**
Investment securities	**284,059**	**733,181**	**305,419**	**1,322,659**
Other assets - Interest receivable	**-**	**-**	**39,161**	**39,161**
	1,746,467	**6,193,592**	**564,572**	**8,504,631**
Liabilities				
Deposits and funds from Governmental institutions	**865,673**	**-**	**-**	**865,673**
Term borrowings	**-**	**-**	**2,752,343**	**2,752,343**
Other liabilities	**-**	**-**	**166,296**	**166,296**
	865,673	**-**	**2,918,639**	**3,784,312**
Net gap	**880,794**	**6,193,592**	**(2,354,067)**	**4,720,319**

At 31 December 2019	Up to 3 months AED'000	3 to 12 months AED'000	Non-interest sensitive AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	-	-	49,137	49,137
Balances and deposits with banks	2,105,000	2,542,572	44,281	4,691,853
Loans and advances to customers	17,777	1,337,503	-	1,355,280
Murabaha, Ijarah and Estisnaa contracts	-	595,135	-	595,135
Investment securities	-	853,543	343,417	1,196,960
Other assets - Interest receivable	-	-	54,090	54,090
	2,122,777	5,328,753	490,925	7,942,455
Liabilities				
Deposits and funds from Governmental institutions	694,881	-	-	694,881
Term borrowings	-	-	2,751,533	2,751,533
Other liabilities	-	-	295,193	295,193
	694,881	-	3,046,726	3,741,607
Net gap	1,427,896	5,328,753	(2,555,801)	4,200,848

5 Risk management (continued)

5.3 Market risk (continued)

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in EIBOR rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date, with all other variables held constant:

	2020	2019
	AED'000	AED'000
Effect of a +/- 25 bps change in EIBOR gain or loss	**+/- 6,996**	**+/-** 7,663

The interest rate sensitivities set out above employ simplified scenarios. They are based on AED 5,945 million *(2019: AED 7,441 million)* interest bearing assets and AED 866 million *(2019: AED 695 million)* interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure.

At 31 December 2020, the Group had exposures denominated in US Dollars amounting to net short exposures of AED 1,718 million *(2019: net short exposure of AED 1,897 million).* As AED is pegged against US Dollar, the Group's risk exposure to this currency is limited.

Management of market risks

Overall authority for market risk is vested in ALCO, which sets up limits for each type of risk in aggregate and for portfolios. Management responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

5.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to fulfil commitments to lend. The Group's liquidity risk monitoring process is performed by Group's management.

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

5 Risk management (continued)

5.4 Liquidity risk (continued)

The following table analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contracted maturity date:

At 31 December 2020	**Up to 12 months AED'000**	**Over 12 months AED'000**	**Unspecified maturity AED'000**	**Total AED'000**
Assets				
Cash and balances with the UAE Central Bank	**167,893**	**-**	**-**	**167,893**
Balances and deposits with banks	**2,731,048**	**-**	**-**	**2,731,048**
Loans and advances	**87,251**	**3,095,510**	**-**	**3,182,761**
Murabaha, Ijarah and Estisnaa contracts	**-**	**1,061,109**	**-**	**1,061,109**
Investment securities	**284,059**	**733,181**	**305,419**	**1,322,659**
Other assets - Interest receivable	**39,161**	**-**	**-**	**39,161**
	3,309,412	**4,889,800**	**305,419**	**8,504,631**
Liabilities				
Deposits and funds from Governmental institutions	**865,673**	**-**	**-**	**865,673**
Term borrowings	**-**	**2,752,343**	**-**	**2,752,343**
Other liabilities	**73,705**	**-**	**92,591**	**166,296**
	939,378	**2,752,343**	**92,591**	**3,784,312**
Net liquidity availability	**2,370,034**	**2,137,457**	**212,828**	**4,720,319**

At 31 December 2019	Up to 12 months AED'000	Over 12 months AED'000	Unspecified maturity AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	49,137	-	-	49,137
Balances and deposits with banks	4,691,853	-	-	4,691,853
Loans and advances	27,865	1,327,415	-	1,355,280
Murabaha, Ijarah and Estisnaa contracts	341	594,794	-	595,135
Investment securities	110,068	743,475	343,417	1,196,960
Other assets - Interest receivable	54,090	-	-	54,090
	4,933,354	2,665,684	343,417	7,942,455
Liabilities				
Deposits and funds from Governmental institutions	694,881	-	-	694,881
Term borrowings	-	2,751,533	-	2,751,533
Other liabilities	30,940	-	264,253	295,193
	725,821	2,751,533	264,253	3,741,607
Net liquidity availability	4,207,533	(85,849)	79,164	4,200,848

5 Risk management (continued)

5.4 Liquidity risk (continued)

Maturity of assets and liabilities is determined on the basis of the remaining period from the date of the statement of financial position to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

5.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Management is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall standards for the management of operational risk.

5.6 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not exposed to capital risk due to the availability of surplus funds.

5.7 Fair value hierarchy

All financial assets and liabilities are measured at amortised cost except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are measured at fair value by reference to published price quotations in an active market.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

5 Risk management (continued)

5.7 Fair value hierarchy (continued)

The carrying values of financial assets and financial liabilities of the Group approximate their fair values. The nominal values less impairment provision of loans, Murabaha and Estisnaa contracts approximate their fair values.

The Group has adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Group measures the fair values of its quoted financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss using the quoted market price (unadjusted) in active market for an identical instrument (level 1). For the unquoted and managed funds, the Group measures its fair value based on level 3. No movements or reclassification between levels of fair values took place during the year.

The fair values of balance with the UAE Central Bank, balances and deposits with banks, loans to and deposits from governmental authorities and funds of Sheikh Zayed Housing Program, which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their carrying amount. The Group estimates that the fair value of its conventional housing portfolio and Ijarah and Estisnaa portfolios not to be materially different from its carrying amount since all of these balances carry floating market rates of interest and are re-priced on semiannual basis.

The following table presents the Group's assets fair value hierarchy:

AED’000	**Level 1**	**Level 2**	**Level 3**	**Total**
At 31 December 2020				
Financial assets at FVTPL	**340,866**	**-**	**-**	**340,866**
Financial assets at FVTOCI	**167,469**	**-**	**137,950**	**305,419**
Investment properties	**-**	**-**	**509,837**	**509,837**
At 31 December 2019				
Financial assets at FVTPL	309,308			309,308
Financial assets at FVTOCI	185,867		157,550	343,417
Investment properties (As restated)	-	-	535,480	535,480

5 Risk management (continued)

5.7 Fair value hierarchy (continued)

5.7.1 Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Unquoted Equities	*Market comparison technique* The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee and the expected EBITDA of the investee. The estimate is adjusted for the effect of non-marketability of the equity securities.	EBITDA / Forecasted EBITDA Marketability discounts (ranges from 10% to 25%) Performance discounts (ranges from 5% to10%) Financial multiples of comparable entities: - Average P/E (ranges from 7.3x to 8.1x) - EV/LTM EBITDA (ranges from 7.3x to 13.7x) - EV/Average EBITDA (ranges from 9x to 10x)	The estimated fair value would increase (decrease): - if the EBITDA margin were higher (lower) - if the marketability discounts were lower (higher) - if the performance discounts were lower (higher) - if the financial multiples of comparable entities were higher (lower) Generally, a change in the annual revenue growth rate is accompanied by a directionally similar change in EBITDA margin.
	NAV approach This is based on the assumption that the value of the business equates to the sum of its underlying assets, and that no rational investor will pay more for the business than the cost of procuring assets of similar economic utility	Marketability discounts (ranges from 10% to 25%) Net assets	The estimated fair value would increase (decrease): - if the marketability discounts were lower (higher) - the net assets were higher (lower)

5 Risk management (continued)

5.7 Fair value hierarchy (continued)

5.7.1 Valuation techniques and significant unobservable inputs (continued)

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Investment properties	*Comparable evidence approach* Fair value of the subject property was calculated by adopting comparable market transaction information where available, current asking prices and compares the subject property's characteristics with those comparable properties which have recently been marketed in similar transactions in the market	Comparable sales price (ranges from AED 70 to 270 per sq./ft.)	The estimated fair value would increase (decrease) if the comparable sales prices were higher (lower).
	Investment approach The market value of the Property has been determined through analysis of the income flow achievable for the investment property and takes into account the projected annual expenditure	Capitalisation rates (ranges from 8.0% to 8.25%) Rental income (ranges from AED 85 to 150 per sq./ft.)	An increase in the capitalisation rate used would result in a decrease in fair value, and vice versa. An increase in the market rent used would result in an increase in fair value, and vice versa. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalisation rates in the same direction as increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

5 Risk management (continued)

5.7 Fair value hierarchy (continued)

5.7.2 Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	2020	2019
		As restated
	AED'000	AED'000
Investment properties		
Balance as at 31 December 2018	**535,480**	546,860
Prior period adjustment (note 31)	**-**	34,680
Balance as at 1 January 2019 (as restated)	**-**	581,540
Fair value loss	**(25,643)**	(46,060)
Balance as at 31 December	**509,837**	535,480
Financial assets at FVTOCI		
Balance as at 1 January	**157,550**	173,600
Addition during the year	**-**	(14,975)
Disposals during the year	**(6,600)**	-
Fair value loss	**(13,000)**	(1,075)
Balance as at 31 December	**137,950**	157,550

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

6 Balances and deposits with banks

	2020	2019
	AED'000	AED'000
Money market placements	**2,680,000**	4,650,000
Current and call accounts	**52,099**	44,281
Less: allowance for impairment	**(1,051)**	(2,428)
	2,731,048	4,691,583

Placements include deposits received by the Group from governmental institutions amounting to AED 300 million *(2019: AED 300 million)* (Note 13).

7 Loans and advances to customers

	2020	2019
	AED'000	AED'000
Loans to government entities	**1,510,117**	313,799
Loans to corporates and SMEs	**448,001**	221,798
Loans to financial institutions	**116,934**	119,797
Housing loans	**1,330,754**	902,074
Total loans and advances	**3,405,806**	1,557,468
Less: allowance for impairment	**(223,045)**	(202,188)
	3,182,761	1,355,280

Loans to financial institutions originally represent placements with two financial institutions, which are impaired and for which the Group holds no related collateral. These loans have been renegotiated during 2014. The provision accumulated on these loans amounted to AED 86 million *(31 December 2019: AED 60 million).*

The total non-performing loans amounted to AED 241 million *(31 December 2019: AED 249 million)*. The provisions held against those loans amounted to AED 178.7 million *(31 December 2019: AED 154.3 million).*

7 Loans and advances to customers (continued)

Movement in provision for impairment of loans:

	2020 AED'000	2019 AED'000
Balance at 1 January	**202,188**	200,874
Loss allowance – Stage 1 and 2	**(3,511)**	11,644
Loss allowance – Stage 3	**24,678**	3,542
Write off and write backs	**(310)**	(13,872)
Balance at 31 December	**223,045**	202,188

By industrial economic sector:

	2020 AED'000	2019 AED'000
Financial services	**116,934**	119,797
Food and beverages	**53,877**	24,786
Construction material	**124,956**	129,427
Non Ferrous Metals	**17,885**	-
Education	**78,743**	31,412
Paper products	**24,558**	-
Medical products & services	**79,633**	6,337
Plastic products	**31,798**	20,517
Real estate	**2,869,267**	1,215,873
Transport	**431**	-
Other	**7,724**	9,319
	3,405,806	1,557,468
Less: allowance for impairment	**(223,045)**	(202,188)
At 31 December	**3,182,761**	1,355,280

8 Murabaha, Ijarah and Estisnaa contracts

	2020 **AED'000**	2019 AED'000
Islamic home finance	**1,071,044**	600,261
Murabaha and Estisnaa contracts – net	**-**	4,273
	1,071,044	604,534
Less: allowance for impairment	**(9,935)**	(9,399)
Net Murabaha, Ijarah and Estisnaa contracts	**1,061,109**	595,135

Islamic home finance take the form of Ijara and Estisnaa contracts. These are granted to UAE nationals for the purpose of purchasing or construction of their home in line with the UAE vision 2021.

	2020 **AED'000**	2019 AED'000
Gross investment in Ijarah	**985,679**	570,238
Less: deferred Ijarah profits	**(307,530)**	(215,059)
	678,149	355,179

At 31 December, the future minimum Ijarah payments were payable as follows:

	31 December 2020	
	Minimum Ijarah payments AED'000	**Present value of minimum Ijarah payments AED'000**
Within one year	**47,510**	**23,096**
2 years to 5 years	**190,016**	**101,165**
More than five years	**748,153**	**553,888**
	985,679	**678,149**

8 Murabaha, Ijarah and Estisnaa contracts (continued)

	31 December 2019	
	Minimum Ijarah payments AED'000	Present value of minimum Ijarah payments AED'000
Within one year	27,279	10,841
2 years to 5 years	107,333	6,976
More than five years	435,626	297,362
	570,238	355,179

The total gross non-performing Islamic finance amounted to AED 2 million *(31 December 2019: AED 10 million)*. The provision balance held against those finance amounted to AED 1.1 million *(31 December 2019: AED 4.7 million)*

	2020 AED'000	2019 AED'000
Movement in provision for impairment:		
Balance at 1 January	**9,399**	6,582
Loss allowance – Stage 1 and 2	**4,089**	2,403
Loss allowance – Stage 3	**720**	414
Write off and write backs	**(4,273)**	-
	9,935	9,399

	2020 AED'000	2019 AED'000
By economic sector:		
Real estate	**1,071,044**	600,261
Others	**-**	4,273
	1,071,044	604,534
Less: allowance for impairment	**(9,935)**	(9,399)
	1,061,109	595,135

9 Investment securities

	2020 **AED'000**	2019 AED'000
Financial assets at FVTPL	**340,866**	309,308
Financial assets at FVTOCI	**305,419**	343,417
Financial assets at amortized cost	**676,374**	544,235
	1,322,659	1,196,960

The financial assets at fair value through profit or loss comprises of the following:

	2020 **AED'000**	2019 AED'000
Debt instruments	**189,043**	195,756
Perpetual Sukuk instruments	**151,823**	113,552
	340,866	309,308

Movement in financial assets at fair value through profit or loss:

	2020 **AED'000**	2019 AED'000
Balance as at 1 January	**309,308**	332,296
Securities purchased	**131,170**	191,181
Securities sold	**(105,512)**	(226,214)
Changes in fair value	**5,900**	12,045
As at 31 December	**340,866**	309,308

9 Investment securities (continued)

The financial assets at fair value through other comprehensive income are denominated in UAE Dirhams and comprises of the following:

	2020 **AED'000**	2019 AED'000
Quoted local shares	**167,469**	185,867
Un-quoted local shares	**137,950**	157,550
	305,419	343,417

Movement in financial investments at fair value through other comprehensive income:

	2020 **AED'000**	2019 AED'000
Balance as at 1 January	**343,417**	326,925
Securities sold	**(8,300)**	(23,885)
Changes in fair value	**(29,698)**	40,377
As at 31 December	**305,419**	343,417

During the year, management disposed of FVTOCI equity investments fair valued at AED 6,600 thousand as at 31 December 2019, recording a realised loss of AED 1,700 thousand on disposal.

Movement in financial assets measured at amortised cost:

	2020 **AED'000**	2019 AED'000
Balance as at 1 January	**544,235**	130,966
Securities purchased	**268,830**	502,706
Securities sold	**(135,350)**	(89,118)
Amortization of discount	**(1,144)**	100
Less: allowance for impairment	**(197)**	(419)
As at 31 December	**676,374**	544,235

Investments measured at amortised cost consist of US Dollar denominated bonds that carry coupon rates between 3.75% to 5.00% p.a. with maturities between 07 March 2022 to 28 February 2030.

10 Investment properties

Investment properties comprise of the following:

	Land AED'000	Buildings AED'000	Properties under development AED'000	Total AED'000
At 31 December 2018	120,260	334,300	92,300	546,860
Prior period adjustment (note 31)	-	34,680	-	34,680
At 1 January 2019 (as restated)	120,260	368,980	92,300	581,540
Change in fair value during the year	(14,760)	(31,300)	-	(46,060)
At 31 December 2019 (as restated)	105,500	337,680	92,300	535,480
Change in fair value during the year	(14,260)	(7,183)	(4,200)	(25,643)
At 31 December 2020	**91,240**	**330,497**	**88,100**	**509,837**

The above investment properties are located in various Emirates within the UAE as follows:

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land & properties under development	33,500	161,100	3,200	197,800
Buildings	194,000	109,000	-	303,000
Prior period adjustment (note 31)	-	34,680	-	34,680
At 31 December 2019 (as restated)	227,500	304,780	3,200	535,480

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land & properties under development	28,700	148,340	2,300	179,340
Buildings	188,360	142,137	-	330,497
At 31 December 2020	**217,060**	**290,477**	**2,300**	**509,837**

10 Investment properties (continued)

Investment properties are stated at fair value, which have been determined based on valuations performed by an industry specialist as at 31 December 2020.

The valuation, conforms with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards ("RICS") and the relevant statements of the International Valuations Standards, was arrived at by using recognised valuation methods comprising the comparable method of valuation, the investment valuation method and the residual valuation method.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property.

Management restated the prior year amount of the investment property to rectify an error and reclassify certain portion of a building which are being leased out to tenants, from property and equipment to investment property. At date of transfer, the carrying amount and fair value of the property amounted to AED 16,825 thousand and AED 34,680, respectively. Refer to note 31 for further details.

Investment properties under development value includes, an amount of AED 40.3 million *(2019: AED 40.3 million)* being costs incurred to date on foundation and earthworks. Based on the latest valuation, a decrease in fair value of AED 4.2 million (*2019: AED nil)* has been recognised against this project.

Income from investment properties – net:

	2020 **AED'000**	2019 AED'000
Rental income	**26,732**	23,827
Service charges	**(6,224)**	(8,104)
	20,508	15,723

Rental income from investment properties are disclosed as other operating income (Note 23).

11 Other assets

	2020 **AED'000**	2019 AED'000
Prepayments and other assets	**12,783**	12,108
Interest receivable	**39,161**	54,090
	51,944	66,198

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

12 Property and equipment

	Land & buildings AED'000	Furniture & fixtures AED'000	Computers AED'000	Software & Licenses AED'000	Motor vehicles AED'000	Work-in-progress AED'000	Total AED'000
Cost							
At 31 December 2018	81,702	12,269	12,018	21,458	760	1,267	129,474
Prior period adjustment (note 31)	(29,139)	-	-	-	-	-	(29,139)
At 1 January 2019 (as restated)	52,563	12,269	12,018	21,458	760	1,267	100,335
Additions	79	25	122	735	130	6,849	7,940
Disposal	-	-	-	-	(460)	(1,072)	(1,532)
Transfers	-	-	-	194	-	(194)	-
At 31 December 2019 (as restated)	52,642	12,294	12,140	22,387	430	6,850	106,743
Additions	128	27	218	408	-	3,819	4,600
Write-off	-	-	(63)	-	-	-	(63)
Transfers	-	-	-	7,058	-	(7,058)	-
At 31 December 2020	**52,770**	**12,321**	**12,295**	**29,853**	**430**	**3,611**	**111,280**
Accumulated depreciation							
At 31 December 2018	40,405	10,831	8,740	16,303	525	-	76,804
Prior period adjustment (note 31)	(12,314)	-	-	-	-	-	(12,314)
At 1 January 2019 (as restated)	28,091	10,831	8,740	16,303	525	-	64,490
Charge for the year	3,210	700	1,177	3,218	103	-	8,408
Write-off		-	-		(460)	-	(460)
At 31 December 2019 (as restated)	31,301	11,531	9,917	19,521	168	-	72,438
Charge for the year	2,198	654	878	3,329	104	-	7,163
Write-off		-	(63)	-	-	-	(63)
At 31 December 2020	**33,499**	**12,185**	**10,732**	**22,850**	**272**	**-**	**79,538**
Net book value							
At 31 December 2020	**19,271**	**136**	**1,563**	**7,003**	**158**	**3,611**	**31,742**
At 31 December 2019 (as restated)	21,341	763	2,223	2,866	262	6,850	34,305

12 Property and equipment (continued)

The buildings above include plots of lands at a nominal amount of AED 1 as follows:

- The Group's building in Abu Dhabi is constructed on land granted by the government of Abu Dhabi in the year 2000 for no consideration. This land is booked at nominal amount of AED 1. As at 31 December 2020, the carrying amount of the land and building amounted to AED 12.3 million (*2019: AED 13.4 million*). The Group carried a valuation by an external valuer on its Abu Dhabi building including the land as of 31 December 2020. The fair value at that date amounted to AED 36.9 million *(2019: AED 44 million)*.

- The Group's building in Dubai is constructed on a land granted by the government of Dubai in the year 2000 for no consideration. The book value of this land is booked at nominal amount of AED 1. As at 31 December 2020, the carrying amount of the land and building, classified as property and equipment, after the transfer to investment properties (note 31), amounted to AED 6.9 million (*2019: AED 7.9 million*). The Group carried a valuation by an external valuer on its Dubai building including the land as of 31 December 2020. The fair value of the portion of the building classified as property and equipment, as of 31 December 2020 amounted to AED 13.8 million (*2019: AED 14.2 million*).

Valuations of the Group's buildings and lands constructed thereon are based on the investment valuation method, and are classified as level 3 under the fair value hierarchy.

In 2001, the government of Ras Al Khaimah granted the Group a plot of land in Ras Al Khaimah for no consideration, subject to constructing a Branch. The book value of this land is booked at nominal amount of AED 1.

Property and equipment included fully depreciated and still in use items with cost amounting to AED 54 million as of 31 December 2020 *(2019: AED 24 million)*.

As at 31 December 2020, property and equipment includes right of use assets of AED 43 thousand *(31 December 2019: AED 105 thousand)* related to motor vehicles and computers.

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

13 Deposits and funds from governmental institutions

	2020	2019
	AED'000	AED'000
Deposits from governmental institutions		
Sheikh Zayed Housing Program	**-**	-
Mohammad Bin Rashid Innovation Fund	**300,000**	300,000
Funds from governmental institutions		
Sheikh Zayed Housing Program	**564,563**	394,066
Mohammad Bin Rashid Innovation Fund	**1,110**	815
	865,673	694,881

Sheikh Zayed Housing Program

Pursuant to the Federal Law No. (10) of 2009 relating to the Sheikh Zayed Housing Program ("the Program") and with its regulations issued by UAE Cabinet Resolution No. (9) of 2011, the Bank and the Program signed an agreement for the provision of banking, financial and investment management services on 8 March 2015.

This agreement lays out specific services that are to be provided by the Bank to the Program, the terms and conditions the services are to be provided under, key performance indicators that will be used to assess the Bank's performance, the Bank's and Program's rights and responsibilities and details the fees that are to be charged by the Bank to the Program in exchange.

The services to be provided include receiving funds pertaining to the Program and providing these funds to beneficiaries in the form of housing loans, as per the terms agreed by the Program and beneficiary, then administering the loans as per agreement. Additionally, the Bank is to make progress disbursements for housing projects and other financial aid to UAE nationals as well as manage the recovery services of the loans.

The Ministry of Finance transfers the funds allocated to the Program to the current account of the Group with the UAE Central Bank. The Program earns interest on the funds invested with the Group as per the agreement signed.

The substantial risk and rewards associated with the Program's funds rest with the Group. Therefore, the funds of the Program under the management of the Bank are disclosed as part of the assets (call account and placements) of the Group. The Program loans, however, do not carry any risk to the Bank and therefore are not included in the Group's statement of financial position.

13 Deposits and funds from governmental institutions (continued)

Ministry of Finance - Sheikh Mohammed bin Rashid Innovation Fund

The Mohammed Bin Rashid Innovation Fund ("the Fund") is a government initiative created by the United Arab Emirates Prime Minister, His Highness Sheikh Mohammed bin Rashid Al Maktoum, as a fund to finance and foster innovation. The Ministry of Finance ("MoF") was appointed to be responsible for its implementation. EDB was subsequently appointed by the MoF to act as the administrative host and operator. Thus, there is a trilateral agreement between the three parties (the Fund, MoF, and the Bank).

The scope of the Bank's responsibilities includes review and comment on the Fund's policy, guidelines, and terms and conditions, host and collaborate the development of the Fund's operating Manual, support in the sourcing and contracting of the Decision and Advisory Committee experts, support in the contracting of strategic partners, promoting and marketing the Fund, approve the operations team, manage the Fund account, manage the annual report, host and maintain the Fund's website, and oversee the operations team's performance.

The Fund's annual expenses budget is to be prepared by the Bank and submitted to the MoF, which will in turn pay the Bank on a monthly basis as per the annually agreed expenses budget.

14 Term borrowing

	2020 **AED'000**	2019 AED'000
USD senior bonds	**2,754,750**	2,754,750
Less: Issuance cost	**(2,407)**	(3,217)
	2,752,343	2,751,533

In February 2019, the Bank established a Euro Medium Term Note Programme for USD 3,000 million (the "Programme"). As part of the Programme, the first issuance amounted to USD 750 million (AED 2,754.8 million) and was listed on Nasdaq Dubai on 6 March 2019. The bonds are due in March 2024 and carry a coupon rate of 3.516% per annum payable semi-annually.

15 Other liabilities

	2020	2019
	AED'000	AED'000
Customer deposits towards reserving residence	**39,209**	200,779
Customer settlement account	**34,353**	9,365
Interest payable against term borrowing	**30,940**	30,940
Accrued expenses	**26,855**	21,271
Accrual for staff costs and others	**11,126**	9,521
Deferred income from rents	**6,648**	8,760
Accrual for Directors' remuneration	**1,729**	109
Others	**15,436**	14,448
	166,296	295,193

16 Paid up capital

As per the EDB Law, the authorized share capital is 10 billion shares at AED 1 each with paid up capital of AED 5 billion required to be fully paid by the Federal Government. The issued share capital at 31 December 2020 comprises of 5,000,000 thousand ordinary shares of AED 1 each *(31 December 2019: 5,000,000 thousand ordinary shares of AED 1 each)*. The shares are not yet fully paid-up.

During the year, additional capital was injected by the Federal Government amounting to AED 450,000 thousand *(2019: AED 450,000 thousand)*.

Article (27) of Law No. (1) of 1981 relating to the Incorporation of the Real Estate Bank specified that the responsibilities and authority of the National Housing Council, which were established by virtue of Law No. (6) for the year 1979 and its principle responsibilities relating to granting loans to UAE nationals for constructing residential properties, shall be transferred to EDB. Furthermore, the article stated that the responsibilities, authorities and rights of the Settlement Committee, which relates to the settlement of real estate loans given to the UAE Nationals by commercial banks within the UAE as per the Ministerial Decree No. (2) of 1980 Concerning Settlement of Real Estate Loans, shall be transferred to the Real Estate Bank. Thus, these amounts were recognized as a liability until a resolution from the Bank's Board on their treatment and recognition was passed. During 2017, the liability mentioned above was approved to be recognized as paid up capital and there has been a transfer from other liabilities to proposed capital injection amounting to AED 10.7 million. This amount has been added to share capital after ratification of the Board decision by the UAE Cabinet.

17 Special reserve

The special reserve is created based on Article 43 of the Bank's Articles of Association, wherein 10% of the Bank's profit for the year shall be transferred to the special reserve until it reaches 50% of the nominal value of the paid up share capital.

18 Commitments and contingent liabilities

	2020 **AED'000**	2019 AED'000
Unwithdrawn credit commitments	**255,178**	238,064
Guarantees	**29,061**	13,135

Unwithdrawn credit commitments represents contractual commitments to provide loans and credit facilities. Usually these commitments have fixed expiration dates or other conditions for cancellation and may require payment of a fee. Due to the possibility of an expiration of these commitments without being withdrawn, the total contractual values of these do not necessarily represent future financial obligation.

The Group has issued financial guarantees in favour of other lending banks who have granted loans to the customers of Mohammad Bin Rashid Innovation Fund. The Group also have a reciprocal arrangement with Ministry of Finance to claim the guarantee amount in case of any default by the customer.

There are no other contingencies and commitments as at year-end.

19 Interest income

	2020 **AED'000**	2019 AED'000
Loans and advances	**101,963**	63,957
Balances and deposits with banks	**87,170**	153,360
Fixed income securities	**37,152**	26,945
Cash and balances with the UAE Central Bank	**190**	2,029
	226,475	246,291

Notes to the consolidated financial statements
for the year ended 31 December 2020 (continued)

20 Interest expense

	2020 AED'000	2019 AED'000
Term borrowing	**97,627**	80,000
Deposits and funds from governmental institutions	**2,766**	23,458
Call account	**604**	1,164
Others	**40**	28
	101,037	104,650

21 Investment income

	2020 AED'000	2019 AED'000
Dividend income	**11,365**	12,687
Gain on sale of financial investments at FVTPL	**459**	374
Others	**26**	-
	11,850	13,061

22 Fees and commission income - net

	2020 AED'000	2019 AED'000
Fee from Sheikh Zayed Housing Program	**12,022**	10,000
Fee from Emirates Integrated Registries Company	**1,332**	1,812
Fee expenses	**(1,456)**	(1,417)
	11,898	10,395

23 Other income

	2020	2019
	AED’000	AED’000
Rental income on investment properties	**26,732**	23,827
Service charges	**(6,690)**	(8,104)
Other income	**1,482**	1,513
	21,524	17,236

24 Operating and administrative expenses

	2020	2019
	AED’000	AED’000
General and administrative expenses	**22,695**	18,815
Depreciation and amortization	**7,163**	8,408
	29,858	27,223

25 Impairment charge

	2020	2019
	AED’000	AED’000
Provision for (reversal of) impairment allowance on:		
- Loans and advances to customers	**21,167**	20,186
- Murabaha, Ijarah and Estisnaa contracts	**4,809**	2,817
- Balances and deposits with banks	**(1,377)**	806
- Investment securities at amortised cost	**197**	419
- Other assets	**957**	-
Write backs and recoveries	**(305)**	(5,000)
Write off	**-**	142
	25,448	19,370

26 Related party transactions and balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Related parties comprise key higher management personnel, and their related companies and the institutions and authorities of the federal government. In the normal course of business, the Group had various transactions with its related parties. Transactions are entered into with related parties on terms and conditions approved by the Group's management.

The Group carries out various transactions in the normal course of business with its shareholder, directors and officers and investee companies. These are conducted at terms agreed by the Directors and management.

Significant balances and transactions with related parties during the year were as follows:

	2020	2019
	AED'000	AED'000
a) Related parties balances		
Loans and advances	**1,510,117**	313,799
Deposits from governmental institutions	**(300,000)**	(300,000)
Funds from governmental institutions	**(565,673)**	(394,881)
b) Related parties transactions during the year		
Key Management compensation	**(12,242)**	(10,180)
Directors' remuneration	**(1,620)**	(1,710)
Interest income from loans and deposits	**43,029**	16,076
Fee income	**12,022**	10,000
Interest expense to governmental institutions	**(3,370)**	(24,622)
Paid up capital	**450,000**	450,000

Notes to the consolidated financial statements
for the year ended 31 December 2020

27 Cash and cash equivalents

For the purpose of the cash flows statement, cash and cash equivalents comprise:

	2020	2019
	AED’000	AED’000
Cash and balances with UAE Central Bank	**167,893**	49,137
Balances and deposits with banks	**2,731,048**	4,691,853
	2,898,941	4,740,990
Less: balances with original maturities over three months	**(1,878,949)**	(4,057,572)
	1,019,992	683,418

28 Financial instruments

The fair values and carrying amounts of financial assets and financial liabilities in the consolidated statement of financial position are as follows:

As at 31 December 2020	**FVTPL AED '000**	**FVTOCI - equity instruments AED '000**	**Amortised cost AED '000**	**Total AED '000**
Cash and balances with UAE Central Bank	**-**	**-**	**167,893**	**167,893**
Balances and deposits with banks	**-**	**-**	**2,731,048**	**2,731,048**
Loans and advances to customers			**3,182,761**	**3,182,761**
Murabaha, Ijarah and Estisnaa contracts			**1,061,109**	**1,061,109**
Investment securities	**340,866**	**305,419**	**676,374**	**1,322,659**
Other assets - interest receivable	**-**	**-**	**39,161**	**39,161**
Total financial assets	**340,866**	**305,419**	**7,858,346**	**8,504,631**
Deposits from Governmental institutions	**-**	**-**	**300,000**	**300,000**
Funds from Governmental institutions	**-**	**-**	**565.673**	**565.673**
Term borrowing	**-**	**-**	**2.752.343**	**2.752.**
Other liabilities	**-**	**-**	**166.296**	**166.296**
Total financial liabilities	**-**	**-**	**3,784,312**	**3,784,312**

Notes to the consolidated financial statements
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28 Financial instruments (continued)

As at 31 December 2019	FVTPL AED '000	FVTOCI – equity instruments AED '000	Amortised cost AED '000	Total AED '000
Cash and balances with the UAE Central Bank	-	-	49,137	49,137
Balances and deposits with banks	-	-	4,691,853	4,691,853
Loans and advances	-	-	1,355,280	1,355,280
Murabaha, Ijarah and Estisnaa contracts	-	-	595,135	595,135
Investment securities	309,308	343,417	544,235	1,196,960
Other assets - interest receivable	-	-	54,090	54,090
Total financial assets	309,308	343,417	7,289,730	7,942,455
Deposits from Governmental institutions			300,000	300,000
Funds from Governmental institutions	-	-	394,881	394,881
Term borrowing	-	-	2,751,533	2,751,533
Other liabilities	-	-	295,193	295,193
Total financial liabilities	-	-	3,741,607	3,741,607

29 Segment information

Operating Segments

The Group along with its subsidiary operates within the United Arab Emirates. The operating segments consist of the Home Finance, Business Finance, and Investments and Treasury business units.

For each business unit, the key management reviews internal management reports on at least a quarterly basis. Information reported to the Group’s Executive Management (the Chief Operating Decision Maker (CODM)) for the purposes of resource allocation and assessment of segment performance is focused on the type of products and business unit’s operations. The following business units offer different products and services and are managed separately because they require different strategies.

Home Finance

The Group offers affordable financial solutions to UAE nationals that facilitate their purchase, construction or expansion of a home. The Group provides a variety of customised finance solutions for UAE nationals, including loans complementing the offering of federal and local housing authorities, as well as direct financing products such as mortgage loans or loans for home construction. The Group also administers loans made by the SZHP to its customers - these loans are agreed between the SZHP and the customer, and the Group's role is to disburse the funds which it has received from the MoF on behalf of the SZHP and subsequently administer the loans.

29 Segment information (continued)

Business Finance

The objective of the Business Finance unit to support the UAE development agenda including GDP growth, economic diversification and job creation through providing funding to corporates and small and medium-sized enterprises (“SMEs”). The Group offers affordable finance to SMEs which are majority owned by UAE nationals in the form of: asset-backed financing, purchase financing (pre-sales financing), receivables financing (post-sales financing); and business expansion loan and project financing.

Investments and Treasury

The role for treasury and investments is to manage the Group's liquidity and cash flow as well as its foreign exchange positions, its securities investments and its other assets and liabilities. In addition, the department acts as the custodian of the Group's cash and other liquid assets. The department seeks to achieve portfolio diversification by maintaining high quality assets portfolio focused on achieving strong and sustainable returns. Through treasury liabilities products, the Group also aims to obtain long-term, risk-free, stable deposits cheaply to fund its assets and develop sustainable long-term relationships.

The other activities under this segment is to manage investments properties of the Group.

	Home Finance AED '000	Business Finance AED '000	Investments & Treasury AED '000	Unallocated transactions & others AED '000	Total AED '000
For the year ended 31 December 2020					
Net interest income / profit from Islamic finance	**73,436**	**59,672**	**124,513**	**(101,037)**	**156,584**
Net fee and commission income	**10,749**	**485**	**(668)**	**1,332**	**11,898**
Income from investment securities	**-**	**-**	**11,850**	**-**	**11,850**
Income from investment properties	**-**	**-**	**20,042**	**-**	**20,042**
Other income				**1,482**	**1,482**
Net operating income	**84,185**	**60,157**	**155,737**	**(98,223)**	**201,856**
As at 31 December 2020					
Total assets	**2,393,325**	**1,903,734**	**4,731,437**	**30,497**	**9,058,993**
Total liabilities	**-**	**-**	**3,618,016**	**166,296**	**3,784,312**

Notes to the consolidated financial statements
for the year ended 31 December 2020

29 Segment information (continued)

	Home Finance AED '000	Business Finance AED '000	Investments & Treasury AED '000	Unallocated transactions & others AED '000	Total AED '000
For the year ended 31 December 2019					
Net interest income / profit from Islamic finance	59,389	25,166	182,334	(104,650)	162,239
Net fee and commission income	8,544	608	(566)	1,809	10,395
Income from investment securities	-	-	13,061	-	13,061
Income from investment properties	-	-	15,723	-	15,723
Other income				1,513	1,513
Net operating income	67,933	25,774	210,552	(101,328)	202,931
As at 31 December 2019					
Total assets	1,493,120	509,906	6,438,750	82,572	8,524,348
Total liabilities	-	-	3,446,414	295,193	3,741,607

30 Reclassification of comparative information

Certain items have been reclassified, from the Group's prior year financial statements to conform to the current year's presentation and improve the transparency of certain line items of the statement of financial position, statement of profit or loss, statement of other comprehensive income, statement of changes in equity and the notes to the financial statements.

31 Restatement

During the year, management revisited its judgment and accounting treatment for a certain portion of a property being leased out to tenants from property and equipment to investment property. As this portion of the building is intended and held by the Group for rental yields in the previous years, under IAS 40 Investment Property, this should have been classified as investment property, measured under the fair value model, from the date of change in use.

In accordance with IAS 40 *Investment Property*, the Bank applied IAS 16 *Property, Plant and Equipment*, for the portion of the property up to the date of change in use. The Bank treated any difference at that date between the carrying amount of the property in accordance with IAS 16 *Property, Plant and Equipment*, and its fair value in the same way as a revaluation in accordance with IAS 16 *Property, Plant and Equipment*. The fair value of the property as of the date of change in use did not materially changed compared to the valuation as of beginning of the earliest period presented.

The prior year amounts are restated to rectify this error in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and the statement of financial position at the beginning of the earliest period presented has been disclosed below.

	As previously stated AED'000	**Restatement AED'000**	**As restated AED'000**
As at 31 December 2019			
Statement of financial position			
Investment property	**500,800**	**34,680**	**535,480**
Property and equipment	**51,130**	**(16,825)**	**34,305**
Revaluation surplus	**-**	**17,855**	**17,855**
As at 1 January 2019			
Statement of financial position			
Investment property	**546,860**	**34,680**	**581,540**
Property and equipment	**52,670**	**(16,825)**	**35,845**
Revaluation surplus	**-**	**17,855**	**17,855**