المصرف
AL MASRAF
Arab Bank for Investment & Foreign Trade المصرف العربي للاستثمار والتجارة الخارجية

ANNUAL REPORT 2019

بسم الله الرحمن الرحيم

His Highness
Sheikh Khalifa bin Zayed Al Nahyan
President of the United Arab Emirates
and Ruler of Abu Dhabi

His Highness
Sheikh Mohammed Bin Rashid Al Maktoum
Vice President of the United Arab Emirates
and Ruler of Dubai

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VISION

To become an innovative and preferred financial partner for all banking services in the region.


GLOBAL MAP
Application Form

MISSION STATEMENT

- Become first choice bank for the customers with best-in-class products and services
- Be an employer of choice to attract, develop and retain high profile employees
- Benefit our investors with sustainable Return on Investment (ROI) and continuous success
- Contribute to society through active participation in the regional economic development initiatives

VALUES

- Customer Focus
- Organization Commitment
- Change Orientation
- Quality Focus
- Team Spirit

BOARD OF DIRECTORS

Mr. Farhat Omar Ben Gdara
Chairman

Mohamed Saif Al-Suwaidi
Deputy Chairman

Mohamed Najib Hmida Eljamal
Director

Raja Mohammed Ghanim AlMazrouei
Director

Lazhar Latreche
Director

Amr Yaklaf Amr Al Hgag
Director

Khalaf Sultan Rashed AlDhaheri
Director

Mustapha Makhlouf
Director

CHAIRMAN'S MESSAGE

Mr. Farhat Omar Ben Gdara
Chairman

Dear Shareholders,

On behalf of the Board of Directors, it is my privilege to present to you the Annual Report of Arab Bank for Investment and Foreign Trade (Al Masraf), for the financial year ending December 31, 2019.

I am pleased to report that despite the difficult economic environment, Al Masraf has succeeded in achieving higher growth rates compared to market rates in a number of financial indicators, due to the conservative policy adopted by Board of Directors and the tireless efforts made by the management team. Al Masraf has posted a strong set of results for 2019 with the net profit increasing to AED 491 million, a growth of 2% compared to the previous year, while the bank's total assets increased by 10% to reach AED 23.4 billion, driven by strong and continuous growth in the loan portfolio and increased investments in the bank's debt securities. Net loans and advances also increased by 12%, rising to AED 15.6 billion, compared to AED 13.9 billion in 2018. The customer deposits portfolio increased by 11% to AED 15.7 billion, compared to AED 14.1 billion in 2018.

In 2019, the UAE's economy proved its strength and ability to overcome regional and global challenges. The UAE's gross domestic product (GDP) rose to AED 1.65 trillion by the end of 2019 (compared to AED 1.59 trillion in 2018), an increase of AED 60 billion growing at a rate of 3.77%.

Furthermore, the UAE approved its 2020 Federal Budget totaling AED 61.354 billion without deficit, which is the largest since its establishment, with one third being allocated to the social development sector, another one third to government affairs, and the remaining to infrastructure, economic resources and living benefits.

Despite challenging market conditions, the UAE banking sector, which is the biggest in the Middle East, performed well in 2019. It maintained steady growth with higher in profitability and asset quality. One of the major achievements was the significant increase in assets which grew by 7.5% to more than AED 3 trillion.

Throughout the year, we continued our efforts to strengthen the foundations of our corporate governance as we firmly believe that strong governance is the key to our long-term business performance and this reinforces our reputation in the market as a transparent organization.

Additionally, as part of the Bank's corporate social responsibility objectives, Al Masraf has committed to continue to promote healthier living and happier lives for citizens, customers, shareholders and, the society in which the organization does its business.

We have also revised our business strategy to align with emerging global conditions. In parallel, we have continued to implement a comprehensive digital strategy to develop our business capabilities and provide innovative banking solutions to our customers.

In order to face any potential impact of the market conditions on our business and activities and maintain growth, the bank continued to enhance its capabilities to develop business and continue growth by aligning the capabilities of employees, products, procedures and systems necessary to continue growth at all levels.

We are proud of our success in facing the economic challenges that affected the banking sector. We are continuing our path according to a thoughtful strategy appropriate with the requirements of growth and the aspirations of shareholders. We will continue to focus our attention on strengthening our budget and raising the level of customer satisfaction through the development of new and innovative banking products and services.

We are confident that our business strategy and diversification model will enable us to achieve further growth in all business sectors. We will continue to strengthen our procedures for the rationalization of expenses while increasing the diversification of revenue sources. We will continue to monitor the global situation closely and take appropriate measures promptly to mitigate risks.

We expect 2020 to be another challenging year for financial services, however, the UAE's economy remains well-diversified, strong and growing. The monetary policy involved is able to accommodate any changes or emergency development. As a country and a market, the UAE is strongly positioned in the regional and global economy, and we are confident in its future. The Bank stands by its enduring commitment to the economic development of the UAE.

On behalf of the Board and all at Al Masraf, I extend our most sincere appreciation and gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the UAE President and Ruler of Abu Dhabi; to His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai; to His Highness Sheikh Mohammed bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces; and to the UAE Central Bank for their constant support. I also extend the continued gratitude and appreciation of the Board to our shareholders, our valued customers, and Al Masraf executive management team and its employees for their continued dedication and commitment.

Mr. Farhat Omar Ben Gdara
Chairman

CEO'S MESSAGE

Faisal H. Galadari
Chief Executive Officer

2019 was a challenging year for the UAE banking industry, characterized by an increasingly competitive environment and economic difficulties. Despite these circumstances, Al Masraf has achieved continuous growth, in keeping with the bank's distinguished track record over many years. Al Masraf has successfully maintained an ambitious and well-defined strategy aimed at meeting our clients' needs and ensuring the best possible returns for our shareholders.

Our business outcomes for 2019 saw net profits rise to AED 491 million, an increase of 2% from the previous year. In the same period our total income grew by 9% to AED 880 million and our net operating income rose by 11% to AED 604 million. The loans and advances portfolio amounted to AED 15.6 billion, an increase of 12%. Moreover, the bank was able to expand its customer base and attract more deposits, which were subsequently injected into the national economy. Customer deposits grew by 11%, reaching AED 15.7 billion, and total assets increased by 10% to AED 23.4 billion. Notably, shareholders' return on equity amounted to 11.67% in 2019, one of the highest rates of all banks operating in the country.

Taken together, these indicators demonstrate the significant development Al Masraf has undergone. They confirm the bank's ability to expand credit operations and meet its funding commitments towards clients, particularly in the corporate sector, which remains the bank's most important financing operations sector. This is a result of the bank's significant financial solvency, exceeding Central Bank requirements and Basel Committee standards. Furthermore, the bank's Capital Adequacy Ratio stood at 21.1%. This high percentage further enhances our ability to expand our financing capabilities efficiently and competitively. These results reflect the robust nature of our strategy, the strength of our customer-focused culture, and the success of our conservative approach in risk management, while focusing on select business segments. In order to rise to the challenges presented by the economic environment, we also conducted a comprehensive review of our business strategy. The review ensures we keep pace with regulatory developments and procedures amid a growing focus on digital initiatives and investment in infrastructure and modern technologies, as well as retain our best qualified talent. This will allow us to maintain our growth in the years to come.

Al Masraf continues to invest in improving client experience. To this end, we are constantly working to enhance our infrastructure, improve our work environment, and increase efficiency. We have launched a number of new banking services and products that meet client expectations. As part of our strategy to expand our presence in Abu Dhabi, we began the construction of our new building in Khalifa Industrial Zone – KIZAD, making us the first bank to begin operations in one of the largest integrated industrial and logistical areas in the Middle East.

While banking services to corporate clients, including companies and institutions, has been the major focus of our business, over the past few years we began to expand a number of personal banking services in order to meet the needs of our corporate clients' employees and our individual clients. The purpose of this initiative is to diversify our business portfolio and expand our income sources by investing in the personal banking sector.

Within the framework of the digital transformation plan, Al Masraf has continued to develop its technical infrastructure and successfully migrated to the advanced Temenos system. This will allow the bank to provide integrated solutions by supporting its strategy and increasing its ability to develop innovative products, as well as focus on customer service by offering more capabilities through digital channels.

Al Masraf has received excellent reports by the world's leading credit rating agencies. Fitch Ratings Inc. gave Al Masraf an "A" rating with a stable outlook for its long-term obligations and an "F1" rating for its short-term obligations, reflecting the bank's stability, its strong financial position, and its ability to manage risks efficiently.

We will remain committed to our conservative strategy for business growth and maintaining our asset value as we focus on diversifying sources of income and minimising risk. We will also continue to invest in every area that could enhance our clients' banking experience. Furthermore, we will devote more attention to developing our infrastructure, improving our work environment, and increasing our efficiency, by launching a number of new banking products and services to meet our clients' expectations.

In addition, we have pursued our Emiratisation efforts aimed at nationalising jobs and developing local talent. Al Masraf seeks to attract young nationals and graduates hoping to build a bright and successful career in the banking industry. Last year we launched the "Tamkeen" programme, with the purpose of developing the skills and capacities of national talent and preparing them for assuming executive functions. We have been successful in nationalising our workforce according to the points system set forth by the Central Bank, where our score exceeded the programme's requirements.

Our achievements in 2019 are a clear reflection of our persistence and dedication in pursuit of increased efficiency and reduced costs, with a view to achieving the highest levels of excellence and leadership in all our services and activities. Economic headwinds are expected to continue through 2020, but we are confident that we will keep meeting client demands and ensure the best possible revenues for our shareholders thanks to our clear strategy, our commitment to providing outstanding banking services, our implementation of the highest corporate governance standards across our operations, and our full compliance with transparency and disclosure principles. We will continue to consolidate and strengthen our budget by making further enhancements to capital and liquidity ratios and credit quality. Similarly, we will uphold our culture of high performance and deployment of modern technologies to provide an exceptional experience to our personal and corporate clients, whether they choose to interact with us in person or through our various digital channels.

On behalf of the Executive Management team, I express my deep gratitude to our shareholders, our board members, and our esteemed clients for their continued loyalty and trust in us. I would also like to thank Al Masraf's staff members for all their efforts and dedication.

Faisal H. Galadari
Chief Executive Officer

EXECUTIVE MANAGEMENT

Standing (from left to right)

Mr. Razi Heyasat
Head - Legal Department & Board Secretary

Mr. Mohammad Ashour
Head - Audit

Mr. Talal Al Mazrooei
Head - Consumer Banking & Wealth Management

Mr. Charles Doghlass
Chief Business Officer (CBO)

Mr. Zahid Rashid
Chief Risk Officer (CRO)

Mr. Ajay Sehgal
Head - Treasury & Investment

Mr. Vikesh Mirani
Chief Financial Officer (CFO)

Mr. Ali Musmar
Chief Credit Officer (CCO)

Sitting (from left to right)

Mr. Ahmed Alrefaei
Chief Operating Officer (COO)

Mr. Hussein Ohida
AGM – Corporate Support Services

Mr. Faisal H. Galadari
Chief Executive Officer (CEO)

Mr. Abderrezak Trabelsi
AGM – BPR & Quality

Ms. Suaad Al Shimmari
Head – Human Resources

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Bank practices good governance with the belief to create long-term added value on a sustainable basis for all its shareholders and all interested parties through the commitment to the principles contained in the Governance Code. The Code builds good governance principles in all of the bank’s activities.

Under governance, both the Board of Directors and the Bank’s management themselves are committed to the principles set out in the Governance Code. The Bank’s management acts as the guardian of the interests of all other parties dealing with the Bank or affected by its business.

The Bank shall have a vision, mission and values of its own consistent with the principles and philosophy of governance. The Board of Directors shall adopt this and shall ensure that it is applied.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (BODs)

The board has overall responsibility to manage and conduct the Banks affairs, including adopting strategic objectives and overseeing the executive management under the corporate governance framework and Al Masraf Culture Guide.

BODs primary responsibility is to provide effective governance over the Al Masraf affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies, such as its customers, employees, suppliers under the framework of the work environment of Al Masraf.

In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of and to comply with relevant laws, regulations, rules and best Al Masraf practices. In discharging that obligation, the directors may rely on the honesty and integrity of Al Masraf's senior executives and its advisors and auditors.

The Board shall be responsible to ensure that the management balances the promotion of long term growth with the delivery of short term goals. The Board is the main body for making decisions within Al Masraf.

The Board defines appropriate governance structures and practices suitable for its own work, and puts in place the means and mechanism for such practices to be followed and periodically reviewed for its ongoing effectiveness.

ROLE OF THE BOARD OF DIRECTORS

BODs is empowered, under Al Masraf's Article of Association with the widest powers necessary to carry out the activities and functions required to fulfil the objectives of Al Masraf, which includes but not limited to:

1. Determining strategic goals of the Bank and guiding the Executive Management.
2. Supervising the Executive Management and follow up its performance and ensure of the safety of the financial position of Al Masraf by adopting policies and adequate procedures to supervise and oversee the performance of Al Masraf.
3. Ensuring that the Bank manages risk effectively by approving Risk Appetite Statement and risk framework and monitor aggregate risk exposures that occurs to the Bank in its generality.
4. Ensuring implementation of disclosure policies and procedures that comply with regulatory requirements.
5. Appointing Chief Executive Officer of the Bank and key members of Senior Management and Heads of control functions, which includes organizing their selection process and their compensation, monitoring and, when necessary, replacing them and overseeing succession planning.
6. Ensuring that the Bank has strong and well articulated cyber security systems in place. The Board must learn about any related breaches or losses.
7. Establishing conflict of interest practices between the Board members and within Al Masraf in general.

3/2/2019	Board Meeting No. 1/2019/217
17/3/2019	Board Meeting No. 2/2019/218 and Annual General Assembly Meeting No. 43
11/05/2019	Board Meeting No. 3/2019/219
29/06/2019	Board Meeting No. 4/2019/220
8/09/2019	Board Meeting No. 5/2019/221
3/11/2019	Board Meeting No. 6/2019/222
15/12/2019	Board Meeting No. 7/2019/223

BOARD COMMITTEES

The Board often delegates work to committees of directors to more effectively deal with complex or specialized issues and to use directors' time more efficiently. Committees make recommendations for action to the BODs, which retains collective responsibility for decision-making.

Audit and Compliance Committee (ACC)

The primary purpose of the Committee is to assist Al Masraf's BODs in fulfilling its overseeing role regarding establishment of controls and compliance standards and maintaining effective Corporate Governance policies and procedures.

The Committee plays a vital role in helping Al Masraf in achieving its objectives by enhancing the transparency in financial reporting process rather than providing reasonable assurance with regard to compliance with rules and regulations and adopting financial standards and forwarding it to the Board and recommending to appoint external auditors.

Remuneration and Nomination Committee (RNC)

The committee considers matters relating to appointing the executive management and review their remunerations and motivations including policy for executive management remuneration and their annual individual remuneration awards.

The committee also reviews succession plans for the Chief Executive Officer and other key Senior Management positions.

The Committee approves and review strategic HR issues including employee retention, motivation and commitment and succession planning for senior management positions.

Board Risk Committee (BRC)

The Committee is appointed by Board of Directors for overseeing of the following:

1. Risk arising from all businesses of Al Masraf and control processes related to it.

2. Ensure comprehensive and well organization of Risk Management functions within the bank.

3. Ensure that Risk Management adopts best practices and follow regulatory stipulations.

Board Credit and Investment Committee (BCIC)

The purpose of the committee is to ensure that the quality of assets meets Al Masraf's Risk appetite.

And the Committee is the designated body to take Credit/Investment decisions (within the powers delegated by the Board).

The objectives of the Committee are to:

1. Establish a Centralized Policy Credit and Investment decisions approval.

2. Make speedy decisions and timely responses to the urgent Credit and Investment queries of the customers.

3. Ensure the quality of Credit/Investment decision making for the benefit of Al Masraf.

Corporate Governance Committee (CGC)

Corporate governance committee aims to apply a set of systems, principles and processes by which an organization is governed, directed and controlled. It also create a long-term benefit on a sustainable basis for all its shareholders and all interested parties through the commitment to the principles contained in the Governance Code.

The purpose of the committee is to ensure and monitor the implementation of Corporate Governance Code in real spirit in Al Masraf. Where it evaluate the performance of Board members and committees, ensuring the effectiveness of applying corporate governance within the bank, adopting, and reviewing the Annual Governance Report.

Strategy and Innovation Committee (SIC)

The main purpose of this committee is to keep the BODs aware of the progress in executing the bank's business and digital strategies. The committee gives its recommendations, for any strategic decisions raised by the bank to the BODs, which makes addressing such strategic decisions more efficient.

The committee, which includes members and advisors with extensive experience in Technology, acts as a trigger for innovation in business and digital domains and facilitates the timely decisions on any strategic innovative ideas.

Committee	Member	Position	Frequency as per Charter	Meeting held on 2019
Credit and Investment Committee	Mohamed Saif Al-Suwaidi Khalaf AlDhaheri Mohamed Najib Eljamal Raja AlMazrouei	Chairman Member Member Member	At least 3 times in a year	Nil
Audit and Compliance Committee	Raja AlMazrouei* Mohamed Najib Eljamal Abdulqader Obaid Ali	Chairperson Member Independent Audit Member	At least quarterly	5
Risk Committee	Khalaf AlDhaheri** Mustapha Makhlouf Amr Yaklaf Amr Al Hgag	Chairman Member Member	At least 4 times in a year	4
Nomination and Remuneration Committee	Mohamed Saif Al-Suwaidi Brahim Semid*** Amr Yaklaf Amr Al Hgag****	Chairman Member Member	At least once yearly	4
Corporate Governance Committee	Farhat Ben Gdara Mohamed Saif Al-Suwaidi Lazhar Latreche	Chairman Member Member	At least once yearly	1
Strategy and Innovation Committee	Farhat Ben Gdara Raja Al Mazrouei Abdulqader Obaid Ali	Chairman Member Advisor	6	5

** Member of Audit and Compliance Committee since 04/07/2019 and replaced Yaqoob Janahi.*

*** Member of Risk Committee since 04/07/2019 and replaced Ahmed Bin Braik.*

**** Member of Nomination and Remuneration Committee until 24/12/2019 and replaced by Lazhar Latreche*

***** Member of Nomination and Remuneration Committee since 22/11/2019 and replaced Basheer Matok.*

Frequency of Meetings

BODs shall meet at the Bank's Headquarter or outside at least 6 times yearly or whenever the need arises.

The agenda of the meeting with supporting documents shall be provided to the directors within sufficient time prior to the meeting date to provide ample time for review beforehand.

And a director has the right to suggest items for inclusion on the agenda or to raise subjects that are not on the agenda for that meeting.

Decision Making within the Board

Decisions of the Board shall be taken by vote of the majority of Board i.e. directors present. If votes are equal the side which the Chairman supports shall prevail.

The Board may take some decisions passing resolutions if all BODs agree that the case necessitates that due its urgency and the proposed resolutions are delivered to BODs in writing and accompanied by all necessary supporting information.

And the resolution shall not be considered as effective unless all the BODs approves it and shall enter into force in the upcoming meeting. If a Member has a reservation, the core reasons for such negative vote shall be minuted.

Remuneration

The form and amount of remuneration to directors is determined by the shareholders upon the recommendations of the Board, within the provisions of Bank's Articles of Association and applicable Law.

Conflict of Interest

A Board Directors shall disclose any conflict of interest to the Board. Board members shall not use inside information to achieve personal gains for themselves or others.

They shall also abstain from voting or even taking part in decision making process on any matter where they have an actual or potential conflict of interest. And it is not permitted for BODs to enter into any advisory relationship with Al Masraf.

Confidentiality
Board Members shall keep the entire Bank's information strictly confidential so as long as such information has not been made public.

At the end of the term of their mandate, they must return all confidential documents to Al Masraf and destroy all electronic copies if directed to do so by Al Masraf and they remain legally responsible if any information is made public through them.

Corporate Governance Standards
In discharging its responsibilities, the Board shall have regard to establish and evolving best practice Corporate Governance standards. If it is required to work on basis different than these standards or codes or the Central Bank of the UAE guidelines is required or believed to be appropriate, Al Masraf shall provide appropriate explanation and justification and use as required, in the Bank's external disclosures.

Difference between the positions of the Chairman of the Board of Directors and the Chief Executive Officer
The Chairman of the BODs and the Chief Executive Officer has different kind of responsibilities, therefore to prevent any conflict of interest and to preserve an effective supervision over the management, the positions should be occupied by two different individuals in application to the valuable principles of the code.

Board Activities In 2019
The Board of Directors met 7 times in 2019 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

Management Committees

Management committees have ultimate responsibility for directing the activity of Al Masraf, ensuring it is well run and delivering the outcomes for which it has been set up.

(i) Credit Committee
The mission of the committee is to ensure that quality of financing meets Al Masraf Risk and Return Strategy.

The objectives of the committee are to:

- Establish a relatively collective Credit approval process at Management level.
- Competitive speed of decision - making.
- Timely response to urgent needs of the customers.
- Monitor performance and quality of Bank's Credit portfolio.
- To review overall credit portfolios through various Credit/Risk reports.

(ii) Management Committee
The committee considers strategies and policies relevant to business development and to attain the desired market position and any other matter pertinent in the day to day operations of the Bank .

(iii) IT Steering Committee
The purpose of the Committee is to assist in governing and overseeing Bank IT related matters and setting priorities on IT initiatives .

(iv) Operational Risk Management Committee
The committee constitute the principal forum for discussing and communicating bank wide issues, initiatives and decisions in respect of Operational Risk.

Objectives of ORMC includes:

- The daily management of Operational Risk remains the responsibility of line management, i.e. the management of business and support units.
- The Mandate of Al Masraf Operational Risk Management Committee covers the following decision making areas:
    - Oversee the formulation of the Operational Risk Framework and propose Operational Risk Procedures for approval by Board Risk Committee (BRC) or CEO as required.
    - To monitor Operational Risk appetite and tolerance so as to ensure that the Bank is able to make a fair statement of its Risk profile and to minimize significant operational losses.
    - To evaluate Operational Risk environment for implementing systems employed by the Bank and for introducing any new banking products.

(v) Investment Committee
The purpose of Investment committee is:

- To take Investment Decisions in Stocks and Bonds.
- To review the Stock and Bond portfolio.
- To take Liquidation Decisions for Individual Stocks and Bonds.

(vi) Asset Liability Management Committee
The Asset/Liability Committee of the Board (ALCO) has been established by the Board of Directors of Al Masraf Ban to assist the BODs by assessing the adequacy and monitoring the implementation, of the Bank's Asset / Liability Management Policy and related procedures.

The ALM Policy will include specific policies and procedures relating to

- Interest rate risk
- Market/investment risk
- Liquidity risk
- Contingency funding plan
- Funds transfer pricing, and
- Contingency funding plan

(vii) Remedial Management Committee
The purpose of Remedial Management Committee is to:

- Improve efficiency of Remedial Management by respective units after reviewing/ acting on the reports of Recovery and Remedial management units within business and Credits.
- Expedite Process of Restructuring and settlement by taking decisions on proposals or suggest changes in existing term and conditions including deferrals, with notifications to Credit Committee (CC) (or approval, if found necessary).

(viii) Management Risk Control Committee
The Management Risk Control Committee is formed to oversee Bank wide risks (other than those covered by operational risk committee). It also includes assessing risks and making action plans related to:

- Risks arising from businesses of the Bank and related control processes
- Comprehensive Risk Management and organization within the Bank.
- Follow best practices in Risk Management and regulatory stipulations.

(ix) Compliance Committee

- The purpose of Compliance committee is strengthening internal compliance function to align with the local and international regulations, sanctions compliance and international best practices on AML/KYC, compliance function is at the crossroads of the strategy and everyday action of the bank and its customers.
- Compliance also ought to safeguard Al Masraf's reputation against any association with money laundering or terrorist financing, which requires continuous enhancement of internal controls and processes.
- One of the main tasks of Compliance is to assist the Business Side in achieving their targets without compromising international sanctions regulations, as well as international best practices on AML/KYC

(x) Purchase Committee

- This committee reviews and evaluates the purchasing process in order to select the most appropriate supplier or service provider based on price, quality, local support and competence profile of the vendor, stock availability, reference, etc.
- The committee approves the expenditure as per the authority delegated by the Board from time to time.

(xi) Human Resource Committee

The purpose of HR committee is:

- To ensure effective decision making process on all Human Resources related matters
- The Human Resource Committee (HRC) provides a frame work to strategically manage the Human resources of the bank by ensuring an effective organization structure, sourcing process, promoting performance driven work culture and Banks Vision and Values, sound compensation practice and by meeting all social and legal obligations.

(xii) Strategy Implementation Committee

The purpose of Strategy Implementation Committee is to:

- Assists the CEO of Al Masraf, in cooperation with the head of Strategic Planning, in setting and implementing the strategic tactics and initiatives in order to assure the proper implementation of Al Masraf's approved strategy and strategic plan.
- Reviews and recommends to the Strategy and Innovation Committee, through the CEO, any necessary changes or adjustments to Al Masraf's Strategy and Strategic Plan

OTHER ASPECTS OF CORPORATE GOVERNANCE

Related Party Transaction Policy

Al Masraf shall follow the requirements of relevant International Financial Reporting Standards (IFRS) with respect to related party transactions. Related parties can include Chairman and the BODs and the senior executive management in Al Masraf and employees and their relatives up to second degree and also entities where one of them own not less than 30% of shares from its capital as well as subsidiaries, affiliates or sisters or allied companies.

Adherence to AML & Combating Financing of Terrorism Regulations

Al Masraf is committed to ensuring adherence to laws and regulations relating to Anti-Money Laundering (AML), combating the Financing of Terrorism (CFT) sanctions compliance and to the relevant recommendations of the Basel Committee and Financial Action Task Force throughout the Bank.

Code of Ethics and Business Conduct

Ethics involves applying moral standards – good, right and fair standards of conduct which are supported by values, to shape the decisions and actions of individuals within the organization in the pursuit of Al Masraf's objectives.

Whistle Blowing

Whistle blowing is a channel of communication that encourages employees to blow the whistle safely (raise the alarm)about such concerns as mentioned to protect the interest and image of Al Masraf without having the fear of being victimized.

Outsourcing of various functions of the Bank

Al Masraf should have a clear policy when assigning its functions to an outsourcer.

Al Masraf should have in place a comprehensive policy to lead and guide the assessment operation of the functions activities in a way whether those activities can be outsourced and the appropriate procedure to do so.

Sharia'a Compliance – Islamic products and services

Al Masraf shall strictly adhere to Islamic Shari'a regulations and principles in accordance with the interpretation of Al Masraf's fatwa and Sharia'a Supervisory Board, and its directions and advices, in respect of all products and services offered under the Islamic window or branches.

Compliance

Compliance function at Al Masraf is independent and has unrestricted access to Senior Management, Board as well as all necessary information. Al Masraf has a comprehensive Compliance & AML policy in place. It has a well-defined process for performing ongoing and periodic due diligence on qualifying new and existing customers as per risk-based approach. In line with international standards, Compliance Dept. arranges periodic trainings, which is mandatory for all bank staff to attend. Internal and external examiners, as well as assessors have independently validated adequacy of Al Masraf's compliance function.

Risk

The risk management framework lays emphasis on the Bank's risk philosophy, proper organizational structure, risk and reward balance and is supported by dedicated monitoring and risk measuring mechanism.

Al Masraf has most of the required policies and procedures that defines the operational aspects of the Bank's key activities.

In addition, Business Units also use approved process notes, procedure documents etc. to establish formal processing. We have acquired a process flow application which provides the staff an online access to the Policies, Standard Operating Procedures (SOPs) and training.

Al Masraf has an independent Risk Management Structure headed by Chief Risk Officer who functionally reports to Board Risk Committee.

Legal

Legal Department provides exemplary legal services mitigating bank's financials and reputational risk by implementing internal customer focused policies, terms and conditions and continual improvement of Quality Management System for delivering best in class legal services including but not limited to providing advices as precautionary actions, vetting and drafting of documentations, contracts, account openings, borrowing documents and collateral securities, protecting Al Masraf's interest.

Audit

Internal Audit charter which is approved by Audit Committee identifying internal audit responsibilities, authority and reporting line which are administratively with the CEO and functionally with the Board Audit Committee.

Independent, objective assurance and consulting functions evaluate the effectiveness of risk management, control and corporate governance process.

Internal audit applied a comprehensive risk based audit of all operating units and departments in Al Masraf to ensure e.g. compliance with internal policies, procedures, international standards and applicable laws and regulations.

Social responsibility of the bank

Corporate Social Responsibility (CSR) is a key indicator of the economic advancement of financial institutions. It no longer limits to the financial side but has transcended the contribution of financial institutions in building society and achieving social solidarity. Al Masraf has, during the past years, achieved qualitative leaps and remarkable results, which were clearly demonstrated in the comprehensiveness of the social, voluntary and charitable services that the bank embraced in the year 2019, whether through initiative, partnership or sponsorship. The bank has adopted a policy and methodology to prove its worth in carrying out its role to support the society through its CSR initiatives, starting from the provisions of Federal Law No. (2) of 2015 regarding commercial companies and within the framework of Corporate Governance. The bank has contributed to various activities in the fields of health, education, charity, sports, Economy.

In 2019, the bank maintained its position as a responsible national banking institution seeking to contribute to supporting economic development in the country, improving the quality of life in our society, and creating job opportunities for citizens. Our CSR program included a wide range of initiatives in the following areas:

In Sports

Al Masraf sponsored the first football team of Al-Jazira Sports Club in Abu Dhabi. The bank organized an entertaining sporting day for employees and their families, on the sidelines of the Dubai Fitness Challenge.

In the field of social welfare

The bank participated in the initiative launched by the Fund to address bad debts, which aims to reduce the burdens of living and ensure decent living and family stability for citizens of the state with low incomes.

The bank participated in sponsoring the charitable events organized by the Rotary Club of Jumeirah

The bank participated in the "Bag of Tolerance" campaign organized by Dubai Customs, where staff volunteers distributed 400 school bags to the students of the Al-Saada School for Basic Education.

During the holy month of Ramadan, bank employees participated in distributing 4,000 Iftar meals to fasting people.

In the health field

The bank participated in "Dubai Fitness Challenge" activities to encourage employees and lead a healthy lifestyle.

As part of its efforts to reduce the spread of breast cancer, the bank launched a campaign "Protect yourself" to raise awareness of breast cancer and how to prevent it.

The bank organized a health awareness campaign for employees, during which free medical examinations and medical advice were provided.

In the economic sphere

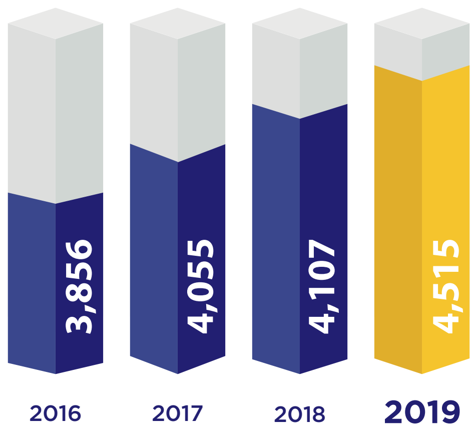
The bank participated in the initiative launched by the Fund to address bad debts, which aims to reduce the burdens of living and ensure decent living and family stability for citizens of the state with low incomes.

The bank participated in the credit guarantees program for financing small and medium companies launched by the "Emirates Development Bank", in our commitment to develop and provide innovative financing products and solutions to enable emerging national institutions and Emirati entrepreneurs to contribute effectively to economic development.

The bank participated in sponsoring a number of economic activities such as the International Internal Auditors Conference and the activities of the Federal Customs Authority. The bank also participated in sponsoring the compliance conference in a changing world.

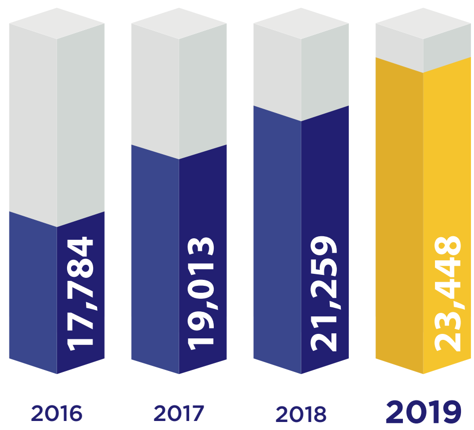
FINANCIAL HIGHLIGHTS

TOTAL EQUITY
AED Mn



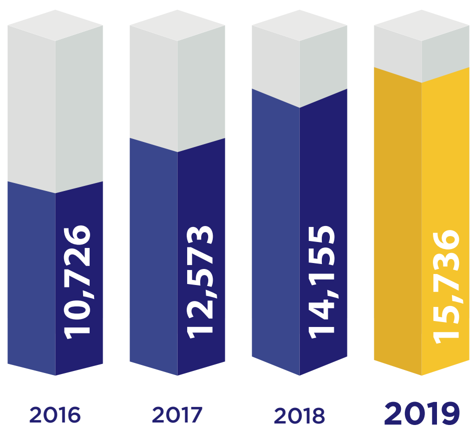
10% INCREASE OVER THE PREVIOUS YEAR

TOTAL ASSET
AED Mn



10% INCREASE OVER THE PREVIOUS YEAR

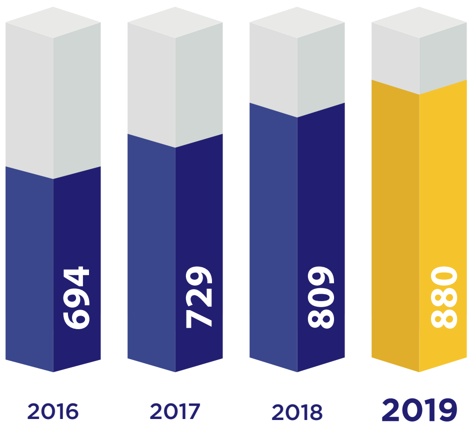
CUSTOMER DEPOSIT
AED Mn



11% INCREASE OVER THE PREVIOUS YEAR

OPERATING INCOME

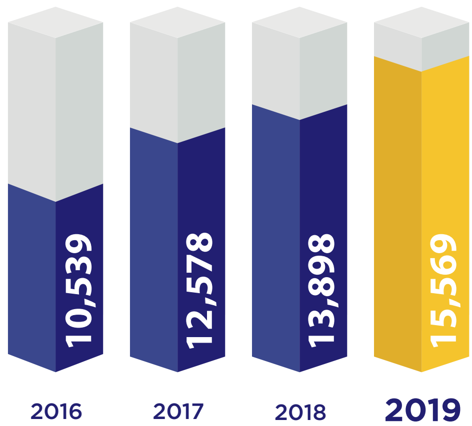
AED Mn



9% INCREASE OVER THE PREVIOUS YEAR

NET LOANS & ADVANCES

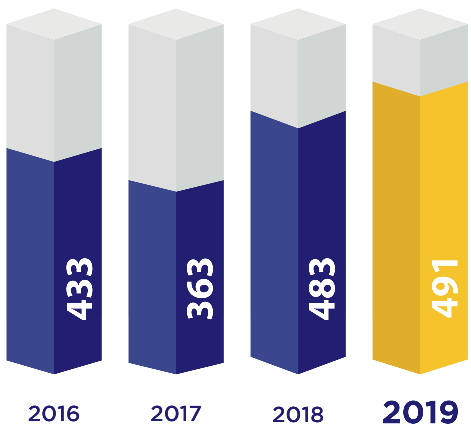
AED Mn



12% INCREASE OVER THE PREVIOUS YEAR

NET PROFIT

AED Mn



2% INCREASE OVER THE PREVIOUS YEAR

ARAB BANK FOR INVESTMENT AND FOREIGN TRADE PJSC (AL MASRAF)

FINANCIAL STATEMENTS

Contents | **Page**

Respected Shareholders,

The Board is pleased to present its report together with the audited financial statements for the year ended 31st December 2019. The audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and an unqualified audit opinion has been issued by the independent auditors.

FINANCIAL HIGHLIGHTS

In spite of the challenging market conditions, the Bank has been able to achieve higher than the market growth rates on almost all its business targets.

The total assets went up by 10% to reach AED 23,448 million (2018: AED 21,259 million) driven by continued strong growth of its lending portfolio and increase in the investment in debt securities by the Bank. The net loans and advances of the Bank increased by 12% from AED 13,898 million to AED 15,569 million. The total loans & advances constitute around 66% (2018: 65%) of the total assets. Bank's Investment designated at FVOCI has increased by around 41%, from AED 1,357 million to AED 1,919 million.

FUNDING

To match the growth on lending, the customer deposits has increased by 11%. The total customer deposits went up from AED 14,155 million as at 31st December 2018 to AED 15,736 million as at 31st December 2019. The inter-bank deposits and borrowings has decreased from AED 2,636 million in the previous year to AED 2,584 million as at 31st December 2019, a decrease of 2%.

EMPLOYMENT OF FUNDS

The growth on lending was achieved through adoption of a documented strategy on segment caps and to reduce the concentration risk. Due care was taken to maintain the liquidity ratios as well while achieving the growth of 12% on net lending.

DEPOSITS WITH BANKS

The Bank's liquidity was well maintained, with sizeable portfolio in short-term interbank placements and balances with the Central Bank. The placements with banks is AED 2,794 million as at 31st December 2019 as against AED 3,175 million as at 31st December 2018.

The cash and bank balances with the Central Bank, which also includes the statutory reserves and certificate of deposits was at AED 1,789 million as at 31st December 2019 against AED 1,731 million in the previous year. The bank was in total compliance with the Central Bank Regulatory Limits on Liquidity Ratios at the year end.

INVESTMENTS

The Bank's financial investments consist of both fixed income securities and equities. These portfolios are being marked to market on a regular basis. The total net market value of the investments of the Bank amounted to AED 1,998 million as at 31st December 2019 compared to AED 1,398 million as at 31st December 2018.

INVESTMENTS PROPERTIES

The investments properties were revalued during the year by an external valuation firm. This resulted into an impairment charge of AED 15 million (2018: AED 11 million). The revaluation loss and the depreciation charge during the year has resulted into reduction of the net book value of Investment Properties to AED 367 million compared to AED 393 million in the previous year.

CONTINGENT LIABILITIES

The Bank had a total outstanding in Documentary Credits and Letters of Guarantee of AED 5,957 million as at the end of the year, compared to AED 7,445 million in the previous year.

COMPREHENSIVE INCOME ACCOUNT

The Bank achieved an increase of 2% in its net profit (before change in other comprehensive income) – from AED 483 million in 2018 to AED 491 million in the current year.

The earnings per share is AED 6.54 thousand per share compared to AED 6.43 thousand per share in the previous year.

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To the Shareholders of Arab Bank for Investment and Foreign Trade PJSC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Arab Bank for Investment and Foreign Trade PJSC ("the Bank"), which comprise the statement of financial position as at 31st December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (14) of 2018, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

We communicate with the Audit Committee 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.

Report on Other Legal and Regulatory Requirements:

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

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

- the 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, in so far as it relates to these financial statements, is consistent with the books of account of the Bank;

- as disclosed in note 9 to the financial statements, the Bank has purchased shares during the year ended 31 December 2019;

- note 32 to the financial statements discloses material related party transactions the terms under which they were conducted;

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

- note 20 to the financial statements discloses the social contributions made during the year.

Report on Other Legal and Regulatory Requirements:

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

KPMG Lower Gulf limited

Emilio Pera
Registered No. 1146
Abu Dhabi, United Arab Emirates
Date : 24 February 2020

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

Statement of Financial Position
as at 31 December

	Note	2019 AED'000	2018 AED'000
Assets			
Cash and balances with the Central Bank of the UAE	7	1,788,798	1,730,980
Due from banks and financial institutions – net	8	2,794,410	3,175,495
Investment at fair value through other comprehensive income (FVOCI) – net	9	1,919,048	1,357,425
Investment at fair value through profit or loss (FVTPL) – net	10	40,446	40,446
Investment at amortised cost	11	38,143	-
Loans and advances – net	12	15,569,483	13,898,204
Investment properties – net	13	366,621	392,584
Other assets	14	519,572	262,469
Property, plant and equipment	15	290,523	281,074
Non-current assets held-for-sale	16	120,568	120,608
Total assets		23,447,612	21,259,285
Liabilities			
Customers' deposits	17	15,735,610	14,154,810
Due to banks	18	2,584,080	2,635,582
Other liabilities	19	613,193	362,166
Total liabilities		18,932,883	17,152,558
Equity			
Share capital	20	1,500,000	1,500,000
Statutory reserve	20	642,722	593,665
Special reserve	20	638,132	589,075
General reserve	20	380,000	380,000
Revaluation reserve	20	129,542	145,695
Fair value reserve	20	55,457	(30,155)
Retained earnings		1,168,876	928,447
Total equity		4,514,729	4,106,727
Total liabilities and equity		23,447,612	21,259,285

These financial statements were authorized and approved for issue by the Board of Directors and signed on their behalf by:

Mr. Farhat Omar Ben Gdara
Chairman

Faisal H. Galadari
Chief Executive Officer

The notes on pages 44 to 102 form an integral part of these financial statements.
The Independent Auditors' Report is set out on pages 37 to 39.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

Statement of Comprehensive Income

for the year ended 31 December

	Note	2019 AED'000	2018 AED'000
Interest income	21	960,611	842,150
Interest expense	22	(319,986)	(228,900)
Net interest income		640,625	613,250
Income from Islamic financing contracts	23	104,963	90,863
Depositors' share of profit	24	(59,337)	(49,803)
Net income from Islamic financing		45,626	41,060
Net interest and Islamic financing income		686,251	654,310
Fee and commission income	25	151,113	120,058
Fee and commission expense	25	(12,311)	(12,557)
Net fee and commission income		138,802	107,501
Dividend income		6,020	5,378
Net realized (loss) / gain from Investments at FVOCI		1,374	(144)
Net foreign currency exchange gain	26	27,884	15,866
Other operating income	27	19,854	25,951
		55,132	47,051
Operating income		880,185	808,862
General, administration and other operating expenses	28	(275,855)	(265,938)
Operating Profit Before Impairment		604,330	542,924
Net impairment charge on financial assets	29	(95,640)	(67,850)
Net impairment reversal for financial instruments		-	18,751
Net impairment charge on property acquired on debt settlement		(2,772)	-
Allowance of impairment on investment properties	13	(15,344)	(11,299)
Profit for the year		490,574	482,526
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation gain / (loss) on property, plant and equipment	15	(16,153)	1,347
Change in fair value of equity investments at FVOCI		11,932	5,377
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of bond investments at FVOCI		73,680	(33,940)
Total comprehensive income for the year attributable to shareholders		560,033	455,310
Earnings per share (AED'000)	33	6.54	6.43

The notes on pages 44 to 102 form an integral part of these financial statements.
The Independent Auditors' Report is set out on pages 37 to 39.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

Statement of changes in equity
as at 31 December

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2018 as previously reported	1,500,000	545,413	540,823	380,000	144,348	(2,633)	946,664	4,054,615
Impact of adopting IFRS 9	-	-	-	-	-	1,041	(252,504)	(251,463)
Balance at 1 January 2018 – restated	1,500,000	545,413	540,823	380,000	144,348	(1,592)	694,160	3,803,152
Profit for the year	-	-	-	-	-	-	482,526	482,526
Fair value adjustment	-	-	-	-	1,347	(28,563)	-	(27,216)
Total comprehensive income	-	-	-	-	1,347	(28,563)	482,526	455,310
Transfer to reserves	-	48,252	48,252	-	-	-	(96,504)	-
Dividends paid to equity holders *(Note 20)*	-	-	-	-	-	-	(150,000)	(150,000)
Zakat	-	-	-	-	-	-	(1,735)	(1,735)
Balance at 31 December 2018	1,500,000	593,665	589,075	380,000	145,695	(30,155)	928,447	4,106,727
Balance at 1 January 2019	1,500,000	593,665	589,075	380,000	145,695	(30,155)	928,447	4,106,727
Profit for the year	-	-	-	-	-	-	490,574	490,574
Fair value adjustment	-	-	-	-	(16,153)	85,612	-	69,459
Total comprehensive income	-	-	-	-	(16,153)	85,612	490,574	560,033
Transfer to reserves	-	49,057	49,057	-	-	-	(98,114)	-
Dividends paid to equity holders *(Note 20)*	-	-	-	-	-	-	(150,000)	(150,000)
Zakat	-	-	-	-	-	-	(2,031)	(2,031)
Balance at 31 December 2019	1,500,000	642,722	638,132	380,000	129,542	55,457	1,168,876	4,514,729

The notes on pages 44 to 102 form an integral part of these financial statements.
The Independent Auditors' Report is set out on pages 37 to 39.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

Statement of cash flows
for the year ended 31 December

	Note	2019 AED'000	2018 AED'000
Cash flows from operating activities			
Profit for the year		**490,574**	482,526
Adjustments for:			
Depreciation	28	**29,141**	23,007
Provision for net impairment charge on financial assets	29	**95,640**	67,850
Amortization of premium on bonds		**12,645**	11,043
Net impairment charge/reversal for financial instruments		**457**	(11,541)
Allowance for impairment of due from banks		**5,338**	(7,210)
Allowance for impairment of investment properties	13	**15,366**	11,299
Allowance for impairment on properties acquired in settlement of debt		**2,772**	-
Provision for employees' end of service benefits	19	**7,773**	6,339
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**659,706**	583,313
Payment of employees' end of service benefits	19	**(5,269)**	(3,831)
Changes in:			
Loans and advances		**(1,766,919)**	(1,634,870)
Due from banks		**(3,669)**	(183,650)
Other assets		**(259,875)**	(44,740)
Customers' deposits		**1,580,800**	1,581,618
Due to banks		**1,212,090**	-
Other liabilities		**248,523**	44,679
Cash reserve with Central Bank of the UAE	30	**(74,399)**	20,788
Net cash generated from operating activities		**1,590,988**	363,307
Cash flows from investing activities			
Purchases of property and equipment	15	**(44,302)**	(32,838)
Proceeds from sale of investment properties		**-**	86,053
Proceeds from sale of property and equipment		**196**	3,366
Proceeds from sale/redemption of investment at FVOCI		**255,000**	95,732
Purchases of investment at FVOCI	9	**(744,113)**	(256,153)
Purchase of investments at amortized cost		**(38,143)**	-
Net cash used in investing activities		**(571,362)**	(103,840)
Cash flows from financing activities			
Cash dividend paid	20	**(150,000)**	(150,000)
Zakat paid		**(2,031)**	(1,735)
Net cash used in financing activities		**(152,031)**	(151,735)
Net increase in cash and cash equivalents		**867,595**	107,732
Cash and cash equivalents at 1 January		**1,409,679**	1,301,947
Cash and cash equivalents at 31 December	30	**2,277,274**	1,409,679

The notes on pages 44 to 102 form an integral part of these financial statements.
The Independent Auditors' Report is set out on pages 37 to 39.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

1. Legal status and principal activities

Arab Bank for Investment and Foreign Trade PJSC (the “Bank”) was incorporated in Abu Dhabi by Union Decree No. (50) of 1976. It is registered as a Public Joint Stock Company in accordance with Federal Law No. (8) of 1984 (as amended) and UAE Companies Law of 2015 (UAE Federal Law No. (2) issued on 1 April 2015). The address of the Bank’s registered office is P.O. Box 46733 Abu Dhabi, United Arab Emirates.

The Bank is engaged in commercial and retail banking activities and carries out its operations solely in the United Arab Emirates through its nine branches.

The Bank’s Islamic banking activities are conducted in accordance with Islamic Sharia’a laws issued by the Sharia’a Supervisory Board of the Bank.

The financial statements of the Bank as at and for the year ended 31 December 2019 is available upon request from the Bank’s registered address P. O. Box 46733, Abu Dhabi, United Arab Emirates.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), applicable requirements of UAE Federal Law No. (2) of 2015 (Issued on 1 April 2015) and the requirements of the Central Bank of UAE.

UAE Federal Law No. (2) of 2015 being the Commercial Companies Law (“UAE Companies Law of 2015”) was issued on 1 April 2015 and has come into force on 1 July 2015. The Bank has complied, where applicable, with the UAE Federal Law of No 2 of 2015.

Decretal Federal Law No 14 of 2018 regarding the Central Bank and Organization of Financial Institutions and Activities was issued on 23 September 2018 and has come into force on that date, Banks were allowed three years to ensure compliance with the law No 14 of 2018 as per the transitional provision contained therein. The Bank has complied, where applicable, with the UAE Federal Law of No 14 of 2018.

The Bank had implemented all changes required by the UAE Companies Law of 2015.

(b) Basis of measurement

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

- Financial assets at amortised cost which are measured using effective interest;
- Financial assets at fair value through profit or loss which are measured at fair value;
- Investment at FVOCI which are measured at fair value; and
- Freehold land and buildings classified as property, plant and equipment which are measured based on the revaluation model.

This is the first set of the Bank’s annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in notes 3 and 4 to the financial statements.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

2. Basis of preparation *(continued)*

(c) Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Bank's functional currency. Except as indicated, information presented in AED has been rounded to the nearest thousand.

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

(a) New and Amended standards and interpretations adopted

The Bank initially adopted IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

IFRS 16 - Leases

The Bank applied IFRS 16 using the modified retrospective approach, under which the right of use assets is equal to lease liabilities, less prepaid lease rental, if any, as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 3.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

As a lessee

As a lessee, the Bank leases some branches and equipment. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet. At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(a) New and Amended standards and interpretations adopted (continued)

As a lessee (continued)

However, for leases of branches and office premises the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

As a lessor

When the Bank acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognizes lease payments received under operating leases as income on a straight line basis over the lease term as part of 'other income' in the statement of profit or loss.

The accounting policies applicable to the Bank as a lessor in the comparative period were not different from IFRS 16. The impact on the condensed interim financial statements has been disclosed as below:

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(a) New and Amended standards and interpretations adopted (continued)

As a lessor (continued)

Impact on financial statements
On transition to IFRS 16, the Bank recognized AED 21.3 million as right of use assets, and recognized a lease liability in the same amount.

'Property and equipment' comprises the following in owned and leased assets:

	31 December 2019 AED'000	31 December 2018 AED'000
Property and equipment owned	275,409	281,074
Right of Use Assets	15,114	-
	290,523	281,074

The movement during the period of right-of-use is as follows:

	31 December 2019 AED'000
Balance as at 1 January	21,340
Depreciation during the period	(6,226)
Balance as at the end of the period	15,114

Interest expense of AED 557 thousand has been recognized in the statement of comprehensive income for the year ended 31 December 2019.

When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate 2.61%+ 1 Month EIBOR.

iii) Lease liabilities

	31 December 2019 AED'000
Lease liabilities included in the statement of financial position	15,577

(b) Financial assets and liabilities

(i) Recognition and initial measurement

The Bank initially recognised loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. 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 Bank becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities (continued)

(ii) 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 amortized cost if it meets both the following conditions and is not designated as at FVTPL:

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

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

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in 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 Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

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

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

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities (continued)

(ii) Classification of financial assets and financial liabilities (continued)

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

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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

(iii) Reclassifications

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

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments at amortized cost.

(iv) De-recognition

Financial asset

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of 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.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

Financial liability

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities (continued)

(v) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank 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 plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- Other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities (continued)

(vi) Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets

Category	Subsequent measurement
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses are recognized in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss. The allowance for impairment on debt instruments designated at FVOCI is included in revaluation reserve and recognized in other comprehensive income
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(vii) Offsetting

As per IAS 32, financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a Bank of similar transactions.

(viii) Amortised cost measurement

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

(ix) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities (continued)

(ix) Fair value measurement (continued)

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

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

The Bank recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

(x) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

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

- Debts that are debt instruments;
- Loan commitments issued;
- Loan commitments instruments issued; and
- Financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

The Expected Credit Loss (ECL) model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.
- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities (continued)

(x) Impairment of financial assets (continued)

- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

Measurement of ECL

IFRS 9 considers the calculation of ECL by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios.

These parameters are generally derived from externally developed statistical models by Moody's Analytics.

Details of these statistical parameters/inputs are as follows:

- The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon;

- The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and

- The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized 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 Bank on terms that the Bank would not consider otherwise;
– it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
– the disappearance of an active market for a security because of financial difficulties.

Experienced credit judgment

The Bank's ECL allowance methodology requires the use of experienced credit judgment to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities (continued)

(x) Impairment of financial assets (continued)

Experienced credit judgment (continued)

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements. The policy on the write-off of financing transactions remains unchanged.

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 Bank 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 Bank's procedures for recovery of amounts due.

Expected life

When measuring expected credit loss, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

Central Bank of UAE (CBUAE) provision requirements

As per the CBUAE notice no. CBUAE/BSD/2018/458 dated 30 April 2018, if the specific provision and general/ collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an "Impairment Reserve" as an appropriation from the Retained earnings. This Impairment Reserve should be split to that which relates to difference in specific provision and general/collective provision. The Impairment reserve will not be available for payment of dividend.

Definition of default

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

- It is established that due to financial or non-financial reasons the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due 90 days or more on any material credit obligation to the Bank.
- In assessing whether a borrower is in default, the Bank considers indicators that are:

  i. qualitative - e.g. material breaches of covenant;
  ii. quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
  iii. based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

(c) 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 maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

(d) Due from banks

Amounts due from banks are stated at amortised cost, less allowance for impairment, if any.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(e) Investments measured at fair value through other comprehensive income ("FVOCI")

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 derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

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

(f) Investments at fair value through profit or loss

These are securities that the Bank acquire principally for the purpose of selling in the near term or holding as a part of portfolio that is managed together for short-term profit or position taking. These assets are initially recognised and subsequently measured at fair value in the statement of financial position. All changes in fair values are recognised as part of profit or loss.

(g) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

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

- loans and advances 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;
- Loans and Advances mandatorily measured at FVTPL or designated at FVTPL, these are measured at fair value with changes recognized immediately in the profit or Loss account; and
- Lease Receivables

When the Bank 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 consideration paid is accounted for as a loan and advance, and the underlying asset is not recognised in the Bank's financial statements.

(h) Islamic financing activities

(i) Murabahah "the purchase orderer"

It is the sale of a commodity by an institution to its customer (the purchase orderer) as per the purchasing price/cost with a defined and agreed profit mark-up (as set out in the promise/Wa'd), in which case it is called a banking Murabahah. The banking Murabahah involves deferred payment terms, but such deferred payment is not one of the essential conditions of such transaction, as there is also a Murabahah arranged with no deferral of payment. In this case, the seller only receives a mark-up that only includes the profit for a spot sale and not the extra charge it would, otherwise, receive for deferral of payment.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(h) Islamic financing activities (continued)

(ii) Ijarah Muntahia Bittamleek & Forward Ijarah

An agreement whereby the Bank (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing / acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term / periods, payable on fixed or variable rental basis. The rental is made obligatory by the contract and the lessor's entitlement to the rental runs from the time when the lessee starts to benefit from the asset or once the lessor makes the usufruct of the asset available to the lessee, and the entitlement to the rental does not necessarily commence on the date of signing the Ijarah contract.

This leasing contract which includes a promise by the lessor to transfer the ownership in the leased property to the lessee, either at the end of the term of the Ijarah period or by stages during the term of the contract, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement the Lessor will sell the leased asset to the Lessee at a nominal value based on a sale undertaking given by the Lessor.

An Ijarah contract may be executed for an asset undertaken by the lessor to be delivered to the lessee according to accurate specifications, even if the asset so described is not owned by the lessor. In this case, an agreement is reached to make the described asset available during the duration of the contract, giving the lessor the opportunity to acquire or to produce it.

(iii) Wakala Investment

Wakala is a contract between the customer a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to the Bank (the "Wakeel"), who invests the Wakala Capital in a Sharia'a compliant manner and according to the feasibility study/ investment plan. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, Wakala profit is distributed on declaration / distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The agent acts in a fiduciary capacity in relation to the investment and therefore is not liable for any loss in cases other than willful misconduct, negligence, or breach of contract unless the breach happens to be advantageous to the principal. In situations where the agent is held liable for loss of capital, such liability is limited to the capital amount and the agent is not liable for loss of expected profit whether the capital was invested immediately or delayed or not invested at all.

(iv) Mudaraba

Mudaraba is a contract between the Customer a fund provider (the "Rab Al Mal") who would provide a certain amount of funds (the "Mudaraba Capital"), to the Bank (the "Mudarib"). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity (unrestricted Mudaraba).

No profit can be recognised or claimed unless the capital of the Mudarabah is maintained intact. Whenever a Mudarabah operation incurs losses, such losses stand to be compensated by the profits of future operations of the Mudarabah. The losses brought forward should be set against the future profits.
All in all, the distribution of profit depends on the final result of the operations at the time of liquidation of the Mudarabah contract. If losses are greater than profits at the time of liquidation, the balance (net loss) must be deducted from the capital. In this case, as he is a trustee the Mudarib is not liable for the amount of this loss, unless there is negligence or misconduct on his part.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(h) Islamic financing activities (continued)

(v) Monetization "DMCC Murabahah"

Monetization refers to the process where the Customer purchases a commodity for a deferred price determined through Murabahah (Mark-up Sale) from the Bank, and selling it to a third party for a spot price to obtain cash. It is one of the shari'ah compliant financing solutions in collaboration with Dubai Multi-Commodities Centre, which provides the Customer with the liquidity needed to meet its monetary requirements. The Monetization beneficiary is a customer when he purchases the commodity from the Bank and sells it to a third party to obtain liquidity in accordance to Shari'ah compliance.

(vi) Customers' accounts and Wakala deposits from banks

Customers' accounts and Wakala deposits from banks are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property and equipment are initially measured at cost. Subsequently, all items except for freehold land and buildings are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land and buildings, which are measured using the revaluation model, are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses, if any.

Any surplus arising on the revaluation is recognized in other comprehensive income ("OCI") except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in profit or loss, in which case the credit to that extent is recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case the debit to that extent is recognised in OCI. Revaluation increases and decreases cannot be offset, even within a class of assets.

Land and any asset situated on the land - e.g. a building or specialised plant - are separate assets. Accordingly, increases and decreases in the fair value attributed to the land and to the building are recognised separately.

Capital projects-in-progress are initially recorded at cost, and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

It is the Bank's policy to perform a full revaluation exercise for the freehold land and buildings every year and record the adjustments accordingly.

Any revaluation gain or loss on these freehold land and buildings is recorded in the revaluation reserve through other comprehensive income.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income / other expenses in profit or loss.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(i) Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

Category	years
Freehold premises	30 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture and equipment	4 years
Computer hardware and software	4 years
Core banking software	10 years
Motor vehicles	4 years

Depreciation is to be charged to income applying the straight-line method considering the estimated useful life of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The depreciation charge for the year is to be calculated after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on additions is to be charged from the date on which the assets are available for use and ceases on the date on which they are disposed-off.

(j) Investment properties

(i) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment properties are measured using the cost model which is cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of investment properties.

The estimated useful lives of buildings classified as investment properties for the current and comparative years are 30 years. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

3. Significant accounting policies *(continued)*

(j) Investment properties (continued)

(ii) Investment properties under development

Land and properties that are being developed for future use as investment properties are classified as investment properties under development and stated at cost incurred to date, less accumulated impairment losses, if any, until development is complete, at which time they are reclassified and accounted for as investment properties.

(k) Non-current asset held for sale

An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

(l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date 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 exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash generating units. Goodwill arising from a business combination is allocated to cash generating units or groups of cash generating units that are expected to benefit from the synergies of the combination.

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. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(m) Customers' deposits and due to banks

Customers' deposits and due to banks are initially recognised at cost, being the fair value of the consideration received and subsequently measured at their amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement.

(n) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Employee benefits

(i) Employees terminal benefits

UAE nationals employed by the Bank are registered in the scheme managed by the General Pension and Social Security Authority. Contributions to that scheme are charged as an expense. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated service at the reporting date and in accordance with the Bank's internal regulations, which comply with the UAE Federal Labour Law.

3. Significant accounting policies *(continued)*

(o) Employee benefits *(continued)*

(ii) Short term employee benefits

Short-term employee obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of a past service provided by the employee and the obligation can be estimated reliably.

(p) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to perform under the terms of the contract.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.
The financial guarantee liability recognized in the financial statements is initially recognized at fair value.

Subsequent measurement

At the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;

(q) Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

(r) Collateral pending sale

Real estate and other collaterals were acquired as the result of settlement of certain loans and advances are recorded as assets held for sale and reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange.

(s) Earnings per share

The Bank presents basic earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary Shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(t) Interest income and expense

Effective interest rate

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

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

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

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

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3. Significant accounting policies *(continued)*

(t) Interest income and expense(continued)

For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

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

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

(u) Profit distribution

Profit distribution is the amount accrued as an expense on the funds accepted from banks and customers in the form of Wakala deposits and Mudaraba contracts and recognised as expenses in the statement of income. The amounts are calculated in accordance with agreed terms and conditions of the Wakala deposits and Sharia'a principles.

(v) Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income including loan processing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are provided. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(w) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net investment income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

3. Significant accounting policies *(continued)*

(x) Foreign currency

Foreign currency transactions are recorded at rates of exchange ruling at the value date of the transactions.

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

Forward foreign exchange contracts are translated into AED at mid-market rates of exchange at the reporting date. Foreign currency differences arising on translation are recognised in profit or loss. However, foreign currency differences arising from the translation of equity instruments measured at fair value through other comprehensive income are recognised in other comprehensive income.

4. New standards or amendments for 2019 and forthcoming requirements

New currently effective requirements:

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

The following amended standards are not expected to have a significant impact on the Bank's consolidated financial statements.

- Amendments to references to the conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- IFRS 17 Insurance Contracts.

5. Financial risk management

Overview

The Bank has exposure to the following risks from its business activities:

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

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board has entrusted a number of managers with the risk management function along with setting up and monitoring the Bank's credit, liquidity, operational and market risks, taking credit decisions above management's discretionary powers and setting market risk limits under which the Bank's management operates.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. *Financial risk management (continued)*

The Bank has further set up from within management, the Asset and Liability, ("ALCO") Credit and Operational risk committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank has risk appetite / tolerance limits which is revised annually and monitored regularly.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits, implement controls, monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee.

(a) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations; and arises principally from the Bank's loans and advances, due from banks, other financial institutions, non-trading debt instruments and certain other assets.

Management of credit risk

The Bank's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Credit Officers. Larger facilities require approval by the Chief credit officer, the Credit Committee, Board credit and investment committee or the Board of Directors as deemed appropriate.

- Reviewing and assessing all credit exposures of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, segments, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for Investment designated at FVOCI).

- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk rating (Moody's risk analyst) consist of 19 normal and 3 non performing categories. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. *Financial risk management (continued)*

(a) Credit risk (continued)

Management of credit risk (continued)

- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

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

In addition, the Bank manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Bank credit processes are undertaken by internal audit department.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2019				31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Due from banks								
Low-fair risk	**2,422,604**	**382,248**	-	**2,804,852**	2,976,639	203,960	-	3,180,599
Higher risk	-	-	-	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	**2,422,604**	**382,248**	-	**2,804,852**	2,976,639	203,960	-	3,180,599
Loss allowance (Stage 1 + Stage 2)	**(7,482)**	**(2,960)**	-	**(10,442)**	(2,114)	(2,990)	-	(5,104)
Carrying amount	**2,415,122**	**379,288**	-	**2,794,410**	2,974,252	200,970	-	3,175,495

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. *Financial risk management (continued)*

(a) Credit risk (continued)

Credit quality analysis (continued)

	31 December 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
Low-fair risk	12,382,460	1,560,543	-	13,943,003	9,997,217	3,693,114	999	13,691,330
Higher risk	31,340	1,697,320	-	1,728,660	24,904	432,404	2,024	459,332
Grade 8: Substandard	-	-	777,082	777,082	-	-	582,538	582,538
Grade 9: Doubtful	-	-	113,443	113,443	-	-	43,449	43,449
Grade 10: Loss	-	-	72,690	72,690	-	-	141,540	141,540
Total gross carrying amount	12,413,800	3,257,863	963,215	16,634,878	10,022,121	4,125,518	770,550	14,918,189
Loss allowance (Stage 1 + Stage 2)	(76,228)	(290,465)	-	(366,693)	(44,843)	(252,308)	-	(297,151)
Loss allowance (Stage 3)	-	-	(509,077)	(509,077)	-	-	(439,133)	(439,133)
Unallocated Provision	(49,810)	(38,640)	-	(88,450)	-	-	(201,883)	(201,883)
Interest in suspense	-	-	(78,173)	(78,173)	-	-	(49,065)	(49,065)
Deferred Profit	(23,002)	-	-	(23,002)	(32,753)	-	-	(32,753)
Carrying amount	12,264,760	2,928,758	375,965	15,569,483	9,944,525	3,873,210	80,469	13,898,204

	31 December 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Debt Securities – FVOCI								
Low-fair risk	1,680,395	106,609	-	1,787,004	1,207,642	37,147	-	1,244,789
Higher risk	-	-	-	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	1,680,395	106,609	-	1,787,004	1,207,642	37,147	-	1,244,789
Loss allowance (Stage 1 + Stage 2)	-	-	-	-	-	-	-	-
Carrying amount	1,680,395	106,609	-	1,787,004	1,207,642	37,147	-	1,244,789

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. *Financial risk management (continued)*

(a) *Credit quality analysis (continued)*

	31 December 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Debt Securities – FVPTL								
Low-fair risk	-	43,946	-	43,946	-	43,946	-	43,946
Higher risk	-	-	-	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	-	43,946	-	43,946	-	43,946	-	43,946
Loss allowance (Stage 1 + Stage 2)	-	(3,500)	-	(3,500)	-	(3,500)	-	(3,500)
Carrying amount	-	40,446	-	40,446	-	40,446	-	40,446

	31 December 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Debt Securities – Amortised cost								
Low-fair risk	38,143	-	-	38,143	-	-	-	-
Higher risk	-	-	-	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	38,143	-	-	38,143	-	-	-	-
Loss allowance (Stage 1 + Stage 2)	-	-	-	-	-	-	-	-
Carrying amount	38,143	-	-	38,143	-	-	-	-

Loans and advances to customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Security and Collaterals are bifurcated into following categories:

- Tangible: This includes Cash Margin, Fixed Deposits Under lien Mortgages over immovable assets, pledge of Shares, Commercial Pledge over movable assets.

- Non Tangible: Guarantees and all other collaterals not having any tangible worth/ value.

Collateralization of exposure is supported by proper documentation, charge (registered where required) etc. to ensure its enforceability/reliability.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Loans and advances to customers (continued)

The Bank has collateral valuation guidelines which details the principles and frequency of valuation of securities. The Bank monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

When valuations are obtained from Banks' approved evaluators, the lowest value is taken thereafter for the purpose of collateral / LTV computation. A refreshed valuations are obtained for properties with more frequency in cases where there are difficulties and hence reliance on the security is increasingly high. Where the bank accepts fixed assets e.g. property as collateral, these are adequately insured with the bank as loss payee, where-ever applicable. If corporate guarantees are accepted their tangible net worth are re-evaluated annually along with the annual review of facilities, where-ever applicable. All securities are held under the custody of an independent credit administration function.

At 31 December 2019, the net carrying amount of credit-impaired loans and advances to customers amounted to AED 375,965 (2018: 279,329) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 424,074 (2018: AED 911,406). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

For retail portfolio historical payment behavior of the exposure is evaluated to determine significant increase in credit risk.

In addition to the quantitative test based on movement of PD, the Bank also applies experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results.

Credit risk grades

The Bank allocates each corporate exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Credit risk grades (continued)

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each borrower is assigned a credit risk grade on initial recognition based on available information about the borrower's financial information, securities provided to banks and other relevant qualitative information. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The monitoring typically involves use of the following information.

Corporate exposures	Retail exposures	All exposures
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes - Data from credit reference agencies, press articles, changes in external credit ratings - Quoted bond and credit default swap (CDS) prices for the borrower where available - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	- Internally collected data on customer behaviour – e.g. utilisation of credit card facilities - Affordability metrics - External data from credit reference agencies, including industry-standard credit scores	- Payment record – this includes overdue status as well as a range of variables about payment ratios - Utilisation of the granted limit - Requests for and granting of forbearance - Existing and forecast changes in business, financial and economic conditions

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between corporate and retail.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes (see 5(e)).

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Incorporation of forward-looking information (continued)

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring. Same information is used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities, and the International Monetary Fund, and selected private-sector and academic forecasters.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Bank's senior management.

The bank has applied the following Macro Economic Variables/Shocks for UAE in conditional IFRS 9 analysis with forecast scenarios:

- GDP
- Equity (ADH Equity Index)
- Oil Price

Unemployment data is not of much indicator in UAE and hence not considered. UAE Real Estate variable is not yet included since the points pertaining to data series is not yet adequate. Forecasts for 5 years have been used for this purpose.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the Bank accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Modified financial assets (continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

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

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

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

LGD is the magnitude of the likely loss if there is a default. . For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Measurement of ECL (continued)

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

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

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument for the year ended 31 December 2019.

Due from banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2019**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Beginning of the period	**5,104**	-	-	**5,104**
			-	-
	5,104	-	-	**5,104**
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Impact of change in provision	2,378	2,960	-	**5,338**
	7,482	**2,960**	-	**10,442**

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5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Loss allowance (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument for the year ended 31 December 2018.

Due from banks	Stage 1	Stage 2	Stage 3	Total 2018
	AED'000	AED'000	AED'000	AED'000
Beginning of the period	**24,000**	-	-	**24,000**
Impact due to IFRS 9 adoption	**(11,686)**	-	-	**(11,686)**
	12,314	-	-	**12,314**
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Impact of change in provision	(7,210)	-	-	**(7,210)**
	5,104	-	-	**5,104**

Loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	Total 2019
	AED'000	AED'000	AED'000	AED'000
Beginning of the period	79,015	420,018	439,134	**938,167**
	79,015	**420,018**	**439,134**	**938,167**
Transfers:				
Transfer from Stage 1 to Stage 2	(8,178)	8,178	-	-
Transfer from Stage 1 to Stage 3	(30)	-	30	-
Transfer from Stage 2 to Stage 1	86,922	(86,922)	-	-
Transfer from Stage 2 to Stage 3	-	(21,234)	21,234	-
Transfer from Stage 3 to Stage 2	-	17,006	(17,006)	-
Impact of change in provision	**7,947**	**12,492**	**135,531**	**155,970**
Recovery	-	-	(26,187)	**(26,187)**
Write Back	-	-	(30,110)	**(30,110)**
Write-offs	-	(873)	(72,747)	**(73,620)**
Transfer among stage itself	(39,638)	(19,560)	59,198	-
	126,038	**329,105**	**509,077**	**964,220**

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Loss allowance (continued)

Loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	Total 2018
	AED'000	AED'000	AED'000	AED'000
Beginning of the period	59,220	376,135	383,725	819,080
Impact due to IFRS 9 adoption	9,065	31,550	222,534	263,149
	68,285	407,685	606,259	1,082,229
Transfers:				
Transfer from Stage 1 to Stage 2	-	15,719	-	15,719
Transfer from Stage 1 to Stage 3	-	-	37,672	37,672
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	67,464	67,464
Transfer from Stage 3 to Stage 2	-	-	-	-
Impact of change in provision	-	-	93,491	93,491
Impact of new loans	10,730	13,842	-	24,572
Recovery	-	-	(38,668)	(38,668)
Write Back	-	-	(72,065)	(72,065)
Write-offs	-	(148,652)	(123,595)	(272,247)
Transfer among stage itself	-	131,424	(131,424)	-
	79,015	420,018	439,134	938,167

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Gross Maximum Exposure	2019	2018
	AED'000	AED'000
Balances with Central Bank of the UAE	1,728,965	1,667,361
Investments at fair value through profit or loss	43,946	43,946
Investments at fair value through other comprehensive income	1,923,625	1,362,003
Investments at amortised cost	38,143	-
Due from banks and financial institutions	2,804,852	3,180,599
Loans and advances	16,634,878	14,918,189
Other assets	1,647,142	1,388,868
Contingent liabilities	5,956,867	7,444,512
Commitments	6,599,924	4,655,876
Total credit risk exposure	37,378,342	34,661,354

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured with any material concessions due to deterioration in the borrower's financial position even if these accounts were under normal classification at the time of restructuring. Once a loan is restructured, it remains as a loan with renegotiated terms for a minimum period of twenty-four months, in order to establish satisfactory track record of performance under the restructuring agreement. Any case of payment holiday or any credit that show weaknesses in its conduct, will not be removed from said disclosure until a satisfactory track record is evidenced. The Bank determines the twenty-four months' period to commence from the date of signing of the agreement for restructuring. On this class of asset, the Bank believes that specific impairment may not be required.

Loans with renegotiated terms	**2019**	**2018**
	AED'000	**AED'000**
Gross carrying amount	**2,144,701**	2,424,518
Impaired loans	**582,883**	495,411
Allowance for impairment	**(297,858)**	(252,430)
Net loans with renegotiated terms	**2,429,726**	**2,667,499**

Collateral

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

As at 31 December 2019, the Bank held credit risk mitigants with an estimated value of AED 10,953,273 thousand (2018: AED 9,567,866 thousand) against receivables from Loans and advances, Murabaha and Ijarah contracts and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Bank accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against Placements with banks and other financial institutions, and no such collateral was held at 31 December 2019 or 31 December 2018.

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

LTV ratio	**2019**	**2018**
	AED'000	**AED'000**
Less than 50%	**190,532**	33,273
51 – 70%	**142,980**	190,310
71 – 90%	**74,778**	85,391
91 – 100%	**-**	-
More than 100%	**-**	-
Total	**408,290**	**308,974**

The Bank holds collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of the borrowing and generally updated periodically as per the Bank's policy.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Collateral (continued)

An estimate of the fair value of collateral and other security enhancements held against loans and advances is shown below:

	2019	2018
	AED'000	AED'000
Against individually impaired		
Property	306,130	324,887
Equities	-	-
Others (FD)	1,823	1,415
	307,953	326,302
Against past due but not impaired		
Property	2,665,998	3,409,407
Equities	181,822	270,749
Others	193,064	131,278
	3,040,884	3,811,434
Against neither past due nor impaired		
Property	5,646,948	4,537,407
Equities	411,028	312,882
Others	1,546,460	579,841
	7,604,436	5,430,130
Total value of collaterals and other credit enhancements	10,953,273	9,567,866

Concentrations of credit risk

The Bank monitors concentrations of credit risk by industry sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, due from banks and Investment at FVOCI and FVTPL at the reporting date is shown below:

Loans and advances	2019	2018
	AED'000	AED'000
Concentration by industry		
Real estate	3,009,227	2,863,743
Trading	2,707,055	2,708,850
Services	2,173,296	1,604,373
Financial institutions	2,041,419	1,470,209
Construction	1,819,407	1,580,136
Individuals	1,594,752	1,331,410
Personal loans for business (HNI)	1,420,975	1,494,270
Manufacturing	978,322	870,757
Transport	669,526	853,390
Mining and quarrying	102,171	17,191
Others	118,728	123,860
Gross loans and Islamic financing	16,634,878	14,918,189
Less: deferred profit	(23,002)	(32,753)
Less: interest suspended	(78,173)	(49,065)
Less: allowance for impairment	(964,220)	(938,167)
Carrying amount	15,569,483	13,898,204

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Concentrations of credit risk (continued)

Due from banks and financial institutions	2019	2018
Concentration by sector:	AED'000	AED'000
Public sector	-	-
Private sector	-	-
Financial institutions	2,804,852	3,180,599
	2,804,852	3,180,599
Less: allowance for impairment	(10,442)	(5,104)
Carrying amount	2,794,410	3,175,495

	Investments at FVOCI-Bonds		Investments at FVTPL		Investments at amortised cost	
	2019	2018	2019	2018	2019	2018
Concentration by sector:	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Public sector	986,793	737,035	-	-	38,143	-
Private sector	71,900	84,395	-	-	-	-
Financial institutions	728,311	423,359	43,946	43,946	-	-
	1,787,004	1,244,789	43,946	43,946	38,143	-
Less: allowance for impairment	-	-	(3,500)	(3,500)	-	-
Carrying amount	1,787,004	1,244,789	40,446	40,446	38,143	-

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Concentrations of credit risk (continued)

	Due from banks and financial institutions		Loans and Advances	
	2019	**2018**	**2019**	**2018**
Concentration by location:	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	**658,799**	552,282	**15,557,830**	13,856,186
Europe	**236,574**	1,052,935	**-**	-
GCC	**928,435**	753,796	**548**	-
Arab world	**156,093**	147,897	**-**	-
North America	**303,954**	44,303	**-**	-
Asia	**510,555**	624,282	**11,105**	42,018
Others	**-**	-	**-**	-
	2,794,410	3,175,495	**15,569,483**	13,898,204

	Investments at FVOCI - Bonds		Investments at FVTPL		Investments at amortised cost	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Concentration by location:	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	**1,266,442**	897,744	**40,446**	40,446	**38,143**	-
Europe	**-**	-	**-**	-	**-**	-
GCC	**501,931**	328,628	**-**	-	**-**	-
Arab world	**-**	-	**-**	-	**-**	-
North America	**-**	-	**-**	-	**-**	-
Asia	**-**	-	**-**	-	**-**	-
Others	**18,631**	18,417	**-**	-	**-**	-
	1,787,004	1,244,789	**40,446**	40,446	**38,143**	**-**

Concentration by location for loans and advances, due from banks and Investment at FVOCI, investment at FVPTL and investment at amortised cost is measured based on the residential status of the borrower. Concentration by location for financial assets at fair value through profit or loss is measured based on the location of the issuer of the security.

As at 31 December 2019, twelve customers, (group wise exposures), comprised approximately 27.98% of the total balance of loans and advances *(2018: 24.43%).*

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier.

5. Financial risk management *(continued)*

(a) Credit quality analysis (continued)

Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is disclosed in note 31 to the financial statements.

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's board of directors sets the Bank's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. Board approves the Bank's liquidity policies and procedures. Treasury department manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Bank maintains a portfolio of short-term liquid assets, largely made up of short-term liquid financial assets at fair value through profit or loss, and inter-bank placements to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

One of the critical means to measure adequacy of liquidity as per extant global regulation is through Liquidity Coverage Ratio ("LCR").The Bank has been internally reporting Basel III LCR numbers for a considerable period of time, and has invested heavily in ensuring systems and controls framework is in place to comply with all the qualitative and quantitative aspects of Basel III. In addition, The Bank also ensures that it is in compliance with UAE Central Bank liquidity regulation on Eligible Liquid Assets Ratio ("ELAR") at all times.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets, i.e. total assets by maturity against total liabilities by maturity. For this purpose, high quality liquid assets, ("HQLA") includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market. Debt securities issues, other borrowings and commitments maturing within the next month.

Details of the Bank's net liquid assets is summarised in the table below by the maturity profile of the Bank's assets and liabilities based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Bank's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(b) Liquidity risk (continued)

The maturity profile of financial assets and liabilities at 31 December 2019 was as follows:

Assets	Carrying Amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Cash and balances with the Central Bank of the UAE	1,788,798	1,463,798	325,000	-	-	-	-
Due from banks and financial institutions	2,794,410	1,971,899	18,366	168,952	-	-	635,193
Investments at FVOCI	1,919,048	-	299,340	626,557	496,791	364,316	132,044
Investments at FVTPL	40,446	40,446	-	-	-	-	-
Investments at amortised cost	38,143	-	-	-	-	38,143	-
Loans and advances	15,569,483	4,119,765	3,072,974	2,535,500	2,304,740	3,536,504	-
Other assets	519,572	163,202	53,615	-	-	-	302,755
Total assets	**22,669,900**	**7,759,110**	**3,769,295**	**3,331,009**	**2,801,531**	**3,938,963**	**1,069,992**
Liabilities							
Customers' deposits	15,735,610	6,335,167	4,114,570	1,511,458	1,190	-	3,773,225
Due to banks and financial institutions	2,584,080	996,281	1,101,900	-	-	-	485,899
Other liabilities	613,193	163,202	53,615	-	-	-	396,376
Total liabilities	**18,932,883**	**7,494,650**	**5,270,085**	**1,511,458**	**1,190**	**-**	**4,655,500**
On statement of financial position gap	**3,737,017**	**264,460**	**(1,500,790)**	**1,819,551**	**2,800,341**	**3,938,963**	**(3,585,508)**

The maturity profile of financial assets and liabilities at 31 December 2018 was as follows:

Assets	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Cash and balances with the Central Bank of the UAE	1,730,980	1,130,980	600,000	-	-	-	-
Due from banks and financial institutions	3,175,495	2,106,258	-	183,650	-	-	885,587
Investments at FVOCI	1,357,425	55,007	158,565	536,891	421,661	72,665	112,636
Investments at FVTPL	40,446	40,446	-	-	-	-	-
Loans and advances	13,898,204	2,862,441	3,329,803	2,943,458	2,377,953	2,384,549	-
Other assets	262,469	55,604	18	-	-	-	206,847
Total assets	20,465,019	6,250,736	4,088,386	3,663,999	2,799,614	2,457,214	1,205,070
Liabilities							
Customers' deposits	14,154,810	5,542,207	4,519,148	1,780,880	-	-	2,312,575
Due to banks and financial institutions	2,635,582	2,079,320	-	-	-	-	556,262
Other liabilities	362,166	55,604	18	-	-	-	306,544
Total liabilities	17,152,558	7,677,131	4,519,166	1,780,880	-	-	3,175,381
On statement of financial position gap	3,312,461	(1,426,395)	(430,780)	1,883,119	2,799,614	2,457,214	(1,970,311)

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are mainly held by Treasury unit, and include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis.

The Board of Directors has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Division, reported weekly to Senior Management and discussed by the ALCO/ investment committee.

Interest rate risk

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

A substantial portion of the Bank's assets and liabilities are re-priced within three months. Accordingly, there is limited exposure to interest rate risk.

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

A summary of the Bank's interest rate gap position based on contractual re-pricing arrangements at 31 December 2019 is as follows:

Re-pricing in	Total	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Non-interest Bearing
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with the Central Bank of the UAE	**1,788,798**	525,000	325,000	-	-	-	938,798
Due from banks and financial institutions	**2,794,410**	2,607,092	18,366	168,952	-	-	-
Investments at FVOCI	**1,919,048**	-	299,340	626,557	496,791	364,316	132,044
Investments at FVTPL	**40,446**	40,446	-	-	-	-	-
Investments at amortised cost	**38,143**	-	-	-	-	38,143	-
Loans and advances	**15,569,483**	12,886,458	1,279,352	382,579	247,646	773,448	-
Other assets	**519,571**	-	-	-	-	-	519,571
Total assets	**22,669,899**	**16,058,996**	**1,922,058**	**1,178,088**	**744,437**	**1,175,907**	**1,590,413**
Liabilities							
Customers' deposits	**15,735,610**	7,030,692	4,123,977	55,252	1,190	-	4,524,499
Due to banks and financial institutions	**2,584,080**	1,477,583	1,101,900	-	-	-	4,597
Other liabilities	**613,193**	-	-	-	-	-	613,193
Total liabilities	**18,932,883**	**8,508,275**	**5,225,877**	**55,252**	**1,190**	**-**	**5,142,289**
On statement of financial position gap	**3,737,016**	**7,550,721**	**(3,303,819)**	**1,122,836**	**743,247**	**1,175,907**	**(3,551,876)**

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

5. Financial risk management *(continued)*

(c) Market risk (continued)

A summary of the Bank's interest rate gap position based on contractual re-pricing arrangements at 31 December 2018 is as follows:

Re-pricing in	Total	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Non-interest Bearing
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the Central Bank of the UAE	1,730,980	100,000	600,000	-	-	-	1,030,980
Due from banks and financial institutions	3,175,495	3,175,495	-	-	-	-	-
Investments at FVOCI	1,357,425	14,560	158,564	536,891	421,661	72,665	153,084
Investments at FVTPL	40,446	40,446	-	-	-	-	-
Loans and advances	13,898,204	12,328,122	625,614	310,053	167,901	267,097	199,417
Other assets	262,469	-	-	-	-	-	262,469
Total assets	20,465,019	15,658,623	1,384,178	846,944	589,562	339,762	1,645,950
Liabilities							
Customers' deposits	14,154,810	5,896,557	4,135,936	435,635	-	-	3,686,682
Due to banks and financial institutions	2,635,582	2,635,582	-	-	-	-	-
Other liabilities	362,166	-	-	-	-	-	362,166
Total liabilities	17,152,558	8,532,139	4,135,936	435,635	-	-	4,048,848
On statement of financial position gap	3,312,461	7,126,484	(2,751,758)	411,309	589,562	339,762	(2,402,898)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The Bank assumes a fluctuation in interest rates of 75 basis points *(2018: 75 basis points)* and estimates the following impact on the profit for the year and equity at that date:

	2019 Profit for the year	2018 Profit for the year	2019 Equity	2018 Equity
	AED'000	AED'000	AED'000	AED'000
Fluctuation in yield	5,467	4,153	3,386	3,080

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 21,079 million interest bearing assets at year end *(2018: AED 19,095 million)* and AED 13,791 million interest bearing liabilities at year end *(2018: AED 13,102 million).* The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

The interest rate movements have an effect on retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Bank's functional currency is the UAE Dirham. As at 31 December 2019, the Bank had the following significant net exposures denominated in foreign currencies:

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5. Financial risk management *(continued)*

(c) Market risk (continued)

Currency risk (continued)

Currency	Net spot position AED'000	Forward position AED'000	**Net exposure 2019 AED'000**	Net exposure 2018 AED'000
US Dollar	839,299	(1,979,495)	**(1,140,196)**	806,469
GBP	849	-	**849**	47
Euro	(4,831)	4,202	**(629)**	5,900
Saudi Riyal	(1,946,686)	1,976,293	**29,607**	-

The exchange rate of AED against the US Dollar is pegged since November 1980 and the Bank's exposure to currency risk is limited to that extent.

Other market price risk

Equity price risk arises from the change in fair values of equity investments. The Bank manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

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

The Bank has established a framework of policies and procedures to identify, assess, control, manage and report risks.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Department. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

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5. Financial risk management *(continued)*

(e) Capital management

The Bank's regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Bank's objectives when managing capital are:

- Safeguarding the Bank's ability to continue as a going concern and increase the returns for the Shareholders; and
- Complying with regulatory capital requirements set by the Central Bank of the UAE.

During 2019, the Bank's strategy, which was unchanged from 2018, was to:

- Maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel Accord guidelines; and
- Allocate capital to various businesses in an efficient manner.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a quarterly (Basel III) basis.

The Central Bank of the UAE issued its circular No. 52/2017 dated January 17, 2017 informing all the Banks operating in the U.A.E. to implement the Standardized approach of Basel III from the date of the circular. For credit and market risk, the Central Bank has previously issued draft guideline for implementation of Standardised approach and Banks are expected to comply and report under pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

The Bank has complied with all externally imposed capital requirements throughout the years presented.

The Bank seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

As per Basel III requirement, capital should comprise of the following:

Tier 1 capital - Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instrument issued by banks which are eligible for inclusion in AT 1 and are not included in CET 1.

Tier 2 capital - Tier 2 capital includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets).

Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets, cash flow hedge reserve. Additionally, threshold deduction is applied in case of exceeding the threshold limit.

As per Central Bank regulation for Basel III, the capital requirements during the year 2018 is 12.375% inclusive of capital conservation buffer. This will increase to maximum of 13% inclusive of capital conservation buffer from December 2019.

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5. Financial risk management *(continued)*

(e) Capital management (continued)

The bank must comply with following minimum requirement:

i.) CET1 must be at least 7% of risk weighted assets (RWA);
ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA);
iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA);

Additionally capital conservation buffer is to be maintained at 1.875% in year 2018, this will increase to 2.5% in the year 2019.

Capital allocation

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular activities, it is not the sole basis used for decision making. Account is also taken of synergies with other activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors as part of Internal Capital Adequacy assessment program ("ICAAP").

In the process of applying the Bank's accounting policies, management has made the following estimates and judgements, which have the most significant effect on the amounts recognised in the financial statements.

The Bank's regulatory capital positions as 31 December 2019 & 2018 is as follows:

	2019	2018
Capital Base	**AED'000**	AED'000
Tier 1 capital	**4,204,686**	3,961,032
Tier 2 capital	**244,211**	234,821
Total capital base	**4,448,897**	4,195,853
Risk weighted assets:		
Credit risk	**19,536,919**	18,785,683
Market risk	**58,254**	84,685
Operational risk	**1,511,404**	1,395,160
Total Risk Weighted Assets	**21,106,577**	20,265,528
CET 1 ratio	**19.9%**	19.5%
Tier 1 ratio	**19.9%**	19.5%
Capital adequacy ratio	**21.1%**	20.7%

6. Use of estimates and judgements

(a) Key sources of estimation uncertainty

(i) Allowances for credit losses

Impairment losses are evaluated as described in accounting policy 3(b)(x).

The Bank evaluates impairment on loans and advances and investments on an on-going basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about the counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
  Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

(ii) Determining fair values

The determination of fair value for financial assets and liabilities of which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(b)(ix). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degree of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument (Note 7).

(b) Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

(i) Financial assets and liabilities classification

The Bank's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, such as in classifying financial assets as at fair value through profit or loss or as at fair value through other comprehensive income, the Bank has determined that it meets the description as set out in accounting policy 3(b)(ii).

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6. Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Bank's accounting policies (continued)

(ii) Contingent liability arising from litigations

Due to the nature of its operations, the Bank 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.

(iii) Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3(b)(ix).

Fair value hierarchy:

Fair value measurements recognised in the statement of financial position

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- **Level 2:** Freehold land and properties include land and buildings completed and have been re-valued using the revaluation method under IAS 16. Refer (Note 13) in respect of the valuation technique used.

- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market priced or dealer priced quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Observable prices and model inputs are usually available in the market for listed equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and

6. Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Bank's accounting policies (continued)

(iii) Valuation of financial instruments (continued)

inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	**Total**
	AED'000	AED'000	AED'000	**AED'000**
At 31 December 2019				
Investments at FVOCI (Note 9)	1,903,667	-	15,381	**1,919,048**
Investments at FVTPL (Note 10)	-	-	40,446	**40,446**
Investments at amortised cost (Note 11)	38,143	-	-	**38,143**
	1,941,810	-	**55,827**	**1,997,637**
At 31 December 2018				
Investments at FVOCI (Note 9)	1,342,506	-	14,919	**1,357,425**
Investments at FVTPL (Note 10)	-	-	40,446	**40,446**
Investments at amortised cost (Note 11)	-	-	-	**-**
	1,342,506	-	55,365	**1,397,871**

Although the Bank believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values.

Level 3 reconciliation

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

	2019	2018
	AED'000	AED'000
At 1 January	**55,365**	35,386
Additions during the year	**467**	-
Translation gain	**(5)**	-
Change in fair value	**-**	(92)
Reversal of impairment	**-**	20,071
At 31 December	**55,827**	**55,365**

Accounting classifications and fair values

All financial assets and liabilities are measured at amortised cost except for financial assets at fair value through profit or loss and Investment at FVOCI which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques.

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

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6. Use of estimates and judgements *(continued)*

The fair values of due from banks, customers' deposits and due to banks that are predominantly short-term in tenure and issued at market rates are considered to reasonably approximate their book value.

The Bank estimates that the fair value of its loans and advances portfolio is not materially different from its book value since the majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

7. Cash and balances with the Central Bank of the UAE

	2019 AED'000	2018 AED'000
Cash in hand	59,833	63,619
Balances with the Central Bank of the UAE	971,898	984,693
Cash reserve with Central Bank of the UAE	757,067	682,668
	1,788,798	1,730,980

Cash reserve deposits are not available for the day-to-day operations of the Bank.

8. Due from banks and financial institution

	2019 AED'000	2018 AED'000
Current, call and notice deposits	635,194	885,587
Fixed deposits	1,982,339	2,111,362
Loan Syndication	187,319	183,650
Gross balance	2,804,852	3,180,599
Allowance for impairment	(10,442)	(5,104)
Net balance	2,794,410	3,175,495
By location:		
Within the UAE	658,799	552,282
Outside the UAE	2,135,611	2,623,213
	2,794,410	3,175,495

9. Investment at fair value through other comprehensive income (FVOCI)

	2019 AED'000	2018 AED'000
Investment in quoted securities (bonds) - UAE	1,266,442	897,745
Investment in quoted securities (bonds) - others	520,562	347,044
Total bonds at FVOCI	1,787,004	1,244,789
Investment in quoted UAE securities (equity)	112,954	93,959
Investments in unquoted overseas securities (equity investments)	14,722	14,722
Investment in quoted GCC (excl. UAE) securities (Equity)	3,709	3,759
Investments in unquoted UAE securities (equity investments)	467	-
Investment in overseas funds	192	196
Total equities at FVOCI	132,044	112,636
Total investments at FVOCI	1,919,048	1,357,425

Unquoted securities are measured at fair value based on the investee company's net asset value as of the year end.

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9. Investment at fair value through other comprehensive income (FVOCI) *(continued)*

Movements in investment designated at FVOCI during the year were as follows:

	2019 AED'000	2018 AED'000
Fair value at 1 January	1,357,425	1,237,929
Purchase of Investment at FVOCI	744,113	256,153
Sale of Investment at FVOCI	(255,000)	(95,732)
Change in fair value	85,612	(28,563)
Amortisation of bonds	(12,645)	(11,043)
Allowance for impairment	(474)	(1,227)
Translation gain	17	(92)
Fair value at 31 December	1,919,048	1,357,425

The maximum exposure to credit risk at the reporting date is the carrying value of the securities classified as Investments at FVOCI.

10. Investment at fair value through profit or loss (FVTPL)

	2019 AED'000	2018 AED'000
Investment in unquoted UAE securities	43,946	43,946
Less: Allowance for impairment	(3,500)	(3,500)
	40,446	40,446

11. Investment at amortised cost

Investments at amortised cost include investments of AED 38,143 thousand (2018: AED Nil) in a public sector company which is held with a business model to hold the asset to collect the contractual cash flows and the contractual terms give rise to collect the cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding.

12. Loans and advances

	2019 AED'000	2018 AED'000
Loans and advances	14,626,638	13,044,650
Islamic financing	2,008,240	1,873,539
Gross loans and Islamic financing	16,634,878	14,918,189
Deferred profit	(23,002)	(32,753)
Allowance for impairment	(964,220)	(938,167)
Interest suspended	(78,173)	(49,065)
Net loans and advances	15,569,483	13,898,204

Islamic finance breakdown

	2019 AED'000	2018 AED'000
By type :		
Ijarah	981,435	861,644
Murabaha	1,026,805	1,011,895
Gross Islamic financing	2,008,240	1,873,539
Deferred profit	(23,002)	(32,753)
Profit in suspense	(6,854)	(942)
Allowance for impairment	(56,822)	(19,050)
Net Islamic Financing	1,921,562	1,820,794

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12. Loans and advances *(continued)*

The maturities of minimum Ijara payments

	2019 AED'000	2018 AED'000
Less than one year	141,960	22,853
Between one year and five years	562,737	86,303
More than five years	276,738	752,488
Gross Ijara financing	981,435	861,644

An analysis of gross loans and advances by segment at the reporting date is shown below:

	2019 AED'000	2018 AED'000
Corporate segment	15,714,921	13,877,932
Consumer segment	919,957	1,040,257
Gross loans and Islamic financing	16,634,878	14,918,189

The movement in the allowance for impairment during the year is shown below:

2019	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
At 1 January	439,133	499,034	938,167
Charge for the year	209,238	75,740	284,978
Recoveries	(26,187)	-	(26,187)
Write Back to Income Statement	(40,360)	(113,432)	(153,792)
Net change during the period	142,691	(37,692)	104,999
Net amounts written off	(72,747)	(873)	(73,620)
Transfer during the period	-	-	-
Transfer from GP to GP Banks	-	(5,326)	(5,326)
	509,077	455,143	964,220

2018	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
At 1 January	383,725	435,355	819,080
Adjustment of initial adoption IFRS 9	222,534	40,615	263,149
Charge for the year	198,626	8,827	207,453
Recoveries	(38,668)	-	(38,668)
Write Back to Income Statement	(72,065)	-	(72,065)
Net change during the period	310,427	49,442	359,869
Net amounts written off	(123,595)	(148,652)	(272,247)
Transfer during the period	(131,424)	131,424	-
Transfer from IIS to GP	-	24,255	24,255
Transfer from GP Banks to GP Corp	-	7,210	7,210
	439,133	499,034	938,167

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13. Investment properties

	Investmentproperties			Investment properties under development			
	Land AED'000	Building AED'000	Total AED'000	Land AED'000	Work in Progress AED'000	Total AED'000	Grand Total AED'000
Cost							
At 1 January 2018	168,523	319,926	488,449	588,101	14,445	602,546	1,090,995
Additions	-	-	-	(152,392)	(600)	(152,992)	(152,992)
Disposals	-	-	-	-	-	-	-
Transferred to non-current assets held-for-sale	-	-	-	(202,008)	(4,340)	(206,348)	(206,348)
At 31 December 2018	168,523	319,926	488,449	233,701	9,505	243,206	731,655
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Transferred to non-current assets held-for-sale	-	-	-	-	-	-	-
At 31 December 2019	**168,523**	**319,926**	**488,449**	**233,701**	**9,505**	**243,206**	**731,655**
Accumulated depreciation							
At 1 January 2018	-	82,427	82,427	-	-	-	82,427
Charges for the year	-	10,664	10,664	-	-	-	10,664
At 31 December 2018	-	93,091	93,091	-	-	-	93,091
Charges for the year	-	10,637	10,637	-	-	-	10,637
At 31 December 2019	-	**103,728**	**103,728**	-	-	-	**103,728**
Net carrying amount							
At 31 December 2018	168,523	226,835	395,358	233,701	9,505	243,206	638,564
Less: allowance for impairment	(58,844)	(19,314)	(78,158)	(158,317)	(9,505)	(167,822)	(245,980)
	109,679	207,521	317,200	75,384	-	75,384	392,584
At 31 December 2019	168,523	216,198	384,721	233,701	9,505	243,206	627,927
Less: allowance for impairment	(58,844)	(30,556)	(89,400)	(162,401)	(9,505)	(171,906)	(261,306)
	109,679	**185,642**	**295,321**	**71,300**	**-**	**71,300**	**366,621**

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13. Investment properties *(continued)*

Towards the end of 2019, the Bank carried out an evaluation exercise of the investment properties and investment properties under development through qualified, independent external valuators, the valuation methodologies used by the external valuators include:

- Direct Comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued. A yield range of 4% to 5% has been applied, together with allowances for rent fee periods.
- Income capitalisation method: This method includes development of valuation model that applies a rate to an amount that represents a measure of economic income (e.g. free cash flows to firm or free cash flows to equity) to arrive at an estimate of present value. The model is useful as a cross-check when other approaches have been used.

All investment properties of the Bank are located in the United Arab Emirates.

Details of rental income and direct operating expenses relating to investment properties are as follow:

	2019	2018
	AED'000	AED'000
Rental income	**31,727**	36,428
Direct operating expenses	**(11,882)**	(10,575)
	19,845	**25,853**

The movement in the allowance for impairment during the year is shown below:

	2019	2018
	AED'000	AED'000
At 1 January	**245,980**	387,360
Charge for the year	**16,873**	15,901
Recoveries during the year	**(1,529)**	(4,602)
Net charge for the year	**15,344**	11,299
Disposal for the year	**-**	(66,939)
Transferred to non-current assets held-for-sale	**(18)**	(85,740)
At 31 December	**261,306**	245,980

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14. Other assets

	2019 AED'000	2018 AED'000
Acceptances	**221,051**	55,622
Interest receivable	**254,325**	157,674
Sundry debtors and other assets	**29,096**	31,301
Property acquired in settlement of debt, net	**15,100**	17,872
	519,572	262,469

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability (Note 19) in the statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

15. Property, plant and equipment

	Freehold land AED'000	Buildings AED'000	Total buildings and lands AED'000	Project in progress AED'000	Furniture equipment & vehicles AED'000	Right of Use Assets AED'000	Total AED'000
Cost							
At 1 January 2018	122,122	262,435	384,557	34,971	103,200	-	522,728
Additions	-	-	-	31,619	1,219	-	32,838
Transfers	-	-	-	(24,340)	24,340	-	-
Sale of property and equipment	-	-	-	-	(11,191)	-	(11,191)
Elimination of accumulated depreciation on Revaluation	-	(8,548)	(8,548)	-	-	-	(8,548)
Gain on revaluation	2,788	7,107	9,895	-	-	-	9,895
At 31 December 2018	**124,910**	**260,994**	**385,904**	**42,250**	**117,568**	**-**	**545,722**
At 1 January 2019	124,910	260,994	385,904	42,250	117,568	-	545,722
Additions	-	-	-	16,505	6,457	-	22,962
Right of use Assets	-	-	-	-	-	21,340	21,340
Transfers	-	-	-	(50,824)	50,824	-	-
Sale of property and equipment	-	-	-	-	(611)	-	(611)
Elimination of accumulated depreciation on Revaluation	-	(8,548)	(8,548)	-	-	-	(8,548)
Loss on revaluation	(1,805)	(5,800)	(7,605)	-	-	-	(7,605)
At 31 December 2019	**123,105**	**246,646**	**369,751**	**7,931**	**174,238**	**21,340**	**573,260**

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15. Property, plant and equipment *(continued)*

	Freehold land AED'000	Buildings AED'000	Total buildings and lands AED'000	Project in progress AED'000	Furniture equipment & vehicles AED'000	Right of Use Assets AED'000	Total AED'000
Accumulated depreciation							
At 1 January 2018	-	179,556	179,556	-	80,574	-	260,130
Charge for the year	-	347	347	-	11,996	-	12,343
Disposals	-	-	-	-	(7,825)	-	(7,825)
At 31 December 2018	-	**179,903**	**179,903**	-	**84,745**	-	**264,648**
At 1 January 2019	-	**179,903**	**179,903**	-	**84,745**	-	**264,648**
Charge for the year	-	348	348	-	11,930	-	12,278
Right of use Assets	-	-	-	-	-	6,226	6,226
Disposals	-	-	-	-	(415)	-	(415)
At 31 December 2019	**-**	**180,251**	**180,251**	**-**	**96,260**	**123,105**	**282,737**
Net carrying amount							
At 31 December 2018	**124,910**	**81,091**	**206,001**	**42,250**	**32,823**	**-**	**281,074**
At 31 December 2019	**123,105**	**66,395**	**189,500**	**7,931**	**77,978**	**15,114**	**290,523**

The freehold land and buildings were valued towards year end by qualified, independent external valuators. The valuation methodologies used by the external valuators include:

- Direct comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued. A yield range of 4% to 5% has been applied, together with allowances for rent fee periods. The valuators have estimated the amount of the operating income of the property by reference to similar commercial properties which have similar floor sizes and other specifications.
- Income capitalisation method : This model applies a rate to an amount that represents a measure of economic income (e.g. free cash flows to firm or free cash flows to equity) to arrive at an estimate of present value. The model is useful as a cross-check when other approaches have been used.

The fair value of the buildings as at 31 December 2019, as provided by the valuators was AED 189.5 million *(2018: AED 206 million)*, resulting into decrease in the revaluation reserve by AED 7.6 million *(2018: increase by AED 9.9 million)*. The table below represents the movement in the revaluation reserve of the freehold land and building:

Revaluation reserve – freehold land and buildings	**2019 AED'000**	2018 AED'000
At 1 January	**145,695**	144,348
Fair value adjustment	**(7,605)**	9,895
Elimination of revaluation gain on property and Equipment	**(8,548)**	(8,548)
At 31 December	**129,542**	145,695

At 31 December 2019, total cost of AED 162.5 million *(2018: AED 178 million)* of fully depreciated assets was included in freehold land and buildings.

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16. Non-current assets held-for-sale

During 2018, the bank has entered into a commercial agreement to sell a part of its investment property portfolio. The deal is expected to be finalized in 2020. The Bank has received 87% of the cash component from the customer. These assets are non-cash generating units and therefore have no impact on the statement of profit or loss and other comprehensive income.

	2019	2018
	AED'000	AED'000
Gross investments	**120,568**	120,608
	120,568	120,608

17. Customers' deposits

	2019	2018
	AED'000	AED'000
By type:		
Notice and time deposits	**9,344,121**	8,623,328
Current accounts	**4,398,154**	3,520,435
Savings accounts	**108,150**	148,440
	13,850,425	12,292,203
Islamic deposits *By type:*		
Current account deposits	**236,367**	175,076
Mudaraba term and savings deposits	**3,919**	3,626
Wakala deposits	**1,644,899**	1,683,905
	1,885,185	1,862,607
Total deposits	**15,735,610**	14,154,810
By sector:		
Government sector	**3,666,445**	3,542,935
Private sector	**8,860,914**	7,505,462
Individuals	**3,208,251**	3,106,413
	15,735,610	14,154,810

18. Due to banks

	2019	2018
	AED'000	AED'000
Current Call and Notice Deposits	**485,899**	558,263
Fixed Deposits	**2,098,181**	2,077,319
	2,584,080	2,635,582
By location:		
Within the UAE	**240,000**	576,095
Outside the UAE	**2,344,080**	2,059,487
	2,584,080	2,635,582

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19. Other liabilities

	2019 AED'000	2018 AED'000
Acceptances	**221,051**	55,622
Interest payable	**146,267**	116,715
Provision for employees' end of service benefits	**25,389**	22,885
Others	**220,486**	166,944
	613,193	362,166

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

	2019 AED'000	2018 AED'000
At 1 January	**22,885**	20,377
Provided during the year	**7,773**	6,339
Paid during the year	**(5,269)**	(3,831)
	25,389	22,885

20. Capital and reserves

Share capital

The authorised, issued and fully paid share capital of the Bank comprises 75,000 ordinary shares of AED 20,000 each *(2018: 75,000 shares of AED 20,000 each)*.

Statutory reserve

In accordance with UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Bank's Articles of Association, 10% of the profit for each year is transferred to a statutory reserve until this reserve equals 50% of the paid-up share capital. The statutory reserve is not available for distribution. There has been a transfer to the reserve during the year of AED 49.1 million *(2018: AED 48.3 million)*.

Special reserve

In accordance with Union Law No. (10) of 1980 concerning the Central Bank of the UAE, the Monetary System and the Organisation of Banking, 10% of the profit for each year is transferred to a special reserve until this reserve equals 50% of the paid-up share capital. The special reserve is not available for distribution. There has been a transfer to the reserve during the year of AED 49.1 million *(2018: AED 48.3 million)*.

General reserve

The general reserve has been established to enhance the equity base of the Bank. Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the Shareholders.

Revaluation reserve

The revaluation reserve includes gains on revaluation of freehold land and buildings, amounting to AED 130 million *(2018: AED 146 million)*. During the year 2019 a revaluation loss of AED 16.2 million *(2018: gain of AED 1.3 million)* was deducted from to the reserve, resulting from the revaluation exercise performed over freehold land and buildings *(Note 13)*.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of Investment at fair value through other comprehensive income (FVOCI), until the investments are derecognised or impaired.

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20. Capital and reserves (continued)

	2019 AED'000	2018 AED'000
Fair value reserve – Investments designated at FVOCI		
At 1 January	(30,155)	(2,633)
Net gain recognised	85,612	(28,563)
Impact of Adopting IFRS 9, net of tax	-	1,041
At 31 December	55,457	(30,155)

Dividends

At the Annual General Meeting (AGM) held on 18th March, 2019, the Shareholders of the Bank approved distributing dividends of AED 2,000 per ordinary share *(31 December 2018: AED 2,000 per ordinary share)* which were paid on 16th April 2019.

Zakat

The Bank has paid AED 2,031,000 as Zakat during the year (2018: AED 1,735,000).

21. Interest income

	2019 AED'000	2018 AED'000
Loans and advances to customers	818,503	747,662
Investment securities	58,124	47,832
Due from banks	83,984	46,656
	960,611	842,150

22. Interest expense

	2019 AED'000	2018 AED'000
Customers' deposits	280,591	207,199
Due to banks	39,395	21,701
	319,986	228,900

23. Income from Islamic financing contracts

	2019 AED'000	2018 AED'000
Murabaha	56,543	45,685
Ijarah	48,420	45,178
	104,963	90,863

24. Depositors' share of profit

	2019 AED'000	2018 AED'000
Mudaraba deposits and saving accounts	10	16
Wakala	59,327	49,787
	59,337	49,803

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25. Net fee and commission income

	2019 AED'000	2018 AED'000
Fee and commission income		
Letters of credit	55,440	36,862
Letters of guarantee	28,028	28,295
Retail and corporate lending fees	28,282	24,744
Transfers and other fees	5,848	2,930
Others	33,515	27,227
Total fee and commission income	151,113	120,058
Fee and commission expense		
Brokerage commission	(1,183)	(970)
Handling charges	(1,215)	(360)
Other commission	(9,913)	(11,227)
Total fee and commission expense	(12,311)	(12,557)
Net fee and commission income	138,802	107,501

Performance obligations and revenue recognition policies

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2019)
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Investment banking service	The Bank's investment banking segment provides various finance-related services, including loan administration and agency services, administration of a loan syndication, execution of client transactions with exchanges and securities underwriting. Fees for ongoing services are charged annually at the end of the calendar year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date. Transaction-based fees for administration of a loan syndication, execution of transactions, and securities underwriting are charged when the transaction takes place.	Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables. Revenue related to transactions is recognised at the point in time when the transaction takes place.

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26. Net foreign currency exchange gain

	2019	2018
	AED'000	AED'000
Trading and retranslation gain	**27,280**	13,532
Dealings with customers	**604**	2,334
	27,884	15,866

27. Other operating income

	2019	2018
	AED'000	AED'000
Rental income, net	**19,845**	25,853
Others	**9**	98
	19,854	25,951

28. General, administration and other operating expenses

	2019	2018
	AED'000	AED'000
Staff costs *(i)*	**179,432**	173,877
Depreciation *(ii)*	**29,141**	23,007
BOD expenses	**14,751**	12,638
Others	**52,531**	56,416
	275,855	265,938

(i) The number of employees as at 31 December 2019 was 408 employees (2018: 391 employees). Staff costs are divided as follows:

	2019	2018
	AED'000	AED'000
Salaries and wages	**90,278**	88,995
End of service benefits	**7,773**	6,339
Other benefits	**81,381**	78,543
	179,432	173,877

(ii) Depreciation comprises of depreciation charge for the year on property and equipment amounting to AED 18.5 million *(2018: AED 12.3 million)* and investment properties amounting to AED 10.6 million *(2018: AED 10.6 million)* net of depreciation amount related to valuation

29. Net impairment charge on financial assets

	2019	2018
Provision for impairment on:	**AED'000**	AED'000
Collective impairment charge during the year	**75,740**	8,827
Specific provision during the year	**209,238**	198,626
Recovery of loan loss provisions	**(26,187)**	(28,870)
Recovery of loans previously written - off	**(9,359)**	(38,668)
Write Back	**(153,792)**	(72,065)
	95,640	67,850

The balance of recoveries includes write back of written off loans and advances including the related suspended interest, and recoveries of current active non-performing loans and advances that had previously been provided for.

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30. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts maturing within three months of the date of the acquisition / placement:

	2019	2018
	AED'000	AED'000
Cash and balances with the Central Bank of the UAE	1,788,798	1,730,980
Due from banks	2,804,852	3,180,599
Due to banks	(2,584,080)	(2,635,582)
Less: cash reserve with Central Bank of the UAE	2,009,570	2,275,997
Less: due from banks with original maturity of more than 3 months	(757,067)	(682,668)
Add: due to banks with original maturity of more than 3 months	(187,319)	(183,650)
	1,212,090	-
Cash and cash equivalents	2,277,274	1,409,679

31. Commitments and contingencies

	2019	2018
	AED'000	AED'000
Letters of credit	1,758,119	2,876,345
Letters of guarantee	4,198,748	4,568,167
	5,956,867	7,444,512
Commitments at the reporting date are shown below:		
Un-drawn commitments to extend credit	6,595,460	4,634,190
Commitment for future capital expenditure	4,464	21,686
Commitments to extend financial guarantees	-	106,198
	6,599,924	4,762,074
Total commitments and contingencies	12,556,791	12,206,586

Irrevocable undrawn facilities commitments as at 31 December 2019 amounted to AED 667 million *(2018: AED 498 million)*

Letters of credit and guarantee commit the Bank to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to extend loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

As at 31 December 2019 the ECL on unfunded exposures amounted to AED 130 million (2018: AED 89 million).

32. Related parties

Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions. The Bank's shareholding pattern is as follows:

Shareholding percentage (%)	2019	2018
Emirates Investment Authority	42.28	42.28
Libyan Foreign Bank	42.28	42.28
Banque Exterieure d'Algerie	15.44	15.44

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32. Related parties (continued)

In the normal course of business, the Bank has various transactions with its related parties. Banking transactions are entered into with related parties on terms and conditions approved by either the Bank's management or the Board of Directors.

The volume of related party transactions, outstanding balances and related expenses and income for the year were as follows:

	Key management personnel		Others	
	31 December 2019 AED'000	31 December 2018 AED'000	**31 December 2019 AED'000**	31 December 2018 AED'000
Balances				
Loans and advances	**12,331**	33,245	**41,466**	41,515
Deposits	**8,705**	22,355	**2,002,434**	3,818,837
Commitments and contingencies	**-**	-	**1,694,014**	2,152,075
Transactions				
Board of Directors' remuneration	**12,000**	10,640	**-**	-
Salaries and benefits	**17,396**	17,781	**-**	-
Post-employment benefits	**1,368**	1,345	**-**	-
Interest income	**857**	1,422	**-**	2
Interest expense	**524**	312	**48,450**	49,825
Fee and commission	**-**	-	**1,869**	2,797
Dividend paid	**-**	-	**150,000**	150,000

Included within others above are balances and transactions with the Bank's Shareholders and parties related to them.

Loans and advances issued to related parties are repayable over one year and bear interest rates ranging between *3% and 5% (2018: 3% to 5%).* No collateral is under lien on loans and advances to related parties. No provisions have been passed against loans and advances to related parties.

33. Earnings per share

Basic earnings per share

The calculation of basic profit per share at 31 December 2019 was based on the profit attributable to ordinary Shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	2019	2018
Profit for the year (AED'000)	**490,574**	482,526
Weighted average number of ordinary shares	**75,000**	75,000
Earnings per share (AED'000)	**6.54**	6.43

There were no potentially dilutive securities as at 31 December 2019 or 2018, and accordingly, diluted earnings per share are the same as basic earnings per share.

34. Legal proceedings

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Bank's financial statements if disposed unfavourably.

35. Comparative figures

Certain comparative figures have been reclassified to conform to current period's classification with no impact on profit or retained earnings.

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