EMIRATES NBD BANK PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

REACHING NEW HEIGHTS

EMIRATES NBD BANK PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of Emirates NBD PJSC ("the Bank") and its subsidiaries (collectively known as "the Group") for the year ended 31 December 2019.

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

Basis of Preparation of Financial Statements

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

Financial Commentary

The Group reported a consolidated profit (attributable to equity holders) of AED 14,503 million for the year 2019, which represent an increase of 44 percent over 2018. The Group has continued to focus on:

- Delivering a long term sustainable value for shareholders;
- Maintaining a strong risk oversight whilst effectively managing cost of risk;
- Maintaining a strong capital base, liquidity and funding positions;
- Expanding our overseas presence;
- Continued investment in people whilst strengthening culture and conduct with a focus on National talent development including deploying National talent at key executive positions; and
- Continued investment in IT transformation with a focus on innovation, analytics and digitalization.

The UAE economy continued to be resilient in 2019 despite a challenging global macro environment and increased geo-political events. Emirates NBD continued to grow across the region with the acquisition of DenizBank in 2019, expanding the Group's presence to 13 countries and establishing Emirates NBD as a leading bank in the MENAT region with over 14 million customers. The balance sheet remains healthy as demonstrated by the Group's healthy funding, capital and credit quality profile.

Group adjusted Earnings per Share was AED 1.68 (2018: AED 1.70).

The Group achieved a return on average tangible equity of 24.2 percent (2018: 20.3 percent) and a return on average total assets of 2.5 percent (2018: 2.1 percent).

Equity and Note Holders' Funds

Total equity and note holders' funds as at the end of 2019 stands at AED 81,607 million (2018: AED 64,015 million).

Proposed Appropriations

The Directors also propose the following appropriations from retained earnings:

		AED million
Retained earnings as at 01 January 2019		32,412.5
Group profit for the year (attributable to equity holders)		14,502.6
Transfer to Legal and Statutory reserve		(379.4)
Transfer to Other reserves		(75.9)
Other comprehensive income for the year		(91.8)
Retained earnings available for appropriation		46,368.0
(a)	2018 Cash dividend paid during 2019	(2,220.7)
(b)	Interest on Tier 1 Capital Notes	(664.8)
(c)	Directors' fees for 2019	(31.0)
(d)	Zakat	(76.1)
Balance of retained earnings as at 31 December 2019		43,375.4

Attendance of Directors at Board/Board Committee meetings during 2019

The Board of Directors comprises of the following members:

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

Total Number of Emirates NBD Board Meetings: 6

Emirates NBD Board Executive Committee

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

Total Number of Meetings: 16

Emirates NBD Board Audit Committee

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

Total Number of Meetings: 4

<u>Emirates NBD Board Nomination and Remuneration Committee</u>

Mr. Buti Obaid Buti Al Mulla	Chairman of the Committee
Mr. Mohamed Hamad Obaid Al Shehi	Member
Mr. Mohamed Hadi Ahmad Al Hussaini	Member
Mr. Ali Humaid Ali Al Owais	Member

Total Number of Meetings: 4

<u>Emirates NBD Board Risk Committee</u>

Mr. Hesham Abdulla Al Qassim	Chairman of the Committee
Mr. Hussain Hassan Mirza Al Sayegh	Member
Mr. Buti Obaid Buti Al Mulla	Member
Mr. Ali Humaid Ali Al Owais	Member
Mr. Salem Mohammed Obaidalla	Member

Total Number of Meetings: 4

<u>Emirates NBD Board Credit and Investment Committee</u>

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

Total Number of Meetings: 48

Auditors:
Deloitte and Touche (M.E.) were appointed as auditors of the Emirates NBD Group for the 2019 financial year at the Annual General Meeting held on 20 February 2019.

On behalf of the Board

Vice Chairman
Dubai, UAE
26 January 2020

INDEPENDENT AUDITORS' REPORT

The Shareholders
Emirates NBD Bank PJSC
Dubai
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of **Emirates NBD Bank PJSC (the "Bank") and its subsidiaries (together the "Group"), Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

Other matter
The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 15 January 2019.

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

Key audit matter	Our audit approach
Loan loss impairments – Estimation uncertainty with respect to expected credit losses for loan and advances to customers	
The assessment of the Bank's determination of impairment allowances for loans and advances to customer requires management to make judgements over the staging of financial assets and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality of the loans and advances to customers (representing 64.0% of total assets) and the complexity of the judgements, assumptions and estimates used in the ECL models. Refer to Note 7 to the consolidated financial statements for the accounting policy and Note 50 for the credit risk disclosure.	We have gained an understanding of the loan origination process, credit risk management process and the estimation process of determining impairment allowances for loans and advances to customers and tested the operating effectiveness of relevant controls within these processes. On a sample basis, we selected individual loans and performed a detailed credit review and challenged the Banks's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions underlying the impairment allowance calculation, such

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

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

INDEPENDENT AUDITORS' REPORT (continued)

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

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

Key audit matter	Our audit approach
Concentration of related party balances	
Related party balances as at 31 December 2019 are disclosed in Note 43 to these consolidated financial statements with the description of the accounting policy disclosed in Note 7. We focused on this area as significant management judgement is required to determine the disclosures required under IFRS 7 Financial Instruments: Disclosures and IAS 24 Related Party Disclosures with regards to significant credit risk concentrations and related party disclosures. IFRS 7 requires that specific information be disclosed for each type of risk arising from financial instruments. These include qualitative disclosures around how exposures arise and how they are measured and managed, summary quantitative data about an entity's exposure to each type of risk, and information about an entity's credit risk exposure, including significant credit risk concentrations. In addition, for government-controlled entities such as Emirates NBD Bank PJSC, disclosure is required under IAS 24 Related Party Disclosures of a qualitative or quantitative indication of the extent of transactions with the government or related entities.	**Our audit procedures included:** • Obtaining from those charged with governance and management information identifying all known related parties. • Evaluating and testing of key controls over the identification and monitoring of related party transactions. • Evaluating and testing of key controls over the initial recording and monitoring of loans. • Reviewing minutes of board meetings and management meetings to determine if there were any related party transactions of which we were previously unaware. • Confirming the balance in writing from the relevant related party. • Vouching individual related party transactions on a sample basis to supporting documentation. • Evaluating the adequacy of the disclosures by assessing whether a reasonable user of the consolidated financial statements could understand the exposure of the Bank to concentration and related risks, and by considering the ability of such a user to reasonably estimate the extent of transactions with the majority shareholder of the parent, including the income arising from the balance due from them, based on the disclosures provided.

بنك الإمارات دبي الوطني
Emirates NBD

To the Shareholders of Emirates NBD Bank PJSC (continued)

Acquisition of DenizBank A.Ş.	
During the year the Group completed the acquisition of a controlling stake of 100% in DenizBank A.Ş. for a consideration of AED 10,015 million. Refer to Note 7 to the consolidated financial statements for the accounting policy and Note 12 for the acquisition disclosure. The cost of the acquisition was accounted for by determining the fair value of assets and liabilities acquired, including intangible assets and negative goodwill. This acquisition resulted in the recognition of intangible assets of AED 1,029 million and negative goodwill of AED 92 million. The fair values of net assets acquired are provisional and subject to potential adjustment. The Group has undertaken a purchase price allocation as required by IFRS 3 Business Combinations. This included complex valuation considerations and required the use of specialists. The process of determining the value of intangible assets requires the use of multiple estimates. In particular, we focused on: • The allocation of the purchase price; • The opening statement of financial position, considering fair value adjustments recognised; • The identification of intangible assets; and • The useful economic lives used in amortising intangible assets. Due to the size and complexity of the acquisition, we considered this to be a key audit matter.	We confirmed that the effective date of the acquisition was in compliance with the requirements of IFRS 3 by inspecting the salient terms and conditions of the purchase agreement. Our audit procedures included reviewing the sale and purchase agreements for the acquisitions and assessed the acquisition accounting, testing the validity and completeness of consideration and evaluating management's assumptions and methodology supporting the fair values of intangible and net assets acquired. Our audit procedures also included, but were not limited to, an assessment of the competency of the external experts used by the Group to value the net assets acquired. We used our own valuation specialists to challenge and corroborate using our experience, market data and information from similar transactions.

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of Emirates NBD Bank PJSC (continued)

Other information

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

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

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

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

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

The Board of Directors and the Audit Committee are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of Emirates NBD Bank PJSC (continued)

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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.

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of Emirates NBD Bank PJSC (continued)

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

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

Report on Other Legal And Regulatory Requirements

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

- We have obtained all the information we considered necessary for the purposes of our audit;

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

- The Bank has maintained proper books of account;

- The financial information included in the Directors' report is consistent with the books of account and records of the Bank;

- Note 11 to the consolidated financial statements discloses the Bank's purchases or investments in shares during the year ended 31 December 2019;

- Note 43 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;

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

- Note 52 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2019.

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

Deloitte & Touche (M.E.)

Akbar Ahmad
Registration No. 1141
26 January 2020
Dubai
United Arab Emirates

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 AED 000	2018 AED 000
ASSETS			
Cash and deposits with Central Banks	9	109,356,947	84,604,316
Due from banks	10	40,167,541	39,907,253
Investment securities	11	55,047,466	20,066,403
Loans and receivables	14	384,888,981	278,064,013
Islamic financing receivables	16	52,541,046	49,866,487
Positive fair value of derivatives	39	7,143,499	3,670,892
Investments in associates and joint ventures	13	134,452	1,581,180
Customer acceptances	42	10,227,557	7,736,164
Investment properties		613,223	549,705
Property and equipment		4,317,323	2,515,884
Goodwill and intangibles	17	6,607,421	5,686,258
Other assets	18	12,275,108	6,094,191
TOTAL ASSETS		**683,320,564**	**500,342,746**
LIABILITIES			
Due to banks	19	41,715,299	22,339,668
Customer deposits	20	385,810,220	290,920,920
Islamic customer deposits	21	86,370,611	56,945,102
Debt issued and other borrowed funds	22	49,317,315	40,715,230
Sukuk payable	23	3,679,921	3,685,160
Negative fair value of derivatives	39	5,565,219	3,767,748
Customer acceptances	42	10,227,557	7,736,164
Other liabilities	24	19,027,561	10,208,391
TOTAL LIABILITIES		**601,713,703**	**436,318,383**
EQUITY			
Issued capital	25	6,316,598	5,557,775
Treasury shares		(46,175)	(46,175)
Tier I capital notes	26	9,468,272	9,477,076
Share premium reserve	25	17,954,164	12,270,124
Legal and statutory reserve	27	3,158,299	2,778,888
Other reserves	27	2,945,393	2,869,533
Fair value reserve	27	131,484	(72,904)
Currency translation reserve	27	(1,706,736)	(1,231,558)
Retained earnings		43,375,416	32,412,538
TOTAL EQUITY ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP		**81,596,715**	**64,015,297**
Non-controlling interest		10,146	9,066
TOTAL EQUITY		**81,606,861**	**64,024,363**
TOTAL LIABILITIES AND EQUITY		**683,320,564**	**500,342,746**

The attached notes 1 to 52 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 8.

Chairman

Vice Chairman

Chief Executive Officer

26 January 2020

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 AED 000	2018 AED 000
Interest and similar income	28	24,686,936	16,930,894
Interest and similar expense	28	(10,079,074)	(5,997,538)
Net interest income		**14,607,862**	**10,933,356**
Income from Islamic financing and investment products	29	3,334,758	2,870,213
Distribution on Islamic deposits and profit paid to Sukuk holders	30	(1,755,107)	(916,022)
Net income from Islamic financing and investment products		**1,579,651**	**1,954,191**
Net interest income and income from Islamic financing and investment products net of distribution to depositors		**16,187,513**	**12,887,547**
Fee and commission income		5,803,089	4,022,106
Fee and commission expense		(1,862,998)	(1,165,624)
Net fee and commission income	31	**3,940,091**	**2,856,482**
Net gain/(loss) on trading securities	32	208,800	53,526
Other operating income	33	2,082,111	1,604,741
Total operating income		**22,418,515**	**17,402,296**
General and administrative expenses	34	(7,207,079)	(5,619,671)
Operating profit before impairment		**15,211,436**	**11,782,625**
Net impairment loss on financial assets	35	(4,818,070)	(1,748,181)
Operating profit after impairment		**10,393,366**	**10,034,444**
Gain on disposal of stake in jointly controlled entity and fair value of retained interest	13	4,389,309	-
Share of profit/(loss) of associates and joint ventures		19,418	136,019
Gain on bargain purchase	12	92,020	-
Group profit for the year before tax		**14,894,113**	**10,170,463**
Taxation charge		(390,430)	(128,940)
Group profit for the year after tax		**14,503,683**	**10,041,523**
Attributable to:			
Equity holders of the Group		14,502,603	10,040,485
Non-controlling interest		1,080	1,038
Group profit for the year after tax		**14,503,683**	**10,041,523**
Adjusted earnings per share	38	**1.68**	**1.70**

The attached notes 1 to 52 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 8.

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 AED 000	2018 AED 000
Group profit for the year after tax	14,503,683	10,041,523
Other comprehensive income		
Items that will not be reclassified subsequently to the income statement:		
Actuarial gains/(losses) on retirement benefit obligations	(26,549)	(5,476)
Movement in fair value reserve (equity instruments):		
- Net change in fair value	139,526	(98,706)
- Net amount transferred to retained earnings	(65,295)	57,776
Items that may be reclassified subsequently to the income statement:		
Cost of hedging for forward element of a forward and currency basis spread excluded from hedge effectiveness testing:		
Net changes in the cost of hedging	16,162	(16,703)
Cash flow hedges:		
- Effective portion of changes in fair value	(262,235)	(50,455)
Fair value reserve (debt instruments):		
- Net change in fair value	455,240	(38,205)
- Net amount transferred to income statement	(79,001)	(11,828)
- Related deferred tax	(65,304)	-
Currency translation reserve		
- Exchange difference	(460,481)	(25,319)
Hedge of a net investment in foreign operations	(14,697)	12,849
Other comprehensive income for the year	(362,634)	(176,067)
Total comprehensive income for the year	**14,141,049**	**9,865,456**
Attributable to:		
Equity holders of the Group	14,139,969	9,864,418
Non-controlling interest	1,080	1,038
Total comprehensive income for the year	**14,141,049**	**9,865,456**

The attached notes 1 to 52 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 8.

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 AED 000	2018 AED 000
OPERATING ACTIVITIES		
Group profit before tax for the year	14,894,113	10,170,463
Adjustment for non-cash items (refer Note 46)	1,687,165	2,061,100
Operating profit before changes in operating assets and liabilities	**16,581,278**	**12,231,563**
(Increase)/decrease in interest free statutory deposits	1,504,732	(153,286)
(Increase)/decrease in certificate of deposits with Central Banks maturing after three months	(6,293,307)	(14,190,167)
(Increase)/decrease in amounts due from banks maturing after three months	5,009,609	(5,413,906)
Increase/(decrease) in amounts due to banks maturing after three months	13,087,642	362,294
(Increase)/decrease in other assets	(850,494)	892,271
Increase/(decrease) in other liabilities	2,569,025	(85,743)
(Increase)/decrease in positive fair value of derivatives	(2,175,814)	(902,951)
Increase/(decrease) in negative fair value of derivatives	940,892	1,506,853
Increase/(decrease) in customer deposits	(4,042,939)	25,208,004
Increase/(decrease) in Islamic customer deposits	29,425,509	(3,870,283)
(Increase)/decrease in loans and receivables	(22,693,243)	(22,794,882)
(Increase)/decrease in Islamic financing receivables	(3,452,431)	(5,334,600)
Net cash flows generated from/(used in) operations	**29,610,459**	**(12,544,833)**
Taxes paid	(438,214)	(123,749)
Net cash flows generated from/(used in) operating activities	**29,172,245**	**(12,668,582)**
INVESTING ACTIVITIES		
(Increase)/decrease in investment securities	(20,771,328)	(1,349,317)
(Increase)/decrease in investments in associates and joint ventures	(7,008)	179,005
(Increase)/decrease of investment properties	(11,703)	-
(Increase)/decrease of property and equipment	(131,553)	(470,683)
Dividend income received	21,584	21,304
Disposal of stake in jointly controlled entity	4,222,307	-
Acquisition of a subsidiary	(3,755,167)	-
Net cash flows generated from/(used in) investing activities	**(20,432,868)**	**(1,619,691)**
FINANCING ACTIVITIES		
Proceeds from rights issue	6,442,863	-
Issuance of debt issued and other borrowed funds	15,624,311	15,710,677
Repayment of debt issued and other borrowed funds	(11,230,938)	(14,056,360)
Repayment of debt on acquisition	(4,408,892)	-
Repayment of sukuk borrowing	-	(1,836,250)
Issuance of Tier I capital notes	3,663,696	-
Repayment of Tier I capital notes	(3,672,500)	-
Interest on Tier I capital notes	(664,786)	(595,284)
Dividends paid	(2,220,749)	(2,220,749)
Net cash flows generated from/(used in) financing activities	**3,533,005**	**(2,997,966)**
Increase in cash and cash equivalents (refer Note 46)	**12,272,382**	**(17,286,239)**

The attached notes 1 to 52 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 8.

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GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium reserve (a)	Legal and statutory reserve (c)	Other reserves (c)	Fair value reserve (c)	Currency translation reserve (c)	Retained earnings	Total	Non-controlling interest	Group Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2019	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	(72,904)	(1,231,558)	32,412,538	64,015,297	9,066	64,024,363
Profit for the year	-	-	-	-	-	-	-	-	14,502,603	14,502,603	1,080	14,503,683
Other comprehensive income for the year	-	-	-	-	-	-	139,093	(475,178)	(26,549)	(362,634)	-	(362,634)
Tier I capital notes issued during the year (note 26)	-	-	3,663,696	-	-	-	-	-	-	3,663,696	-	3,663,696
Tier I capital notes redeemed during the period (note 26)	-	-	(3,672,500)	-	-	-	-	-	-	(3,672,500)	-	(3,672,500)
Gain/loss on sale of FVOCI equity instruments	-	-	-	-	-	-	65,295	-	(65,295)	-	-	-
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(664,786)	(664,786)	-	(664,786)
Issuance of right shares (refer note 25)	758,823	-	-	5,684,040	-	-	-	-	-	6,442,863	-	6,442,863
Dividends paid*	-	-	-	-	-	-	-	-	(2,220,749)	(2,220,749)	-	(2,220,749)
Transfer to reserves	-	-	-	-	379,411	75,860	-	-	(455,271)	-	-	-
Directors' fees (refer note 36)	-	-	-	-	-	-	-	-	(31,000)	(31,000)	-	(31,000)
Zakat	-	-	-	-	-	-	-	-	(76,075)	(76,075)	-	(76,075)
Balance as at 31 December 2019	6,316,598	(46,175)	9,468,272	17,954,164	3,158,299	2,945,393	131,484	(1,706,736)	43,375,416	81,596,715	10,146	81,606,861

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

The attached notes 1 to 52 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 8.

Notes:

(a) For further details refer to Note 25

(b) For further details refer to Note 26

(c) For further details refer to Note 27

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium reserve (a)	Legal and statutory reserve (c)	Other reserves (c)	Fair value reserve (c)	Currency translation reserve (c)	Retained earnings	Total	Non-controlling interest	Group Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2018	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	261,568	(1,219,088)	27,403,808	59,353,509	8,028	59,361,537
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	-	(118,575)	-	(2,186,971)	(2,305,546)	-	(2,305,546)
Balance as at 1 January 2018	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	142,993	(1,219,088)	25,216,837	57,047,963	8,028	57,055,991
Profit for the year	-	-	-	-	-	-	-	-	10,040,485	10,040,485	1,038	10,041,523
Other comprehensive income for the year	-	-	-	-	-	-	(158,121)	(12,470)	(5,476)	(176,067)	-	(176,067)
Gain/loss on sale of FVOCI equity instruments	-	-	-	-	-	-	(57,776)	-	57,776	-	-	-
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(595,284)	(595,284)	-	(595,284)
Dividends paid	-	-	-	-	-	-	-	-	(2,220,749)	(2,220,749)	-	(2,220,749)
Directors' fees (refer note 36)	-	-	-	-	-	-	-	-	(31,000)	(31,000)	-	(31,000)
Zakat	-	-	-	-	-	-	-	-	(50,051)	(50,051)	-	(50,051)
Balance as at 31 December 2018	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	(72,904)	(1,231,558)	32,412,538	64,015,297	9,066	64,024,363

The attached notes 1 to 52 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 4 to 8.

Notes:

(a) For further details refer to Note 25

(b) For further details refer to Note 26

(c) For further details refer to Note 27

Emirates NBD
بنك الإمارات دبي الوطني

1 CORPORATE INFORMATION

Emirates NBD Bank PJSC (the "Bank") was incorporated in the United Arab Emirates on 16 July 2007 consequent to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"), under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the Federal Law No. 8 of 1984.

The consolidated financial statements for the year ended 31 December 2019 comprise the financial statements of the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The Bank is listed on the Dubai Financial Market (TICKER: "EMIRATESNBD"). The Group's principal business activities are corporate banking, consumer banking, treasury and Islamic banking. The Bank's website is www.emiratesnbd.com. For details of activities of subsidiaries, refer to Note 41.

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

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

2 BASIS OF ACCOUNTING

Statement of Compliance

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

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

3 FUNCTIONAL AND PRESENTATION CURRENCY

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

4 BASIS OF MEASUREMENT

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

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

5 USE OF JUDGEMENTS AND ESTIMATES

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

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

(i) Financial Instruments

Judgments made in applying accounting policies that have most significant effects on the amounts recognized in the consolidated financial statements of the year ended 31 December 2019 pertain:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.

- Calculation of expected credit loss (ECL): Assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2019. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation

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

Assessment of Significant Increase in Credit Risk

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

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

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5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial Instruments (continued)

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

Assessment of Significant Increase in Credit Risk (continued)

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

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

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

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

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

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) such as occupancy rates, oil prices, housing price index and GDP (where applicable), that are closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Group's ECL calculation will have forecasts of the relevant macroeconomic variables.

The Group estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

The Group base case scenario is based on macroeconomic forecasts published by the external experts and other publicly available data. Upside and downside scenarios are set relative to the Group base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial instruments (continued)

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

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

Scenarios are probability-weighted according to the Group best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities.

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

In some instances the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Group's Governance process for oversight.

Definition of Default

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

Expected Life

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

Governance

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

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(ii) Fair Value of Financial Instruments

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

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

(iii) Impairment of Goodwill

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

(iv) Impairment Loss on Investment in Associates and Jointly Controlled Entities

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

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

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

6 CHANGES IN ACCOUNTING POLICIES

The Group has consistently applied the accounting policies as set out in Note 7 to all periods presented in these consolidated financial statements, except for the following accounting policies which are applicable from 1 January 2019:

IFRS 16 Leases

The Group has adopted IFRS 16 *'Leases'*, issued in January 2016, with the date of initial application of 1 January 2019. IFRS 16 introduces significant changes to lessee accounting. It removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short term leases and leases of low value assets.

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

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

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

The Group has applied IFRS 16 using the modified retrospective approach as permitted under the specific transitional provision in the standard and therefore the comparative information has not been restated. The Group has presented right of use assets within 'Property and equipment' and lease liabilities within 'Other liabilities' in the consolidated statement of financial position.

Where the Group leases out its investment property, the Group has classified these as operating leases. The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

7 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of Consolidation

(i) Subsidiaries

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The list of the Group's subsidiary companies is shown in Note 41.

Basis of Consolidation

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

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

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of Consolidation (continued)

(i) Subsidiaries (continued)

Basis of Consolidation (continued)

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

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

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of Consolidation (continued)

(ii) Special Purpose Entities

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

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

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

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

Information about the Group's securitisation activities is set out in Note 15.

(iii) Fund Management

The Group manages and administers funds on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management activity is set out in Note 48.

(iv) Fiduciary Activities

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

(v) Transactions with Non-controlling Interests

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of Consolidation (continued)

(vi) Joint Ventures

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

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

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

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

(vii) Associates

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

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

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

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of Consolidation (continued)

(vii) Associates (continued)

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

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

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

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

(b) Foreign Currencies

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

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

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

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest

Effective Interest Rate

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

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

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

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

Amortised Cost

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

Gross Carrying Amount

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

Calculation of Interest Income and Expense

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest (continued)

Presentation

Interest Income and Expense Presented in the income statement include:

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

(d) Fees and Commission

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

Fee income is accounted for as follows:

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

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

(e) Net Trading Income

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

(f) Dividend Income

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property Related Income

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

(h) Leases

The total payments made under operating leases, such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease. Refer Note 6 for the change in accounting policy as a result of application of IFRS 16.

(i) Income Taxes and Deferred Taxation

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

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

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

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

(j) Financial Assets and Financial Liabilities

(i) Classification of Financial Assets and Financial Liabilities

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(i) Classification of Financial Assets and Financial Liabilities (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All other financial assets are classified as measured at FVTPL.

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

(ii) Recognition and Initial Measurement

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

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

Business Model Assessment:

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level as this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

(ii) Recognition and Initial Measurement (continued)

Business Model Assessment (continued)

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rate.

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

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

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

Reclassifications

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(iii) Impairment

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

Measurement of ECL

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

Restructured Financial Assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(iii) Impairment (continued)

Credit-impaired Financial Assets

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

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

Purchased or Originated Credit-impaired Assets (POCI)

POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. Life time ECLs are only recognised or released to the extent that there is a subsequent change in the ECL.

Revolving Facilities

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

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

Write-off

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(iv) Financial Guarantees and Loan Commitments

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

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

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

(v) Foreign Currencies

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

(vi) Loans and Receivable

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

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

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

(vii) Investment Securities

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(vii) Investment Securities (continued)

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

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

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

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

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

(viii) Derecognition

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

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

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

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

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

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(viii) Derecognition (continued)

to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

(ix) Modification of Financial Assets and Financial Liabilities

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

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

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

(x) Offsetting

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

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

(xi) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
- In the absence of principal market, in the most advantageous market for the asset and liabilities.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial Assets and Financial Liabilities (continued)

(xi) Fair Value Measurement (continued)

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

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

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

(xii) Designated at FVTPL

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

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:
(a) The liabilities are managed, evaluated and reported internally on a fair value basis; or
(b) The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

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

(xiii) Sale and Repurchase Agreements

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

(k) Cash and Cash Equivalents

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Trading Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(i) Fair Value Hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

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

(ii) Cash Flow Hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivative is recognised in other comprehensive income within 'Cash flow hedges – fair value gains/(losses)'. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the consolidated income statement.

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(iii) Net Investment Hedges

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

(iv) Derivatives That do not Qualify for Hedge Accounting

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

(v) Embedded Derivatives

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

(n) Islamic Financing Receivables

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

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

Istisna'a

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Islamic Financing Receivables (continued)

Ijara

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

Mudaraba

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

Wakala

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

(ii) Revenue Recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

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

Istisna'a

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

Ijara

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

Mudaraba

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Islamic Financing Receivables (continued)

(ii) Revenue Recognition (continued)

Wakala

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

(o) Inventory

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

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

(p) Property, Equipment and Depreciation

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

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

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

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

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Investment Properties

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

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

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

(r) Intangible Assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on Acquisitions

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

Measurement

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

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Intangible Assets (continued)

(i) Goodwill (continued)

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Capitalised Software

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

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

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

(iii) Other Intangible Assets

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

(s) Impairment of Non-financial Assets

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Impairment of Non-financial Assets

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

(t) Deposits, Debts and Sukuks Issued

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

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

(u) Provisions

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

(v) Employee Benefits

(i) Pension Obligations

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

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

(ii) Termination Gratuity Benefit Scheme

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Dividend on Shares

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

(x) Share Capital and Reserves

(i) Perpetual Bonds

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

(ii) Share Issue Costs

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

(y) Earnings Per Share

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

(z) Operating Segments

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

The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 40.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related Parties

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

(a) the party, directly or indirectly through one or more intermediaries:
- controls, is controlled by, or is under common control with, the Group;
- has an interest in the Group that gives it significant influence over the Group; or
- has joint control over the Group;

(b) the party is an associate;
(c) the party is a jointly-controlled entity;
(d) the party is a member of the key management personnel of the Group;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(ab) Revenue Recognition

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

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

8 STANDARDS ISSUED BUT NOT YET ADOPTED

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective date
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures relating to interest rate benchmark reform.	The amendment relates to the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. As a result of the interest rate benchmark reforms, contractual cash flows of hedged items and hedging instruments that are based on an existing interest rate benchmark will likely change when the existing interest rate benchmark is replaced with an alternative interest rate. The amendment modifies specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform. The amendments are not intended to provide relief from any other consequences arising from interest rate benchmark reform. Also, if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified in the amendment, then discontinuation of hedge accounting is still required.	1 January 2020
Amendment to IFRS 3 Business Combinations relating to definition of a business.	The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer re-measures its entire previously held interest in the joint operation.	1 January 2020

The Group has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the consolidated financial statements of the Group as at the reporting date.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

9 CASH AND DEPOSITS WITH CENTRAL BANKS

	2019 AED 000	2018 AED 000
Cash	4,461,421	3,307,930
Statutory and other deposits with Central Banks	43,754,859	32,135,965
Interest bearing placements with Central Banks	5,758,814	267,718
Murabahas and interest bearing certificates of deposits with Central Banks	55,384,688	48,901,963
Less: Expected credit losses	(2,835)	(9,260)
	109,356,947	84,604,316

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

10 DUE FROM BANKS

31 December 2019	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	6,320,562	27,600,461	33,921,023
Overnight, call and short notice	1,553,988	4,776,736	6,330,724
Gross due from banks	7,874,550	32,377,197	40,251,747
Less: Expected credit losses			(84,206)
			40,167,541

31 December 2018	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	8,732,304	26,278,347	35,010,651
Overnight, call and short notice	1,140,063	3,896,815	5,036,878
Gross due from banks	9,872,367	30,175,162	40,047,529
Less: Expected credit losses			(140,276)
			39,907,253

The average yield on these placements was 2.23% p.a. (2018: 2.32% p.a.).

بنك الإمارات دبي الوطني
Emirates NBD

11 INVESTMENT SECURITIES

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

*Domestic: These are securities issued within UAE.
**Regional: These are securities issued within Middle East.
***International: These are securities issued outside the Middle East region.

11 INVESTMENT SECURITIES (CONTINUED)

31 December 2018	Domestic* AED 000	Regional** AED 000	International*** AED 000	Total AED 000
TRADING SECURITIES MEASURED AT FVTPL				
Government Bonds	85,810	1,008,040	346,019	1,439,869
Corporate Bonds	303,713	157,090	1,123,893	1,584,696
Equity	-	-	-	-
Others	-	-	-	-
	389,523	1,165,130	1,469,912	3,024,565
DESIGNATED AS AT FVTPL				
Corporate Bonds	-	-	-	-
Equity	181,667	200,461	50,123	432,251
Others	51,996	111,555	153,368	316,919
	233,663	312,016	203,491	749,170
MEASURED AT AMORTISED COST				
Government Bonds	1,619,602	6,946,644	2,900,218	11,466,464
Corporate Bonds	429,065	447,738	1,606,661	2,483,464
	2,048,667	7,394,382	4,506,879	13,949,928
Less: Expected Credit Losses				(29,902)
				13,920,026
MEASURED AT FVOCI - DEBT INSTRUMENTS				
Government Bonds	-	271,213	300,687	571,900
Corporate Bonds	1,317,534	-	423,051	1,740,585
	1,317,534	271,213	723,738	2,312,485
Less: Expected Credit Losses				(5,949)
				2,306,536
MEASURED AT FVOCI - EQUITY INSTRUMENTS				
Equity	1,663	61,319	3,124	66,106
	1,663	61,319	3,124	66,106
Gross Investment Securities	3,991,050	9,204,060	6,907,144	20,102,254
Net Investment Securities				20,066,403

*Domestic: These are securities issued within UAE.
**Regional: These are securities issued within Middle East.
***International: These are securities issued outside the Middle East region.

12 ACQUISITION OF DENIZBANK A.S

On 2 April 2019, the Group entered into a revised sale purchase agreement (Restated SPA) with Sberbank of Russia to acquire its 99.85% stake in DenizBank. In accordance with the Restated SPA, the consideration for 99.85% of shares in DenizBank was agreed at Turkish Lira (TRY) 15.48 billion. The transaction was completed on 31 July 2019 and accordingly the Group assumed control and consolidated the net assets of DenizBank as of that date.

Subsequent to 31 July 2019, as per the requirements of Turkish Capital Markets Board for a mandatory tender offer and after exercising squeeze out rights, the Group acquired the remaining 0.15% stake in DenizBank for a consideration of AED 65 million and as a result now holds 100% of equity in DenizBank.

The fair value of assets and liabilities acquired is given below:

Net assets acquired	AED million
Cash and deposits with Central Bank	21,469
Due from Banks	5,443
Loans and receivables	87,767
Investment securities	13,242
Property and equipment	1,271
Intangibles	1,029
Other assets	5,638
Positive fair value of derivatives	1,297
Liabilities	
Customer deposits	98,931
Due to banks	13,986
Debt issued and other borrowed funds	8,204
Other liabilities	5,071
Negative fair value of derivatives	857
Fair value of Net assets acquired	10,107
Gain on bargain purchase	(92)
Purchase consideration	10,015
Net cash flow on acquisition:	
Cash and cash equivalents acquired	6,260
Purchase consideration	(10,015)
Net cash flow on acquisition	(3,755)

Gain on bargain purchase (based on the provisional purchase price allocation) represents the difference between purchase consideration and fair value of assets acquired and is recognised in the consolidated income statement. The fair values of the assets and liabilities have been determined by an external expert.

Acquisition related costs of AED 52 million are included in General and administrative expenses.

DenizBank's revenue included in the consolidated income statement since acquisition date is AED 3,643 million. DenizBank also contributed profit of AED 609 million over the same period.

Had DenizBank been consolidated from 1 January 2019 the consolidated income statement would have included revenue of AED 7,234 million and profit of AED 1,064 million.

13 DISPOSAL OF STAKE IN JOINTLY CONTROLLED ENTITY

On 15th April 2019, Network International Holdings Plc (a listing vehicle created as a holding entity of Network International LLC), was admitted to the premium-listing segment of the Official List maintained by Financial Conduct Authority and to the London Stock Exchange Plc.

The Group disposed its holdings in Network International Holdings Plc in two tranches. In total 39.1% shareholding was disposed, for a net consideration of AED 4,222 million compared to a book value of AED 1,076 million and as a result recorded a gain on disposal of AED 3,146 million. As of that date, the Group retained 11.9% interest in Network International Holdings Plc and no longer held significant influence and discontinued equity accounting. The retained interest was classified as investment at Fair Value through OCI. The fair value gain on measurement of the retained interest was AED 1,243 million and recognised in the income statement.

Subsequent to the above transactions, 6.2% shareholding was disposed for a net consideration of AED 749 million compared to a book value of AED 814 million. As a result, realised loss of AED 65 million was transferred to retained earnings on the investment held at Fair Value through OCI. The Group now retains 5.7% interest in Network International Holdings.

14 LOANS AND RECEIVABLES

		2019 AED 000	2018 AED 000
(a)	By Type		
	At Amortised Cost		
	Overdrafts	150,166,905	137,047,799
	Time loans	233,270,602	144,147,283
	Loans against trust receipts	8,054,202	9,262,543
	Bills discounted	4,475,928	2,326,177
	Credit card receivables	12,711,497	6,397,236
	Total loans and receivables	408,679,134	299,181,038
	Less: Expected credit losses	(23,790,153)	(21,117,025)
		384,888,981	278,064,013
	Total of credit impaired loans and receivables	21,155,908	15,922,201

		2019 AED 000	2018 AED 000
(b)	By Business Units		
	Corporate banking	307,296,769	241,507,233
	Consumer banking	77,592,212	36,556,780
		384,888,981	278,064,013

Expected credit losses on Loans and receivables have been disclosed in further detail in Note 50 (I).

بنك الإمارات دبي الوطني
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15 LOANS SECURITISATION

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

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

On 9 October 2012, the Group transferred corporate loans and receivables amounting to AED 1,876 million to ENBD Asset Finance Company No.1 DAC. However, the Group is exposed to all the credit risk and rewards associated with the transferred assets and hence the Group continues to recognise these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 1,876 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost. The assets and liabilities in the entity has since been derecognised and ENBD Asset Finance Company No.1 DAC is under liquidation. Further, the Group through ENBD Asset Finance Company No.2 Limited, entered into a total return swap contract referencing these notes' liability, thereby retaining all the risks and rewards associated with the loan exposures.

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

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

As at 31 December 2019, the corporate loans and receivables balance transferred to Ireland and Cayman SPEs is AED 918 million (2018: AED 1,044 million) and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 918 million (2018: AED 1,044 million).

(b) Securitisation of Islamic Financing Receivables

Sukuk issuance of AED 3.7 billion was made during the year 2016 to raise US Dollar denominated medium term finance via a Sharia'a compliant sukuk financing arrangement. As at 31 December 2019 the total outstanding sukuk payable is AED 3.7 billion (2018: AED 3.7 billion).

The Group transferred certain identified Ijara and Murabaha assets totaling to AED 3.7 billion (the "co-owned assets") of its Subsidiary, Emirates Islamic Bank, to EIB Sukuk company limited – (the "Issuer"), a special purpose vehicle formed for the issuance of these sukuk. This medium term finance is carried at amortised cost.

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

The Issuer will pay a semi-annual distribution amount from returns received in respect of the co-owned assets. Such proceeds are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, the Group has undertaken to repurchase the assets at the exercise price.

16 ISLAMIC FINANCING RECEIVABLES

	2019 AED 000	2018 AED 000
At Amortised Cost		
Murabaha	36,883,978	34,259,339
Ijara	19,513,458	18,888,088
Wakala	882,328	408,788
Istisna'a	1,257,196	1,726,396
Credit cards receivable	1,491,354	1,331,436
Others	161,533	912,548
Total Islamic financing receivables	60,189,847	57,526,595
Less: Deferred income	(2,212,559)	(2,074,625)
Less: Expected credit losses	(5,436,242)	(5,585,483)
	52,541,046	49,866,487
Total of credit impaired Islamic financing receivables	4,868,545	5,057,128

Corporate Ijara assets amounting to AED 2.3 billion (2018: AED 2.3 billion) and Murabaha assets amounting to AED 1.4 billion (2018: AED 1.4 billion) were securitised for the purpose of issuance of Sukuk liability (refer Note 23 and 15b).

Expected credit losses on Islamic financing receivables have been disclosed in further detail in Note 50 (I).

17 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles on Acquisition					Total
		Banking license	Software	Customer relationships	Core deposit intangibles	Brands	
31 December 2019	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cost							
Balance as at 1 January	5,552,488	138,673	9,281	157,490	664,174	-	6,522,106
Additions through acquisition*	-	-	-	376,096	277,088	375,431	1,028,615
Foreign exchange movement	7,867	20,809	-	(23,882)	(17,595)	(26,611)	(39,412)
	5,560,355	159,482	9,281	509,704	923,667	348,820	7,511,309
Less: Amortisation and impairment							
Balance as at 1 January	4,903	-	9,281	157,490	664,174	-	835,848
Amortisation and impairment for the year	-	-	-	39,177	28,863	-	68,040
Balance as at 31 December	4,903	-	9,281	196,667	693,037	-	903,888
Net Goodwill and Intangibles	**5,555,452**	**159,482**	**-**	**313,037**	**230,630**	**348,820**	**6,607,421**
31 December 2018							
Cost	5,552,488	138,673	9,281	157,490	664,174	-	6,522,106
Less: Amortisation and impairment	4,903	-	9,281	157,490	664,174	-	835,848
Net Goodwill and Intangibles	**5,547,585**	**138,673**	**-**	**-**	**-**	**-**	**5,686,258**

*Acquired intangibles comprise those recognised as part of the acquisition of DenizBank. The acquired intangibles comprise core deposits, customer relationships and brands. Core deposits and customer relationships are amortised over 4 years useful life and brands have indefinite useful life. For further details, refer Note 12.

The goodwill and intangibles were acquired through business combinations. Goodwill has an indefinite life and is reviewed annually for impairment.

The goodwill has been allocated to four cash-generating units, namely Corporate banking, Consumer banking, Treasury and Emirates NBD Egypt.

17 GOODWILL AND INTANGIBLES (CONTINUED)

Impairment Testing of Goodwill

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

The goodwill has been allocated to four cash-generating units:
- Corporate banking
- Consumer banking
- Treasury
- Emirates NBD Egypt

Based on the current impairment assessment, goodwill is not impaired as at 31 December 2019.

Key Assumptions used in Impairment Testing for Goodwill

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

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:
- Interest margins;
- Discount rates;
- Market share during the projection period;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product ("GDP"); and
- Local inflation rates.

Interest Margins

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

Discount Rates

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

Projected Growth Rate, GDP and Local Inflation Rates

Assumptions are based on published industry research.

At 31 December 2019, the goodwill allocated to Corporate Banking was AED 3,589 million (2018: AED 3,589 million), the goodwill allocated to Consumer Banking was AED 1,700 million (2018: AED 1,700 million) and the goodwill allocated to Treasury was AED 206 million (2018: AED 206 million).

17 GOODWILL AND INTANGIBLES (CONTINUED)

Projected Growth Rate, GDP and Local Inflation Rates (continued)

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

Cash generating units (CGUs)	One percentage change in discount rate (AED million)	One percentage change in terminal growth rate (AED million)
Corporate Banking	120,871	112,861
Consumer Banking	119,384	111,472
Treasury	22,988	21,464
Emirates NBD Egypt S.A.E	123	285

Based on the current impairment assessment, goodwill is not impaired as at 31 December 2019.

Intangibles

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

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

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

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

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

18 OTHER ASSETS

	2019 AED 000	2018 AED 000
Accrued interest receivable	4,649,040	2,224,081
Islamic profit receivable	114,657	186,237
Prepayments and other advances	1,026,233	304,583
Sundry debtors and other receivables	2,504,710	1,118,133
Inventory	1,296,001	1,115,159
Fair value of deposit (a)	-	66,667
Deferred tax asset	626,610	-
Others	2,057,857	1,079,331
	12,275,108	6,094,191

(a) On acquisition of Dubai Bank in October 2011, the Group received a deposit from the Ministry of Finance of the UAE amounting to AED 2.8 billion at a discount compared to the market available interest rate. As per the Group policy, the financial liability should be recognised initially at its fair value plus the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Since the deposit was received at an interest rate which is below the market available interest rate, a fair value gain of AED 543 million was recognised in the financial statements in 2011 and amortised over the term of the deposit (8 years) at the effective interest rate. During the year, the Group has fully repaid the deposit upon its maturity.

19 DUE TO BANKS

	2019 AED 000	2018 AED 000
Demand and call deposits	2,543,717	2,277,365
Balances with correspondent banks	2,250,185	1,611,125
Repurchase agreements with banks	501,000	235,706
Time and other deposits	36,420,397	18,215,472
	41,715,299	22,339,668

The interest paid on the above averaged 3.13% p.a. (2018: 2.11%).

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20 CUSTOMER DEPOSITS

		2019 AED 000	2018 AED 000
(a)	By Type		
	Demand, call and short notice	137,894,750	121,171,522
	Time	205,510,466	136,554,828
	Savings	36,319,483	26,737,564
	Others	6,085,521	6,457,006
		385,810,220	290,920,920

		2019 AED 000	2018 AED 000
(b)	By Business Units		
	Corporate banking	173,295,506	124,051,141
	Consumer banking	201,250,001	140,023,165
	Treasury	11,264,713	26,846,614
		385,810,220	290,920,920

The interest paid on the above deposits averaged 1.77% p.a (2018: 1.38% p.a.).

21 ISLAMIC CUSTOMER DEPOSITS

		2019 AED 000	2018 AED 000
(a)	By Type		
	Demand, call and short notice	17,987,619	17,585,142
	Time	56,729,289	28,884,361
	Savings	11,265,223	10,014,757
	Others	388,480	460,842
		86,370,611	56,945,102

		2019 AED 000	2018 AED 000
(b)	By Business Units		
	Corporate banking	19,866,896	16,066,907
	Consumer banking	49,618,070	39,920,136
	Treasury	16,885,645	958,059
		86,370,611	56,945,102

The profit paid on the above deposits averaged 2.29% p.a. (2018: 1.31% p.a.).

22 DEBT ISSUED AND OTHER BORROWED FUNDS

	2019 AED 000	2018 AED 000
Medium term note programme*	41,075,715	32,359,770
Term loans from banks	7,323,475	7,311,043
Borrowings raised from loan securitisations (refer Note 15)	918,125	1,044,417
	49,317,315	40,715,230

*Includes Tier 2 notes amounting to AED Nil (2018: AED 146 million) raised through public and private placements.

Some of the Debts issued and other borrowed funds have been hedged for cash flow and fair value risks and amount to AED 20,156 million. For details of hedging instruments please refer to Note 39.

	2019 AED 000	2018 AED 000
Balance as at 1 January	40,715,230	39,788,848
Additions through acquisition	3,795,768	-
New issues	15,624,311	15,710,677
Repayments	(11,230,938)	(14,056,360)
Other movements*	412,944	(727,935)
Balance at end of year	49,317,315	40,715,230

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

As at 31 December 2019, the outstanding medium term borrowings totalling AED 49,317 million (2018: AED 40,715 million) is falling due as below:

	2019 AED millions	2018 AED millions
2019	-	6,976
2020	14,121	8,719
2021	12,128	10,094
2022	9,706	7,816
2023	1,941	1,555
2024	2,289	348
Beyond 2024	9,132	5,207
	49,317	40,715

The interest rate paid on the above averaged 3.53% p.a in 2019 (2018: 3.53% p.a).

23 SUKUK PAYABLE

	2019 AED 000	2018 AED 000
Balance as at 1 January	3,685,160	5,526,649
Repayments	-	(1,836,250)
Other movements	(5,239)	(5,239)
Balance at end of year	3,679,921	3,685,160

As at 31 December 2019, the outstanding Sukuk payable totaling AED 3,680 million (31 December 2018: AED 3,685 million) is falling due in 2021.

24 OTHER LIABILITIES

	2019 AED 000	2018 AED 000
Accrued interest payable	3,414,732	2,381,338
Profit payable to Islamic depositors	157,021	149,249
Managers' cheques	1,228,374	1,238,897
Trade and other payables	4,037,808	2,113,941
Staff related liabilities	1,304,970	1,079,772
Provision for taxation (refer Note 37)	235,306	68,834
Others	8,649,350	3,176,360
	19,027,561	10,208,391

25 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 6,316,598,253 ordinary shares of AED 1 each (2018: 5,557,774,724 ordinary shares).

During the year, the Bank has completed a rights issue exercise by increasing new shares of 758,823,529 for an amount of AED 6,450,000,000. The shares are issued at a price of AED 8.50 per new share, compared to the nominal value of AED 1.00 per share. Accordingly, a share premium amounting to AED 5,684 million (AED 7.50 per share) net off transaction cost has been recorded in the financial statements.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

26 TIER I CAPITAL NOTES

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

Issuance Month/Year	Issued Amount	Coupon Rate
March 2019	USD 1 billion (AED 3.67 billion)	Fixed interest rate with a reset after six years
September 2014	USD 500 million (AED 1.83 billion)	Fixed interest rate with a reset after six years
June 2009	AED 4 billion	Fixed interest rate for the first five years and on a floating rate basis thereafter

The Group has exercised its option to call back the following notes in May 2019 and as a result have been repaid in full.

Issuance Month/Year	Issued Amount	Coupon Rate
May 2013	USD 1 billion (AED 3.67 billion)	Fixed interest rate with a reset after six years

27 RESERVES

Legal and statutory reserves

In accordance with the Bank's Articles of Association, and in compliance with Decretal Federal Law No. (14) of 2018, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital.

Other reserve

10% of the profit is also transferable to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2019	2,778,888	555,800	2,313,733	5,648,421
Transfer from retained earnings*	379,411	75,860	-	455,271
At 31 December 2019	3,158,299	631,660	2,313,733	6,103,692

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

Due to the increase in share capital on account of rights issue during the year, transfers have been made to the reserves in compliance with the provisions of the Bank's articles of association.

27 RESERVES (Continued)

Fair value reserve

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

Currency translation reserve

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

28 NET INTEREST INCOME

	2019 AED 000	2018 AED 000
Interest and similar income		
Loans and receivables to customers	21,148,169	14,724,408
Loans and receivables to banks	1,945,362	1,148,403
Investment securities at FVOCI	691,301	305,729
Investment securities at amortised cost	761,300	481,691
Trading securities and designated at FVTPL investment securities	89,252	95,096
Others	51,552	175,567
Total interest income	24,686,936	16,930,894
Interest and similar expense		
Deposits from customers	(7,078,700)	(3,850,825)
Borrowings from banks and financial institutions	(728,552)	(312,752)
Securities lent and repurchase agreements	(115)	(24,468)
Others	(2,271,707)	(1,809,493)
Total interest expense	(10,079,074)	(5,997,538)
Net interest income	14,607,862	10,933,356

29 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2019 AED 000	2018 AED 000
Murabaha	1,737,660	1,396,222
Ijara	875,455	858,627
Istisna'a	51,253	56,110
Others	670,390	559,254
	3,334,758	2,870,213

30 DISTRIBUTION ON ISLAMIC DEPOSITS AND PROFIT PAID TO SUKUK HOLDERS

	2019 AED 000	2018 AED 000
Distribution to depositors	1,628,544	787,268
Profit paid to sukuk holders	126,563	128,754
	1,755,107	916,022

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

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

31 NET FEE AND COMMISSION INCOME

	2019 AED 000	2018 AED 000
Commission income on Trade finance products/services	890,039	674,354
Fee income	4,744,801	3,164,582
Brokerage fees	33,228	56,641
Portfolio and other management fees	135,021	126,529
Total fee and commission income	5,803,089	4,022,106
Fee and commission expense	(1,862,998)	(1,165,624)
	3,940,091	2,856,482

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

32 NET GAIN/(LOSS) ON TRADING SECURITIES

	2019 AED 000	2018 AED 000
Realised gain/(loss) on trading securities	224,508	88,886
Unrealised gain/(loss) on trading securities	(15,708)	(35,360)
	208,800	53,526

33 OTHER OPERATING INCOME

	2019 AED 000	2018 AED 000
Dividend income on equity investment measured at FVOCI	6,963	2,888
Dividend income on equity investments measured at FVTPL	14,621	18,416
Gain from sale of debt investment securities measured at FVOCI	79,001	11,828
Gain / (loss) from investment securities designated at fair value through profit or loss	(149,534)	(108,609)
Rental income	29,137	39,411
Gain on sale of properties (investment properties / inventories)	2,005	1,783
Foreign exchange income*	1,755,621	1,252,421
Derivative income / (loss)	(172,955)	118,917
Other income (net)	517,252	267,686
	2,082,111	1,604,741

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

34 GENERAL AND ADMINISTRATIVE EXPENSES

	2019 AED 000	2018 AED 000
Staff cost	4,196,703	3,451,057
Occupancy cost	285,354	381,744
Equipment and supplies	195,459	126,961
Information technology cost	296,904	233,911
Communication cost	236,057	183,704
Service, legal and professional fees	186,286	158,987
Marketing related expenses	182,066	266,643
Depreciation	722,483	397,632
Amortisation of intangibles	68,040	-
Others	837,727	419,032
	7,207,079	5,619,671

35 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

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

	2019 AED 000	2018 AED 000
Net impairment of cash and deposits with Central Bank	(6,693)	(3,148)
Net impairment of due from banks/other assets	(14,253)	53,050
Net impairment of investment securities	(11,734)	16,442
Net impairment of loans and receivables (refer Note 50 I)	4,332,473	1,529,540
Net impairment of Islamic financing receivables (refer Note 50 I)	777,872	556,319
Net impairment of unfunded exposures	37,557	59,557
Bad debt written off/(recovery) - net	(297,152)	(463,579)
	4,818,070	1,748,181

36 DIRECTORS FEES

This comprises of fees payable to the directors of the Group of AED 31 million (2018: AED 31 million).

37 TAXATION

At 31 December 2019 provisions for tax on overseas branch operations and subsidiary amount to AED 235 million (2018: AED 69 million) (refer Note 24).

38 EARNINGS PER SHARE

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

	2019 AED 000	2018 AED 000
Profit for the year attributable to equity holders	14,502,603	10,040,485
Deduct: Interest on Tier 1 capital notes	(664,786)	(595,284)
Net profit attributable to equity holders	13,837,817	9,445,201
Deduct: Gain on disposal of stake in jointly controlled entity and fair value of retained interest (Refer Note 13)	(4,389,309)	-
	9,448,508	9,445,201
Weighted average number of equity shares in issue ('000)	5,620,478	5,551,872
Adjusted earnings per share* (AED)	1.68	1.70

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

39 DERIVATIVES

A. Derivatives held for risk management

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

31 December 2019 notional amounts by term to maturity

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

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain Loans and receivables amounting to AED 6,770 million (Note 14), Investment securities amounting to AED 6,237 million (Note 11), Customer deposits amounting to AED 10,547 million (Note 20) and Debt issued and borrowed funds amounting to AED 20,156 million (Note 22). All the hedges were determined to be effective as on 31 December 2019.

39 DERIVATIVES (continued)

A. Derivatives held for risk management (continued)

31 December 2018 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	669,009	(616,778)	242,996,639	136,894,242	77,889,843	25,445,300	2,437,568	329,686
Foreign exchange options	11,893	(12,085)	29,892,426	8,572,725	14,709,201	6,610,500	-	-
Interest rate swaps/caps	2,575,605	(2,224,763)	224,289,570	19,919,894	46,684,008	84,695,495	39,033,714	33,956,459
Commodity options	-	-	-	-	-	-	-	-
	3,256,507	(2,853,626)	497,178,635	165,386,861	139,283,052	116,751,295	41,471,282	34,286,145
Derivatives held as cash flow hedges:								
Interest rate swaps	296,268	(56,492)	12,292,210	-	367,250	8,812,204	3,112,756	-
Derivatives held as fair value hedges:								
Interest rate swaps	105,268	(857,630)	5,613,986	-	1,412,018	285,866	3,033,050	883,052
Derivatives held as hedge of a net investment in foreign operations:								
Forward foreign exchange contracts	12,849	-	271,033	-	271,033	-	-	-
Total	3,670,892	(3,767,748)	515,355,864	165,386,861	141,333,353	125,849,365	47,617,088	35,169,197

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain Loans and receivables amounting to AED 4,200 million (Note 13), Investment securities amounting to AED 4,829 million (Note 11) and Debt issued and borrowed funds amounting to AED 17,306 million (Note 21). All the hedges were determined to be effective as on 31 December 2018.

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

39 DERIVATIVES (continued)

A. Derivatives held for risk management (continued)

Derivative Product Types

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

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

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

Derivative Related Credit Risk

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

Derivatives Held or Issued for Trading Purposes

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

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives Held or Issued for Hedging Purposes

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

The Group designates its derivatives held or issued for hedging purposes as:
- Fair value hedges: Hedges of the fair value of recognised assets or liabilities or firm commitments;
- Cash flow hedges: Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction; and
- Net investment hedges: Hedges of net investments in foreign operations.

39 DERIVATIVES (continued)

A. Derivatives held for risk management (continued)

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

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

Fair Value Hedges:

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

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

Cash Flow Hedges:

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

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

39 DERIVATIVES (continued)

A. Derivatives held for risk management (continued)

Net Investment Hedges:

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

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

40 OPERATING SEGMENTS

The Group is organised into the following main businesses:

(a) Corporate banking represents structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate, commercial customers, investment banking and Islamic products under Al Watani Al Islami;

(b) Consumer banking represents retail loans and deposits, private banking and wealth management, equity broking services, asset management and consumer financing;

(c) Treasury activities comprises of managing the Group's portfolio of investments, funds management and interbank treasury operations;

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiaries;

(e) DenizBank: During the period, the Group acquired DenizBank (refer Note 12) and is considered as a separate operating segment; and

(f) Other operations of the Group include Emirates NBD Egypt, Tanfeeth, property management, operations and support functions.

40 OPERATING SEGMENTS (continued)

31 December 2019	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic banking AED 000	DenizBank AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	4,608,950	5,304,265	251,541	1,880,992	2,534,015	1,607,750	16,187,513
Net fees, commission and other income	1,347,573	2,666,830	172,985	789,361	1,108,749	145,504	6,231,002
Total operating income	5,956,523	7,971,095	424,526	2,670,353	3,642,764	1,753,254	22,418,515
General and administrative expenses	(522,230)	(2,154,187)	(147,575)	(1,126,538)	(1,247,294)	(2,009,255)	(7,207,079)
Net impairment loss on financial assets	(2,158,722)	(653,043)	6,960	(482,761)	(1,532,055)	1,551	(4,818,070)
Gain on sale of business interests in joint venture	-	-	-	-	-	4,389,309	4,389,309
Share of profit of associates and joint ventures	-	-	-	-	-	19,418	19,418
Gain on bargain purchase	-	-	-	-	-	92,020	92,020
Taxation charge	(13,636)	(8,557)	(13,152)	-	(254,435)	(100,650)	(390,430)
Group profit for the year	3,261,935	5,155,308	270,759	1,061,054	608,980	4,145,647	14,503,683
Segment Assets	303,823,651	61,751,635	104,451,403	61,515,657	133,186,634	18,591,584	683,320,564
Segment Liabilities and Equity	164,485,797	151,417,011	53,176,431	52,340,462	122,872,070	139,028,793	683,320,564

40 OPERATING SEGMENTS (continued)

31 December 2018	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic banking AED 000	DenizBank AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	4,586,656	4,798,681	699,485	1,667,914	-	1,134,811	12,887,547
Net fees, commission and other income	1,263,999	2,551,245	(130,735)	792,850	-	37,390	4,514,749
Total operating income	5,850,655	7,349,926	568,750	2,460,764	-	1,172,201	17,402,296
General and administrative expenses	(488,063)	(2,104,333)	(137,479)	(1,150,390)	-	(1,739,406)	(5,619,671)
Net impairment loss on financial assets	(917,216)	(446,583)	19,281	(386,115)	-	(17,548)	(1,748,181)
Gain on sale of business interests in joint venture	-	-	-	-	-	-	-
Share of profit of associates and joint ventures	-	-	-	-	-	136,019	136,019
Taxation charge	(18,924)	(14,314)	(17,978)	-	-	(77,724)	(128,940)
Group profit for the year	4,426,452	4,784,696	432,574	924,259	-	(526,458)	10,041,523
Segment Assets	287,613,224	61,463,313	77,102,629	56,026,483	-	18,137,097	500,342,746
Segment Liabilities and Equity	139,478,467	145,674,759	50,682,177	56,217,323	-	108,290,020	500,342,746

41 SUBSIDIARIES ASSOCIATES AND JOINT VENTURES

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

		Group % Share holding	Nature of business	Country of incorporation
	As at 31 December 2019			
	Subsidiaries:			
1.	Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
2.	DenizBank Anonim Sirketi	100	Banking	Turkey
3.	Dubai Bank PJSC	100	Islamic banking	Dubai, U.A.E.
4.	Emirates Funds LLC	100	Asset management	Dubai, U.A.E.
5.	Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey, England
6.	Emirates Islamic Bank PJSC	99.9	Islamic banking	Dubai, U.A.E.
7.	Emirates Money Consumer Finance LLC	100	Consumer finance	Dubai, U.A.E.
8.	Emirates NBD Asset Management Limited	100	Asset management	Dubai, U.A.E.
9.	Emirates NBD Capital (KSA) LLC	100	Investment services	KSA
10.	Emirates NBD Capital PSC	100	Funds management	Dubai, U.A.E.
11.	Emirates NBD Egypt S.A.E	100	Banking	Egypt
12.	Emirates NBD Global Funding Limited	100	Medium term borrowing and money market transactions	Cayman Islands
13.	Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.
14.	Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
15.	Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey, England
16.	ENBD London Branch Nominee Company	100	Asset management	England
17.	Tanfeeth LLC	100	Shared services organisation	Dubai, U.A.E.
18.	The Emirates National Dubai Real Estate Company LLC	100	Nominee company for mortgage business	KSA
	Associate:			
1.	National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.

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

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

42 COMMITMENTS AND CONTINGENCIES

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

	2019 AED 000	2018 AED 000
Letters of credit	12,131,599	11,368,782
Guarantees	66,209,785	49,590,310
Liability on risk participations	175,090	593,804
Irrevocable loan commitments*	42,324,795	20,795,849
	120,841,269	82,348,745

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

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

As at 31 December 2018 ECL on unfunded exposures amounted to AED 505 million in Stage 1 (exposure of AED 67,769 million) and AED 21 million in Stage 2 (exposure of AED 5,567 million). Unfunded exposure includes guarantees, standby letter of credits and irrevocable loan commitments.

(b) Acceptance

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

(c) Capital Commitments

The Group has commitments as at 31 December 2019 for branch refurbishments and automation projects of AED 648 million (2018: AED 408 million).

43 RELATED PARTY TRANSACTIONS

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

Deposits from and loans to government related entities, other than those that have been individually disclosed, amount to 6% (2018: 6%) and 5% (2018: 5%) respectively, of the total deposits and loans of the Group. These entities are independently run business entities, and all financial dealings with the Group are on normal commercial terms.

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

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

	2019 AED 000	2018 AED 000
Loans and receivables:		
To majority shareholder of the parent	160,753,924	150,218,137
To parent	1,456,858	1,303,838
To directors and related companies	897,830	2,122,591
To associates and joint ventures	64	327,119
	163,108,676	153,971,685

	2019 AED 000	2018 AED 000
Customer and Islamic deposits:		
From majority shareholder of the parent	4,845,014	3,024,926
From parent	2,094,077	2,393,514
From associates and joint ventures	38,315	366,044
	6,977,406	5,784,484

43 RELATED PARTY TRANSACTIONS (continued)

	2019 AED 000	2018 AED 000
Investment in Government of Dubai bonds	18,841	11,106
Commitments to associates and joint ventures	76,471	92,873
Payments made to associates and joint ventures	123,417	187,137
Payments received from associates and joint ventures	5,960	5,698
Payments made to other related parties	23,401	18,437
Fees received in respect of funds managed by the Group	21,685	34,823
Interest (paid by)/paid to joint ventures	3,979	2,500
Directors sitting fee	15,042	13,079
Key management compensation:		
Short term employment benefits	79,959	62,601
Post employment benefits	1,738	1,796
	81,697	64,397

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

44 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

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

31 December 2019	UAE AED 000	Other GCC AED 000	International AED 000	Total AED 000
ASSETS				
Cash and deposits with Central Banks	80,273,713	6,212,627	22,870,607	109,356,947
Due from banks	7,874,550	9,114,134	23,178,857	40,167,541
Investment securities	7,744,400	11,428,569	35,874,497	55,047,466
Loans and receivables	280,511,607	3,216,318	101,161,056	384,888,981
Islamic financing receivables	44,774,151	6,827,214	939,681	52,541,046
Investments in associates and joint ventures	116,630	-	17,822	134,452
Positive fair value of derivatives	1,748,768	127,017	5,267,714	7,143,499
Investment properties	488,653	-	124,570	613,223
Customer acceptances	8,949,998	43,593	1,233,966	10,227,557
Property and equipment	2,440,831	82,205	1,794,287	4,317,323
Goodwill and intangibles	5,495,528	-	1,111,893	6,607,421
Other assets	5,985,889	188,802	6,100,417	12,275,108
TOTAL ASSETS	**446,404,718**	**37,240,479**	**199,675,367**	**683,320,564**
LIABILITIES				
Due to banks	8,588,759	6,849,700	26,276,840	41,715,299
Customer deposits	232,584,660	14,377,981	138,847,579	385,810,220
Islamic customer deposits	52,340,340	30,922,106	3,108,165	86,370,611
Debt issued and other borrowed funds	-	-	49,317,315	49,317,315
Sukuk payable	3,679,921	-	-	3,679,921
Negative fair value of derivatives	973,299	255,263	4,336,657	5,565,219
Customer acceptances	8,949,998	43,593	1,233,966	10,227,557
Other liabilities	10,973,172	1,800,611	6,253,778	19,027,561
Total equity	81,606,861	-	-	81,606,861
TOTAL LIABILITIES AND EQUITY	**399,697,010**	**54,249,254**	**229,374,300**	**683,320,564**
Geographical distribution of letters of credit and guarantees	47,632,204	5,338,301	25,370,879	78,341,384

31 December 2018

Geographical distribution of assets	413,518,240	26,371,581	60,452,925	500,342,746
Geographical distribution of liabilities and equity	363,514,251	41,498,327	95,330,168	500,342,746
Geographical distribution of letters of credit and guarantees	51,912,715	5,701,815	3,344,562	60,959,092

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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45 FINANCIAL ASSETS AND LIABILITIES

A. Classification of financial assets and financial liabilities

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

31 December 2019	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Hedging instruments	Total carrying value*
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Financial assets							
Cash and deposits with Central Banks	-	-	-	-	109,356,947	-	109,356,947
Due from banks	-	-	-	-	40,167,541	-	40,167,541
Investment securities	3,992,271	573,411	12,670,960	959,821	36,851,003	-	55,047,466
Loans and receivables	-	-	-	-	384,888,981	-	384,888,981
Islamic financing receivables	-	-	-	-	52,541,046	-	52,541,046
Investments in associates and joint ventures	-	-	-	-	134,452	-	134,452
Positive fair value of derivatives	6,825,551	-	-	-	-	317,948	7,143,499
Others	-	-	-	-	20,180,431	-	20,180,431
	10,817,822	573,411	12,670,960	959,821	644,120,401	317,948	669,460,363
Financial liabilities							
Due to banks	-	-	-	-	41,715,299	-	41,715,299
Customer deposits	-	-	-	-	385,810,220	-	385,810,220
Islamic customer deposits	-	-	-	-	86,370,611	-	86,370,611
Debt issued and other borrowed funds	-	-	-	-	49,317,315	-	49,317,315
Sukuk payable	-	-	-	-	3,679,921	-	3,679,921
Negative fair value of derivatives	4,748,061	-	-	-	-	817,158	5,565,219
Others	-	-	-	-	29,255,118	-	29,255,118
	4,748,061	-	-	-	596,148,484	817,158	601,713,703

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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45 FINANCIAL ASSETS AND LIABILITIES (continued)

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

31 December 2018	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Hedging instruments	Total carrying value*
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Financial assets							
Cash and deposits with Central Banks	-	-	-	-	84,604,316	-	84,604,316
Due from banks	-	-	-	-	39,907,253	-	39,907,253
Investment securities	3,024,565	749,170	2,306,536	66,106	13,920,026	-	20,066,403
Loans and receivables	-	-	-	-	278,064,013	-	278,064,013
Islamic financing receivables	-	-	-	-	49,866,487	-	49,866,487
Investments in associates and joint ventures	-	-	-	-	1,581,180	-	1,581,180
Positive fair value of derivatives	3,256,507	-	-	-	-	414,385	3,670,892
Others	-	-	-	-	12,715,196	-	12,715,196
	6,281,072	749,170	2,306,536	66,106	480,658,471	414,385	490,475,740
Financial liabilities							
Due to banks	-	-	-	-	22,339,668	-	22,339,668
Customer deposits	-	-	-	-	290,920,920	-	290,920,920
Islamic customer deposits	-	-	-	-	56,945,102	-	56,945,102
Debt issued and other borrowed funds	-	-	-	-	40,715,230	-	40,715,230
Sukuk payable	-	-	-	-	3,685,160	-	3,685,160
Negative fair value of derivatives	2,853,626	-	-	-	-	914,122	3,767,748
Others	-	-	-	-	17,944,555	-	17,944,555
	2,853,626	-	-	-	432,550,635	914,122	436,318,383

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

45 FINANCIAL ASSETS AND LIABILITIES (continued)

B. Fair value of financial instruments

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

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

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

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45 FINANCIAL ASSETS AND LIABILITIES (continued)

B. Fair value of financial instruments (continued)

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

	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI – debt instruments AED 000	FVOCI– equity instruments AED 000	Total AED 000
Balance as at 1 January 2019	-	570,623	-	4,718	575,341
Additions through acquisition (Note 12)	-	-	-	-	-
Total gains or losses:					
- in profit or loss	-	(93,963)	-	-	(93,963)
- in other comprehensive income	-	-	-	104	104
Purchases	-	63,709	-	521	64,230
Issues	-	-	-	-	-
Settlements and other adjustments	-	(14,700)	-	-	(14,700)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance as at 31 December 2019	-	525,669	-	5,343	531,012

بنك الإمارات دبي الوطني
Emirates NBD

45 FINANCIAL ASSETS AND LIABILITIES (continued)

B. Fair value of financial instruments (continued)

31 December 2018	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Investment securities				
Trading securities at FVTPL				
Government Bonds	1,439,869	-	-	1,439,869
Corporate Bonds	1,584,696	-	-	1,584,696
Equity	-	-	-	-
Others	-	-	-	-
	3,024,565	-	-	3,024,565
FVOCI - debt instruments				
Government Bonds	557,685	14,215	-	571,900
Corporate Bonds	1,689,783	50,802	-	1,740,585
	2,247,468	65,017	-	2,312,485
FVOCI - equity instruments	61,388	-	4,718	66,106
Designated at FVTPL				
Corporate Bonds	-	-	-	-
Equity	60,142	-	372,109	432,251
Others	37,341	81,064	198,514	316,919
	97,483	81,064	570,623	749,170
Positive fair value of derivatives				
Derivatives held for trading	-	3,256,507	-	3,256,507
Derivatives held as cash flow hedges:				
Interest rate swaps	-	296,268	-	296,268
Derivatives held as fair value hedges:				
Interest rate swaps	-	105,268	-	105,268
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	12,849	-	12,849
	-	3,670,892	-	3,670,892
Negative fair value of derivatives				
Derivatives held for trading	-	(2,853,626)	-	(2,853,626)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(56,492)	-	(56,492)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(857,630)	-	(857,630)
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	-	-	-
	-	(3,767,748)	-	(3,767,748)
	5,430,904	49,225	575,341	6,055,470

45 FINANCIAL ASSETS AND LIABILITIES (continued)

B. Fair value of financial instruments (continued)

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

	Trading securities at FVTPL AED 000	Designated at FVTPL AED 000	FVOCI–debt instruments AED 000	FVOCI–equity instruments AED 000	TOTAL AED 000
Balance as at 31 December 2017	-	-	-	832,907	832,907
Impact of IFRS 9 at 1 January 2018	-	677,403	-	(709,598)	(32,195)
Balance a at 1 January 2018	-	677,403	-	123,309	800,712
Total gains or losses:					
- in profit or loss	330	(84,532)	-	-	(84,202)
- in other comprehensive income	-	-	-	187	187
Purchases	335,040	-	-	-	335,040
Issues	-	-	-	-	-
Settlements and other adjustments	(335,370)	(22,248)	-	(118,778)	(476,396)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance as at 31 December 2018	-	570,623	-	4,718	575,341

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

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2019 and 31 December 2018.

46 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

	2019 AED 000	2018 AED 000
(a) Analysis of changes in cash and cash equivalents during the year		
Balance at beginning of year	26,241,170	43,527,409
Net cash inflow/(outflow)	12,272,382	(17,286,239)
Balance at end of year	38,513,552	26,241,170
(b) Analysis of cash and cash equivalents		
Cash and deposits with Central Banks	109,356,947	84,604,316
Due from banks	40,167,541	39,907,253
Due to banks	(41,715,299)	(22,339,668)
	107,809,189	102,171,901
Less : deposits with Central Banks for regulatory purposes	(43,754,859)	(32,135,965)
Less : certificates of deposits/placements with Central Banks maturing after three months	(33,600,000)	(27,300,000)
Less : amounts due from banks maturing after three months	(18,044,347)	(22,373,804)
Add : amounts due to banks maturing after three months	26,103,569	5,879,038
	38,513,552	26,241,170
(c) Adjustment for non cash items		
Impairment loss/(reversal) on cash and deposits with central banks	(6,693)	(3,148)
Impairment loss on loans and receivables	4,332,473	1,529,540
Impairment loss on Islamic financing receivables	777,872	556,319
Impairment loss/(reversal) on investment securities	(11,734)	16,442
Impairment loss on unfunded exposures	37,557	59,557
Impairment loss/(reversal) on due from banks/other assets	(14,253)	53,050
Amortisation of fair value	160,137	163,705
(Discount)/premium on Investment securities	(21,494)	33,946
Unrealised foreign exchange gain	(578,460)	(174,223)
Depreciation/impairment of property and equipment/Investment property	739,169	414,139
Share of (profit)/loss of associates and joint ventures	(19,418)	(136,019)
Unrealised (gain)/loss on investments	161,780	148,880
Dividend income on equity investments	(21,584)	(21,304)
Unrealised (gain)/loss on FV Hedged item	567,107	(578,001)
Gain on sale of properties (inventories)	(2,005)	(1,783)
Gain on bargain purchase	(92,020)	-
Amortisation of intangibles	68,040	-
Gain on sale of business interests in joint venture	(4,389,309)	-
	1,687,165	2,061,100

47 CAPITAL MANAGEMENT AND ALLOCATION

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

Minimum Capital Requirements

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

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

For 2019, CCB is required to be kept at 2.5% of the Capital base. CCyB is not in effect and is not required to be kept for 2019.

Over and above additional capital buffers, the Group as a Domestic Systematically Important Bank (D-SIB) is required to keep an additional D-SIB buffer of 1.5% of the Capital base for 2019.

Regulatory Capital

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

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under CBUAE guidelines.

- AT1 capital comprises eligible non-common equity capital instruments.

- T2 capital comprises qualifying subordinated debt, and undisclosed reserve.

47 CAPITAL MANAGEMENT AND ALLOCATION (continued)

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

	2019 AED 000	2018 AED 000
Available capital		
Common equity Tier 1 capital	65,452,344	46,678,016
Tier 1 capital	74,559,700	55,607,384
Total eligible capital	79,375,840	58,802,536
Risk-weighted assets		
Credit risk	385,291,210	243,860,147
Market risk	10,190,488	9,035,854
Operational risk	33,027,671	28,043,576
Total risk-weighted assets	**428,509,369**	**280,939,577**

	2019	2018
Capital Ratio		
a. Total capital ratio for consolidated Group	18.52%	20.93%
b. Tier 1 ratio only for consolidated Group	17.40%	19.79%
c. CET1 ratio only for consolidated Group	15.27%	16.61%

47 CAPITAL MANAGEMENT AND ALLOCATION (continued)

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

	2019 AED 000	2018 AED 000
Common Equity Tier 1 (CET1) Capital		
Share Capital	6,316,598	5,557,775
Share premium account	17,954,164	12,270,124
Eligible reserves	4,456,124	4,384,056
Retained earnings/(-) loss	43,375,416	32,412,538
Dividend expected/proposed	-	(2,223,110)
Eligible amount of minority interest	3,638	9,066
CET1 capital before the regulatory adjustments and threshold deduction	**72,105,940**	**52,410,449**
Less: Regulatory deductions	(6,653,596)	(5,732,433)
Total CET1 capital after the regulatory adjustments and threshold deduction	**65,452,344**	**46,678,016**
Total CET1 capital after transitional arrangement for deductions (CET1) (A)	**65,452,344**	**46,678,016**
Additional Tier 1 (AT1) Capital		
Eligible AT1 capital	9,107,356	8,929,368
Other AT1 Capital e.g. (Share premium, minority interest)	-	-
Total AT1 capital	**9,107,356**	**8,929,368**
Total AT1 capital after transitional arrangements (AT1) (B)	**9,107,356**	**8,929,368**
Tier 2 (T2) Capital		
Tier 2 Instruments e.g. subordinated loan	-	146,900
Other Tier 2 capital (including General Provisions, etc.)	4,816,140	3,048,252
Total T2 Capital	**4,816,140**	**3,195,152**
Total T2 capital after transitional arrangements (T2) (C)	**4,816,140**	**3,195,152**
Total Regulatory Capital (A+B+C)	**79,375,840**	**58,802,536**

48 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group and further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 17,187 million at 31 December 2019 (2018: AED 15,226 million).

49 ASSETS HELD IN FIDUCIARY CAPACITY

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

50 RISK MANAGEMENT

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

Group Risk Management Framework (GRMF):

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

The Group uses a three lines of defense model to support its approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities. The three lines of defense are summarised below:

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

50 RISK MANAGEMENT (CONTINUED)

A. Risk governance

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

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

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

BCIC is responsible for approval of credit and investment decisions above the MCC and MIC's authority.

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

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

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

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

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

B. The risk function

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

50 RISK MANAGEMENT (CONTINUED)

B. <u>The risk function (continued)</u>

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

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

C. <u>Risk appetite</u>

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

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

D <u>Credit risk</u>

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

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

<u>Credit risk management</u>

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

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

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

50 RISK MANAGEMENT (CONTINUED)

D. <u>Credit Risk (continued)</u>

<u>Credit risk management (continued)</u>

<u>Wholesale Banking Credit Risk Management:</u>

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

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

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

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

<u>Consumer Banking Credit Risk Management:</u>

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

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

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

<u>Model risk management and independent validation</u>

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

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

50 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk management (continued)

Model risk management and independent validation (continued)

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

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

Credit approving authorities

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

Credit risk measurement

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

Credit risk grading

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

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

50 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

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

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

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

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

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

ECL Measurement

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

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

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50 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Significant Increase in Credit Risk

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

Quantitative criteria:

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

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

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

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

Definition of Default and Credit-impaired Assets

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

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

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

50 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Curing

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

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

Measuring ECL- Explanations of input, assumptions and estimation techniques

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

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

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

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

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

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

50 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Forward-looking Information Incorporated in the ECL Model

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

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

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

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

Credit Risk Monitoring

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

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

Additionally for IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by IFRS 9 Governance Forum.

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

50 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Group Credit Risk Mitigation Strategy

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

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

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

Collateral Management

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

Collaterals are revalued regularly as per the Group's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered. Security structures and legal covenants are also subject to regular review.

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

Write offs

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

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

50 RISK MANAGEMENT (CONTINUED)

E. Analysis by economic activity for assets:

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

	2019 AED 000			2018 AED 000		
	Loans and Receivables	Islamic Financing	Others	Loans and Receivables	Islamic Financing	Others
Manufacturing	17,761,078	2,342,297	148,543	6,234,352	2,371,589	-
Construction	15,795,599	1,394,896	382,507	6,835,133	1,618,561	77,805
Trade	23,860,803	8,304,869	2,282	18,143,007	7,971,047	-
Transport and communication	7,593,431	803,391	718,531	2,399,687	422,221	135,087
Services	15,865,073	1,882,844	805,880	2,135,122	1,733,913	799,627
Sovereign	162,760,253	434,377	44,360,866	150,269,100	1,112,846	13,478,234
Personal	56,933,847	28,399,349	-	39,543,759	26,216,463	-
Real estate	43,359,153	8,567,285	241,166	37,103,674	8,762,171	1,671,184
Hotels and restaurants	15,911,904	69,423	-	3,762,311	89,238	-
Management of companies and enterprises	13,930,191	1,673,373	-	12,805,993	1,176,078	-
Financial institutions and investment companies	15,534,634	2,603,443	46,605,130	13,924,557	3,406,788	45,304,444
Agriculture	8,127,732	-	-	143,891	-	-
Others	11,245,436	3,714,300	2,198,573	5,880,452	2,645,680	227,353
Total Assets	408,679,134	60,189,847	95,463,478	299,181,038	57,526,595	61,693,734
Less: Deferred Income	-	(2,212,559)	-	-	(2,074,625)	-
Less: Expected credit loss	(23,790,153)	(5,436,242)	(114,019)	(21,117,025)	(5,585,483)	(138,898)
	384,888,981	52,541,046	95,349,459	278,064,013	49,866,487	61,554,836

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

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50 RISK MANAGEMENT (CONTINUED)

F. Classification of investment securities as per their external ratings

As of 31 December 2019

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

Of which issued by:

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

50 RISK MANAGEMENT (CONTINUED)

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

As of 31 December 2018

Ratings	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
AAA	-	-	-	-	668,851	668,851
AA- to AA+	601,868	-	54,530	-	5,826,992	6,483,390
A- to A+	979,200	-	999,634	-	3,209,957	5,188,791
Lower than A-	1,237,433	1,025	947,085	771	3,769,455	5,955,769
Unrated	206,064	748,145	311,236	65,335	474,673	1,805,453
Less: Expected credit loss	-	-	(5,949)	-	(29,902)	(35,851)
	3,024,565	749,170	2,306,536	66,106	13,920,026	20,066,403

Of which issued by:

Ratings	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Governments	1,439,869	-	571,900	-	11,466,464	13,478,233
Public sector enterprises	837,242	6,314	1,055,516	74	1,121,192	3,020,338
Private sector and others	747,454	742,856	685,069	66,032	1,362,272	3,603,683
Less: Expected credit loss	-	-	(5,949)	-	(29,902)	(35,851)
	3,024,565	749,170	2,306,536	66,106	13,920,026	20,066,403

50 RISK MANAGEMENT (CONTINUED)

G. Risk gross maximum exposure:

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

	2019	2018
	AED 000	AED 000
Deposits with Central Banks	104,895,526	81,296,386
Due from banks	40,167,541	39,907,253
Investment securities	53,440,161	19,251,127
Loans and receivables	384,888,981	278,064,013
Islamic financing receivables	52,541,046	49,866,487
Positive fair value of derivatives	7,143,499	3,670,892
Customer acceptances	10,227,557	7,736,164
Total (A)	653,304,311	479,792,322
Contingent liabilities	78,516,474	61,552,896
Irrevocable loan commitments	42,324,795	20,795,849
Total (B)	120,841,269	82,348,745
Total credit risk exposure (A + B)	774,145,580	562,141,067

50 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis:

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

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

50 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis (continued):

AED 000 31 December 2018	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased Originated Credit-impaired	Total
Loans and receivables to customers - Corporate banking					
Performing (Grades 1a-4f)	241,343,177	8,554,019	-	-	249,897,196
Non performing (Grades 5a-5d)	-	-	15,373,245	-	15,373,245
Gross loans and receivables to customers - Corporate banking	241,343,177	8,554,019	15,373,245	-	265,270,441
Loans and receivables to customers - Retail banking					
Performing (Grades 1a-4f)	32,505,945	855,696	-	-	33,361,641
Non performing (Grades 5a-5d)	-	-	548,956	-	548,956
Gross loans and receivables to customers - Retail banking	32,505,945	855,696	548,956	-	33,910,597
Total gross loans and receivables to customers	**273,849,122**	**9,409,715**	**15,922,201**	**-**	**299,181,038**
Expected credit losses	(3,928,737)	(1,639,483)	(15,548,805)	-	(21,117,025)
Carrying amount	**269,920,385**	**7,770,232**	**373,396**	**-**	**278,064,013**

Corporate Banking – Performing includes AED 4,428 million (2018: AED 2,803 million) for exposure against watchlist customers.

*The credit impaired loans and receivables of AED 21,156 million comprises of AED 18,108 million credit impaired loans and receivables and AED 3,048 million classified as POCI acquired at fair value.

50 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis (continued):

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

50 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis (continued):

AED 000 31 December 2018	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Islamic financing receivables - Corporate banking				
Performing (Grades 1a-4f)	23,823,025	2,640,153	-	26,463,178
Non performing (Grades 5a-5d)	-	-	4,319,255	4,319,255
Gross islamic financing receivables - Corporate banking	23,823,025	2,640,153	4,319,255	30,782,433
Islamic financing receivables - Retail banking				
Performing (Grades 1a-4f)	23,322,602	609,062	-	23,931,664
Non performing (Grades 5a-5d)	-	-	737,873	737,873
Gross islamic financing receivables - Retail banking	23,322,602	609,062	737,873	24,669,537
Total gross islamic financing receivables	**47,145,627**	**3,249,215**	**5,057,128**	**55,451,970**
Expected credit losses	(1,122,321)	(752,284)	(3,710,878)	(5,585,483)
Carrying amount	**46,023,306**	**2,496,931**	**1,346,250**	**49,866,487**

Corporate Banking – Performing includes AED 602 million (2018: AED 45 million) for exposure against watchlist customers.

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50 RISK MANAGEMENT (CONTINUED)

I. Amounts arising from ECL

Loans and receivables

AED 000 **31 December 2019**	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased Originated Credit - impaired	Total
Balance at 1 January	3,928,737	1,639,483	15,548,805	-	21,117,025
Allowances for impairment made during the year	66,397	1,797,281	3,530,838	149,353	5,543,869
Write back/recoveries made during the year	-	-	(1,211,396)	-	(1,211,396)
Amounts written off during the year	-	-	(1,145,807)	-	(1,145,807)
Exchange and other adjustments*	(293,385)	(215,180)	(4,973)	-	(513,538)
Closing balance	**3,701,749**	**3,221,584**	**16,717,467**	**149,353**	**23,790,153**

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50 RISK MANAGEMENT (CONTINUED)

I. Amounts arising from ECL (Continued)

AED 000 **31 December 2018**	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased Originated Credit - impaired	Total
Balance at 1 January (as per IAS 39)	7,027,384	-	13,620,650	-	20,648,034
Reversal on transition to IFRS 9	(7,027,384)	-	-	-	(7,027,384)
ECL recognised under IFRS 9	3,600,003	1,652,871	2,522,864	-	7,775,738
Balance at 1 January (Adjusted opening as per IFRS 9)	3,600,003	1,652,871	16,143,514	-	21,396,388
Allowances for impairment made during the year	328,734	(13,388)	2,396,499	-	2,711,845
Write back/recoveries made during the year	-	-	(1,116,097)	-	(1,116,097)
Amounts written off during the year	-	-	(1,873,405)	-	(1,873,405)
Exchange and other adjustments	-	-	(1,706)	-	(1,706)
Closing balance	**3,928,737**	**1,639,483**	**15,548,805**	**-**	**21,117,025**

The contractual amount outstanding on loans and receivables which were written off during the year, and are still subject to enforcement activity amounted to AED 1,146 million (2018: AED 3,149 million).

*This includes provision against unfunded exposures transferred to other liabilities amounting to AED 376 million.

50 RISK MANAGEMENT (CONTINUED)

I. Amounts arising from ECL

Islamic financing receivables

AED 000 31 December 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at 1 January	1,122,321	752,284	3,710,878	5,585,483
Allowances for impairment made during the year	(102,586)	(341,752)	1,532,176	1,087,838
Write back/recoveries made during the year	-	-	(309,966)	(309,966)
Amounts written off during the year	-	-	(860,146)	(860,146)
Exchange and other adjustments*	(45,755)	(702)	(20,510)	(66,967)
Closing balance	**973,980**	**409,830**	**4,052,432**	**5,436,242**

AED 000 31 December 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at 1 January (as per IAS 39)	583,664	-	4,061,349	4,645,013
Reversal on transition to IFRS 9	(583,664)	-	-	(583,664)
ECL recognised under IFRS 9	1,324,035	912,169	13,456	2,249,660
Balance at 1 January (Adjusted opening as per IFRS 9)	1,324,035	912,169	4,074,805	6,311,009
Allowances for impairment made during the year	(201,714)	(159,885)	1,426,380	1,064,781
Write back/recoveries made during the year	-	-	(515,113)	(515,113)
Amounts written off during the year	-	-	(1,275,439)	(1,275,439)
Exchange and other adjustments	-	-	245	245
Closing balance	**1,122,321**	**752,284**	**3,710,878**	**5,585,483**

*This includes provision against unfunded exposures transferred to other liabilities amounting to AED 46 million.

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50 RISK MANAGEMENT (CONTINUED)

J. Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2019 AED 000	**2018** AED 000
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	5,779,368	3,657,902
Less: Stage 1 and Stage 2 provisions under IFRS 9	(8,307,143)	(7,442,825)
General provision transferred to the impairment reserve*	-	-
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	20,749,922	19,259,683
Less: Stage 3 provisions under IFRS 9	(20,919,252)	(19,259,683)
Specific provision transferred to the impairment reserve*	-	-
Total provision transferred to the impairment reserve	-	-

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

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50 RISK MANAGEMENT (CONTINUED)

K. Market risk

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

The Group takes on Market Risks in the pursuit of its strategic and business objectives.

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

1. Interest Rate Risk: losses in value due to changes in the level, slope and curvature of yield curves, the volatility of interest rates and changes in credit spreads;
2. FX Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of currency rates;
3. Commodity Price Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of commodities such as petrochemicals, base and precious metals, and food stocks.

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

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

Market risk oversight and management process

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

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

50 RISK MANAGEMENT (CONTINUED)

K. Market risk (continued)

Market risk oversight and management process (continued)

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

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

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

50 RISK MANAGEMENT (CONTINUED)

K. Market risk (continued)

Market risk oversight and management process (continued)

	December 2018		
		Market risk measure	
		Trading portfolio	Non-trading portfolio
	AED 000	AED 000	AED 000
Assets subject to market risk			
Cash and deposits with Central Banks	84,604,316	-	84,604,316
Due from banks	39,907,253	-	39,907,253
Loans and receivables	278,064,013	-	278,064,013
Islamic financing receivables	49,866,487	-	49,866,487
Investment securities	20,066,403	3,024,565	17,041,838
Investments in associates and joint ventures	1,581,180	-	1,581,180
Positive fair value of derivatives	3,670,892	3,256,507	414,385
Liabilities subject to market risk			
Due to banks	22,339,668	-	22,339,668
Customer deposits	290,920,920	-	290,920,920
Islamic customer deposits	56,945,102	-	56,945,102
Debt issued and other borrowed funds	40,715,230	-	40,715,230
Sukuk payable	3,685,160	-	3,685,160
Negative fair value of derivatives	3,767,748	2,853,626	914,122

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

50 RISK MANAGEMENT (CONTINUED)

K. Market risk (continued)

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

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

1. Non statistical metrics: Interest rate sensitivity, (DV01/PV01), FX sensitivity (FX01), Net open/Net Gross outstanding positions, Maximum notional and tenor measures, Derivatives' Greek sensitivities (Delta, Gamma, Vega), and Stop Loss limits;

2. Statistical metrics: Value-at-Risk (VaR), by Desk as well as total for the whole Trading Book.

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

Value-at-Risk

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

The Group's year-end VaR numbers reported below have been calculated using the following parameters:
- Statistical level of confidence: 99%
- Holding period: 1 business day
- Methodology: Full Revaluation, Historical Simulation using over 2 years of historical market data

	2019 AED 000				**2018 AED 000**			
	Average	Maximum	Minimum	Actual*	Average	Maximum	Minimum	Actual*
By Trading desk								
Interest rate risk	5,467	11,228	3,101	3,856	18,470	29,223	2,381	3,402
Foreign exchange risk	2,175	8,442	379	1,085	12,687	26,764	6,648	7,307
Credit trading risk	1,503	3,445	439	1,340	929	3,015	220	1,831
Total	7,308	18,215	4,258	5,039	23,947	42,902	6,331	6,647

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

50 RISK MANAGEMENT (CONTINUED)

K. Market risk (continued)

Value-at-risk (continued)

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

	2019 Long/(Short) AED 000	2018 Long/(Short) AED 000
U.S. Dollar (USD)	(977,451)	3,331,213
Oman Riyal (OMR)	(268,762)	(307,621)
Euro (EUR)	565,274	9,314
Saudi Riyal (SAR)	(1,066,290)	(443,688)
Turkish Lira (TRY)	(1,981)	2,394
Egyptian Pound (EGP)	239,527	88,823
Bahraini Dinar (BHD)	(256,385)	(244,256)

L. Operational risk

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

Operational Risk Governance Framework

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

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

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

Operational Risk Management Process

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

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

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RISK MANAGEMENT (CONTINUED)

L. Operational risk (continued)

Operational Risk Management Process (continued)

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

Insurance Management

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

Fraud Management

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

The Group has a specialised team which focuses on investigation of fraud attempts against the bank, spreading fraud awareness to stakeholders, identification and mitigation of fraud risks. The team has independent reporting to Board Risk Committee.

Whistleblowing

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

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

Cyber Security Management

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

Business Continuity Management

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

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

RISK MANAGEMENT (CONTINUED)

M. Liquidity risk

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

Objectives and Governance structure

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

Policies and Procedures

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

50 RISK MANAGEMENT (CONTINUED)

N. Maturity analysis of assets and liabilities

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

31 December 2019	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
ASSETS						
Cash and deposits with Central Banks	87,778,910	21,578,037	-	-	-	109,356,947
Due from banks	27,359,442	7,536,171	4,803,512	48,072	420,344	40,167,541
Investment securities	13,777,736	4,067,013	9,548,739	11,377,084	16,276,894	55,047,466
Loans and receivables	203,056,138	42,460,010	55,650,386	54,134,872	29,587,575	384,888,981
Islamic financing receivables	16,930,923	8,291,916	10,163,521	5,873,304	11,281,382	52,541,046
Investments in associates and joint ventures	-	-	-	-	134,452	134,452
Positive fair value of derivatives	780,988	938,162	1,715,146	1,601,630	2,107,573	7,143,499
Investment properties	-	-	-	-	613,223	613,223
Customer acceptances	10,227,557	-	-	-	-	10,227,557
Property and equipment	-	-	-	-	4,317,323	4,317,323
Goodwill and Intangibles	-	-	-	-	6,607,421	6,607,421
Other assets	8,294,640	-	-	-	3,980,468	12,275,108
TOTAL ASSETS	368,206,334	84,871,309	81,881,304	73,034,962	75,326,655	683,320,564

50 RISK MANAGEMENT (CONTINUED)

N. Maturity analysis of assets and liabilities (continued)

31 December 2019	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
LIABILITIES						
Due to banks	19,660,153	10,361,545	8,701,792	2,648,171	343,638	41,715,299
Customer deposits	297,499,161	63,354,516	13,295,228	11,414,331	246,984	385,810,220
Islamic customer deposits	50,128,226	26,988,989	8,930,111	103,285	220,000	86,370,611
Debt issued and other borrowed funds	7,887,923	6,233,033	21,834,140	4,230,210	9,132,009	49,317,315
Sukuk payable	-	-	3,679,921	-	-	3,679,921
Negative fair value of derivatives	695,377	529,033	1,316,070	1,221,507	1,803,232	5,565,219
Customer acceptances	10,227,557	-	-	-	-	10,227,557
Other liabilities	3,807,059	6,571,151	-	-	8,649,351	19,027,561
Total equity	-	-	-	-	81,606,861	81,606,861
TOTAL LIABILITIES AND EQUITY	389,905,456	114,038,267	57,757,262	19,617,504	102,002,075	683,320,564
OFF BALANCE SHEET						
Letters of credit and guarantees	30,817,124	24,363,382	11,377,116	2,078,511	9,705,251	78,341,384

31 December 2018	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
ASSETS	294,844,958	57,882,628	46,829,677	30,549,781	70,235,702	500,342,746
LIABILITIES AND EQUITY	275,424,043	105,307,340	35,853,515	12,468,963	71,288,885	500,342,746
OFF BALANCE SHEET ITEMS	26,330,006	22,254,978	9,545,410	1,086,528	1,742,170	60,959,092

50 RISK MANAGEMENT (CONTINUED)

O. Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2019	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	41,715,299	(43,941,833)	(20,670,257)	(10,965,384)	(9,214,909)	(2,747,621)	(343,662)
Customer deposits	385,810,220	(388,798,550)	(298,698,937)	(64,335,646)	(13,979,092)	(11,536,488)	(248,387)
Islamic customer deposits	86,370,611	(87,344,524)	(50,430,578)	(27,536,312)	(9,031,102)	(125,545)	(220,987)
Debt issued and other borrowed funds	49,317,315	(56,106,917)	(8,340,579)	(7,900,515)	(24,012,101)	(5,193,435)	(10,660,287)
Sukuk payable	3,679,921	(3,866,368)	(32,881)	(99,367)	(3,734,120)	-	-
	566,893,366	(580,058,192)	(378,173,232)	(110,837,224)	(59,971,324)	(19,603,089)	(11,473,323)
Letters of credit and guarantees	78,341,384	(78,341,384)	(30,817,124)	(24,363,382)	(11,377,116)	(2,078,511)	(9,705,251)
Irrevocable loan commitments	42,324,795	(42,324,796)	(15,972,670)	(16,508,446)	(9,744,516)	-	(99,164)

Emirates NBD
بنك الإمارات دبي الوطني

50 RISK MANAGEMENT (CONTINUED)

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

As at 31 December 2018	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	22,339,668	(23,619,759)	(16,082,866)	(3,406,360)	(600,328)	(1,477,846)	(2,052,359)
Customer deposits	290,920,920	(294,137,852)	(205,601,005)	(75,376,156)	(12,214,171)	(946,520)	-
Islamic customer deposits	56,945,102	(57,440,383)	(41,197,939)	(15,023,715)	(1,177,369)	(41,360)	-
Debt issued and other borrowed funds	40,715,230	(45,006,508)	(650,668)	(7,610,625)	(20,472,731)	(9,922,037)	(6,350,447)
Sukuk payable	3,685,160	(4,003,494)	(32,520)	(99,367)	(3,871,607)	-	-
	414,606,080	(424,207,996)	(263,564,998)	(101,516,223)	(38,336,206)	(12,387,763)	(8,402,806)
Letters of credit and guarantees	60,959,092	(60,959,092)	(26,330,006)	(22,254,978)	(9,545,410)	(1,086,528)	(1,742,170)
Irrevocable loan commitments	20,795,849	(20,795,849)	(9,384,987)	(4,245,575)	(7,165,287)	-	-

50 RISK MANAGEMENT (CONTINUED)

P. Interest rate risk in the banking book

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

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

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

	As at 31 December 2019		As at 31 December 2018	
	Amount AED 000	Variance AED 000	Amount AED 000	Variance AED 000
Rates Up 200 bp	22,169,490	2,333,073	16,951,915	3,305,288
Base Case	19,836,417	-	13,646,627	-
Rates Down 200 bp	16,677,990	(3,158,427)	9,737,839	(3,908,788)

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

50 RISK MANAGEMENT (CONTINUED)

Q. Interest rate repricing analysis*

31 December 2019	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Banks	27,672,761	11,890,211	13,063,796	8,513,899	-	48,216,280	109,356,947
Due from banks	18,155,045	11,192,560	5,254,052	1,422,294	925,924	3,217,666	40,167,541
Investment securities	12,267,904	3,786,999	2,792,372	1,950,019	32,642,867	1,607,305	55,047,466
Loans and receivables	213,187,705	55,404,716	20,837,441	16,572,675	78,886,444	-	384,888,981
Islamic financing receivables	12,693,406	21,772,823	5,496,788	2,617,779	9,960,250	-	52,541,046
Investments in associates and joint ventures	-	-	-	-	-	134,452	134,452
Positive fair value of derivatives	-	-	-	-	-	7,143,499	7,143,499
Investment properties	-	-	-	-	-	613,223	613,223
Customer acceptances	-	-	-	-	-	10,227,557	10,227,557
Property and equipment	-	-	-	-	-	4,317,323	4,317,323
Goodwill and intangibles	-	-	-	-	-	6,607,421	6,607,421
Other assets	-	-	-	-	-	12,275,108	12,275,108
TOTAL ASSETS	283,976,821	104,047,309	47,444,449	31,076,666	122,415,485	94,359,834	683,320,564

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

50 RISK MANAGEMENT (CONTINUED)

Q. Interest rate repricing analysis* (continued)

31 December 2019	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
LIABILITIES AND EQUITY							
Due to banks	15,851,461	9,398,686	2,622,350	4,598,303	6,191,032	3,053,467	41,715,299
Customer deposits	136,576,820	48,795,031	31,267,056	32,088,849	24,956,543	112,125,921	385,810,220
Islamic customer deposits	21,553,387	10,631,451	13,644,340	13,540,447	9,057,598	17,943,388	86,370,611
Debt issued and other borrowed funds	7,968,593	17,704,657	1,450,012	737,062	21,456,991	-	49,317,315
Sukuk payable	-	-	-	-	3,679,921	-	3,679,921
Negative fair value of derivatives	-	-	-	-	-	5,565,219	5,565,219
Customer acceptances	-	-	-	-	-	10,227,557	10,227,557
Other liabilities	-	-	-	-	-	19,027,561	19,027,561
Total equity	-	-	-	-	-	81,606,861	81,606,861
TOTAL LIABILITIES AND EQUITY	181,950,261	86,529,825	48,983,758	50,964,661	65,342,085	249,549,974	683,320,564
ON BALANCE SHEET GAP	102,007,227	17,517,484	(1,539,309)	(19,887,995)	57,073,400	(155,170,807)	-
OFF BALANCE SHEET GAP	292,047	(1,175,318)	726,550	(1,041,315)	1,198,036	-	-
INTEREST RATE SENSITIVITY GAP – 2019	102,299,274	16,342,166	(812,759)	(20,929,310)	58,271,436	(155,170,807)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2019	102,299,274	118,641,440	117,828,681	96,899,371	155,170,807	-	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2018	120,947,655	157,058,832	145,314,904	102,821,993	133,303,224	-	-

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

50 RISK MANAGEMENT (CONTINUED)

R. Reputational risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution.

Reputational risk can arise as a consequence of failures with a strong negative perception amongst clients, shareholders, creditors or the public. The Group has measures to ensure a positive perception of the Group and that overall risk management ensures appropriate management of reputational risk.

S. Regulatory/Compliance risk

Regulatory/Compliance risk is the risk of reputational and/or financial losses due to the failure to comply with applicable laws, regulations or sanctions.

The Group has an independent Compliance function, with the necessary mandate and authority to enforce and monitor compliance on a Group wide basis. This includes compliance with the applicable laws and regulations across the various jurisdictions where the Group operates as well as those of the USD/EU clearing centres.

Compliance policies covering key areas such as Sanctions, Anti Money Laundering (AML), Counter Terrorist Financing (CTF), Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) are applicable Group wide and are supplemented where necessary to address any unique local requirements. These policies are supported by automated screening and monitoring systems and associated investigation teams to help comply with the Sanctions, AML, CTF, FATCA and CRS requirements. Independent Compliance Monitoring is undertaken to provide assurance over the effectiveness of controls. Mandatory Compliance Training is provided to all relevant staff both at onboarding and periodically thereafter to help ensure that key requirements are complied with.

T. Internal Audit's role in overall risk management

Emirates NBD Group Internal Audit is an independent appraisal function established by the Board of Directors to examine and evaluate the activities of the Emirates NBD Group including all aspects of the Group Risk Management. The department is organisationally independent of all other functions in the bank. The unit is headed by the Group Chief Audit Officer, who is accountable to the Board of Directors through the Board Audit Committee.

The primary objectives of Group Internal Audit is to provide assurance on risks to which the Group's business are exposed, evaluate the adequacy and effectiveness of financial/operating controls and the Corporate Governance environment, assess the extent to which assets are accounted for and safeguarded from losses and conduct follow-up activities to assess and report on the degree to which management has addressed risks and compliance with action plans previously agreed.

The unit's mission is achieved through a risk based annual audit plan approved by the Board Audit Committee. A formal report is prepared at the end of each quarter which includes a summary of audit activity completed during the period and an update on the status of previously reported matters for Board Audit Committee attention.

The Board Audit Committee reviews and approves Group Internal Audit's plans and resources, and evaluates the effectiveness of the Internal Audit function. External advisers also periodically conduct an assessment of the function.

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FOR THE YEAR ENDED 31 DECEMBER 2019

50 RISK MANAGEMENT (CONTINUED)

U. Risk management framework and processes at Group entities

In establishing risk management policies and processes at the Group entities level, due consideration is given to the entities' specific regulatory environment.

v. Risk Management at DenizBank

Emirates NBD Group (Group) achieved a significant milestone in reviewing the Risk Management practices of DenizBank and understanding the extent of alignment necessary with respect to the practices followed at the Group, closing the first phase of integration within the first 90 days. The first phase confirms broad alignment across different areas of risk management. As a first step the Group has placed strategic risk controls to oversee the existing risk management practices currently in place at DenizBank. The risk management framework is governed by the following policies:

- Credit Risk Policy
- Concentration Risk Policy
- Model Risk Policy
- Liquidity Risk Policy
- Structural Interest Rate Risk Policy
- Market Risk Policy
- Exchange Rate Risk Policy
- Operational Risk Policy
- Reputation Risk Policy
- Country Risk Policy
- Compliance Risk Policy
- Tax Risk Policy

All of these policies govern the following areas of risk:

Credit Risk

The Group has added an additional layer of supervision over and above the credit risk policies in force at DenizBank, this supervisory layer is conditional to exceptional approvals for substantial exposures. From a reporting standpoint all exposures (irrespective of materiality) are periodically reported to the Group by DenizBank for internal alignment within the Group.

For calculation of credit risk-weighted assets DenizBank complies with BRSA's and Basel II standards. While for Pillar II DenizBank calculates the annual general stress tests in accordance with its plans and scenarios that are compliant with Basel II's credit risk internal assessment methods.

The quantitative risk management disclosures comply with TFRS (Turkish Financial Reporting Standards) that are aligned to the IFRS (International Financial Reporting Standards) standards including IFRS 9 followed by the Group.

50 RISK MANAGEMENT (CONTINUED)

v. Risk Management at DenizBank (continued)

Credit Risk (continued)

- Both on and off balance sheet instruments that are material to TFRS/IFRS 9 expected credit loss calculation are considered in the financial statements
- Models exist for PD, EAD and LGD that have long term calibrations and forward looking scenarios to adjust for economic assumptions
- New or re-structured processes of TFRS/IFRS 9 are advanced and complex in nature in order to ensure high quality implementation
- Estimations, assumptions and scenarios used in expected credit losses are fairly complex
- Complex and comprehensive disclosures are published in line with TFRS/IFRS 9 requirements

Enterprise Risk Management

DenizBank specifies its limiting setting, monitoring and reporting process in its risk appetite statement. It also includes the process of phased limit lists and prescribes the remediation actions in cases where the limit exceeds the limit in each phase. The document encompassing these policies are reviewed every year, and are approved by Board of Directors (BoD).

Market Risk

All activities related to money and capital markets are in accordance with the internally recognised measure of Value at Risk (VaR) method, which is also used by the Group to gauge changing market conditions. These VaR analysis are adequately supported by scenario analysis and stress tests.

Liquidity Risk

Liquidity adequacy is actively monitored as per the rules defined by BoD. The liquidity adequacy and the reserve opportunities are tested periodically against worst case scenarios and other scenarios, all of these assumptions are documented for traceability.

Operational Risk

Events that trigger operational risks are recorded along with the causes and impacts on specific functions and mitigation measures are taken to prevent reoccurrences of such events in the future. Events that are either frequent or significant are discussed within the relevant committees that include Audit and impacted departments. Business Continuity Plan is kept up to date and testing is of these plans are done periodically.

Concerned risk teams are working to ensure comprehensive alignment in different spheres of risk keeping in view the local and European regulatory requirements. As part of this process policies and procedures are being reviewed for any necessary alignment with Group.

51 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2019 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

52 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 76.4 million (2018: AED 70.7 million).