ANNUAL REPORT 2020

المصرف
AL MASRAF
Arab Bank for Investment & Foreign Trade

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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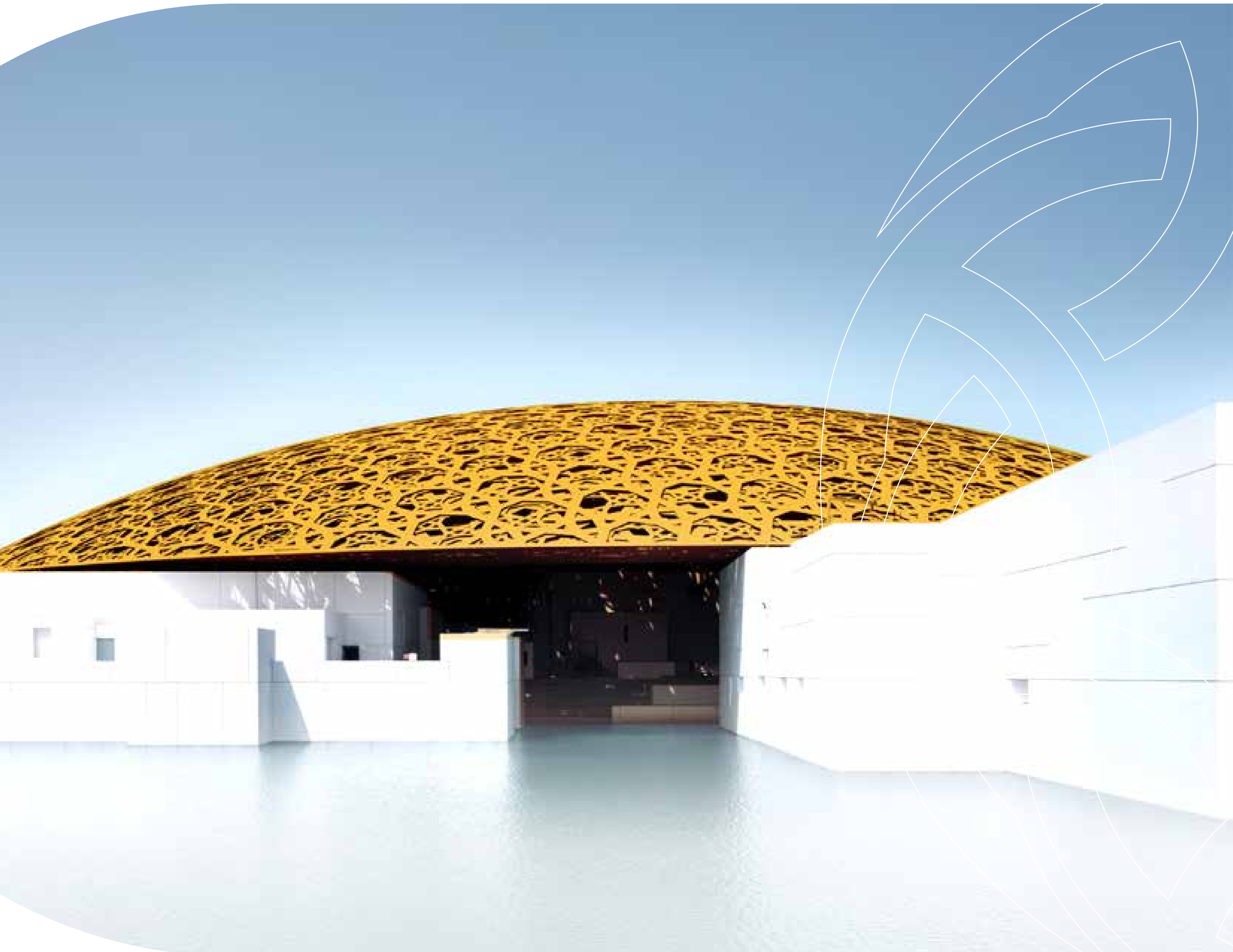


VISION

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

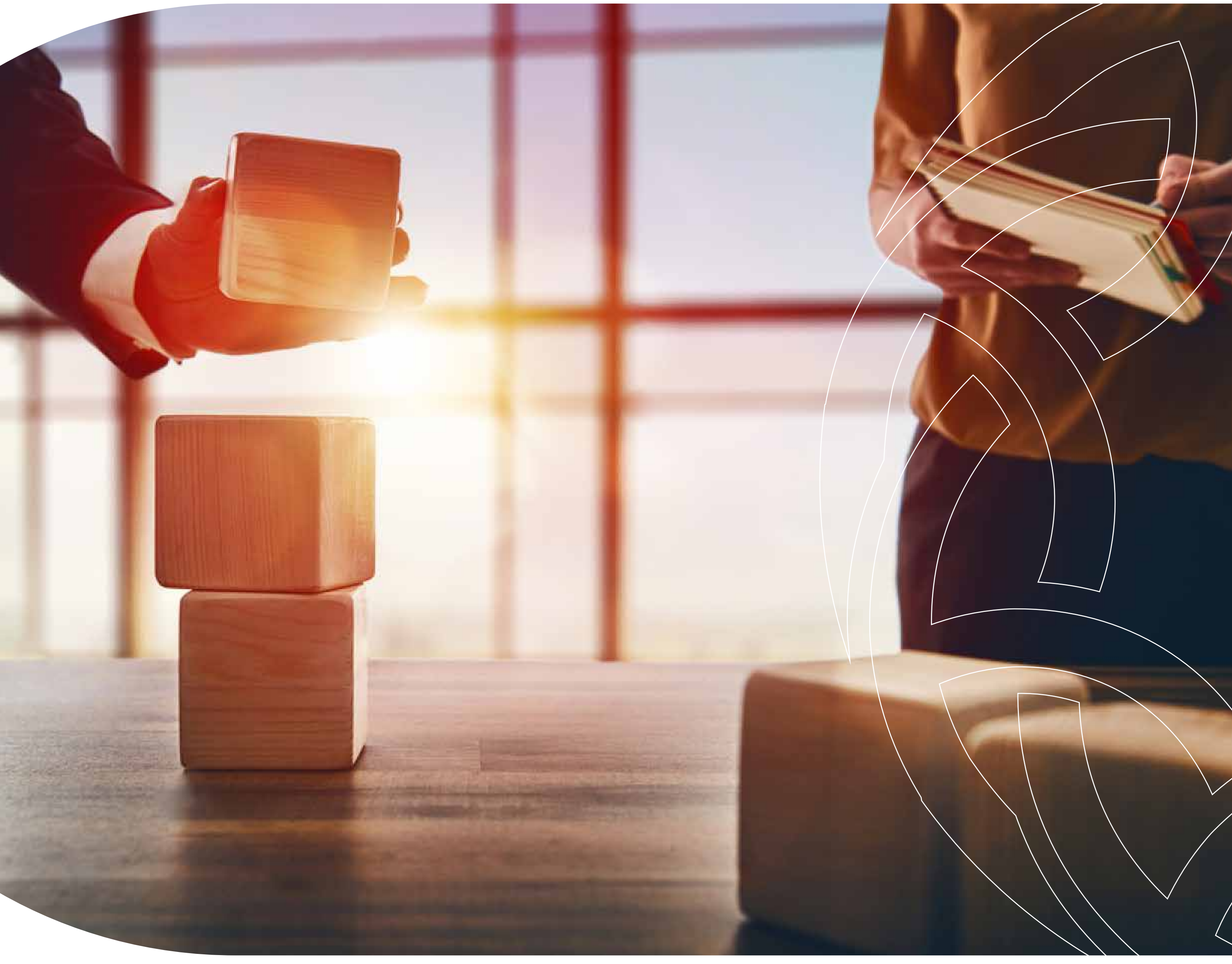
MISSION STATEMENT

- 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

Dear Shareholders,

On behalf of the Board of Directors, I present to you the Annual Report of Arab Bank for Investment and Foreign Trade (Al Masraf) for the financial year ending December 31, 2020.

Firstly, I would like to take this opportunity to congratulate UAE's leaders as well as the entire Arab and Islamic nation for the Hope Probe's successful journey to the orbit of Mars, making UAE the fifth country in the world and the first in the Arab world to accomplish this historic achievement. We are proud of this historic achievement, which sets the most successful example of excellence and determination to overcome the most formidable challenges.

COVID-19 is the most significant health crisis of our generation. It has had a severe impact on our customers, our employees and the society at large. From health threats to lockdowns, COVID-19 continues to affect people's lives, businesses and the global economy. This kind of crisis calls for rapid response and adaptation to the situation, which Al Masraf has demonstrated during 2020 and will continue to do so until things normalize.

In extremely challenging operating conditions and economic environment, coupled with low interest rates, Al Masraf posted a net loss of AED 890 million compared to net profit of AED 491 million in 2019. The effect of COVID-19 was primarily visible in the level of impairment charges, which rose to AED 1,377 million compared to AED 114 million in 2019. As a result of lower economic activities, operating income decreased to AED 760 million as compared to AED 880 million in 2019.

Despite these challenges, the bank's balance sheet remains healthy and growth oriented with total assets growing by 2.3% during 2020 to reach AED 24 billion. The Customers' deposits increased by 3% to reach AED16.2 billion as compared to AED 15.7 billion in 2019. Current and saving account balances remained stable at AED 4.7 billion. Term Deposits increased by 5% to reach AED 11.6 billion in 2020 from AED 11 billion in 2019 and Investments Portfolio increased by 23% to reach AED 2.45 billion compared to AED 1.99 billion in 2019. Loans and Advances increased by 1% to reach AED 15.7 billion.

Fitch Ratings (Fitch), a global leading credit rating agency has assigned Arab Bank for Investment & Foreign Trade (Al Masraf) a Long-Term Issuer Default Rating (IDR) of 'A' with a stable outlook and a short term IDR of 'F1'. This outcome demonstrates the resilience of the bank and attributed to the efficiency of our business strategy and continued confidence bestowed in us from our shareholders.

Even during these challenging times, the underlying core business remains robust, liquidity at adequate levels, supported by trade finance business, and capital adequacy at 19% is higher than the minimum regulatory requirement enabling us to face these exceptional times with confidence and providing us a good platform for our recovery as we are well-positioned to pursue growth across our businesses in 2021.

The economic consequences of the COVID-19 pandemic have been severe for all countries globally. Even with unprecedented fiscal stimulus and monetary policy support, the IMF estimates contraction in growth by -4.5% in 2020, making it the worst recession ever since World War II. Transport, logistics, retail and hospitality sectors were among the most affected by the pandemic as borders were closed and the volume of global trade declined by an estimated 10 per cent last year (according to the IMF), the most since the global financial crisis in 2009.

The UAE government has taken several measures to support businesses and its citizens, in the form of support packages and initiatives, to ease the fallout from the COVID-19 pandemic. The Central Bank of the UAE (CBUAE) also has been proactive in rolling out stimulus packages and has announced a comprehensive Targeted Economic Support Scheme (TESS) of AED 256 billion to contain the repercussions of the coronavirus pandemic.

The Abu Dhabi and Dubai governments are also being proactive in rolling out stimulus packages with the intention of optimizing costs and supporting businesses. The packages include several initiatives aimed at reducing the cost of doing business and simplifying business procedures, especially in the commercial, retail, external trade, tourism, and energy sectors.

The UAE banking system remains in good health with the support of the proactive measures taken by the government and the relief measures under the CBUAE's TESS that provided additional liquidity to the banking system, which in turn allowed banks to provide relief for borrowers affected by the pandemic.

Most predictions for 2021 are optimistic and signal a return to growth during the year. The early signs of this were seen in the last quarter of 2020 and the pace of normalization continues as global trade picks up and protection barriers created on movement slowly disappear. A co-ordinated effort by governments across the globe has meant that the right elements for normalizations are out there and beginning to help.

The UAE’s economy will continue to advance as one of the most competitive and diversified economies in the region, backed by the country’s leading policies under the guidance of its wise leadership. Based on projections from the Central Bank of the UAE (CBUAE), the national economy is expected to grow by around 2.5 percent overall and 3.6 percent for non-oil sectors, after shrinking by around 6 percent in 2020 and 5 percent for non-oil. The successful management of the COVID-19 drive by the UAE government, improved relationships with regional countries and the pick-up in oil demand will boost economic activity putting the economy in driving mode.

Year 2021 will be another challenging year for financial services, however, with signs of gradual revival seen across sectors, we remain cautiously optimistic for a stronger 2021 on the back of efficient governments measures to mitigate the pandemic’s impact, easing in global travel restrictions, vaccinations for the wider public and undoubtedly the positive impact on the overall market created by the upcoming Expo 2020. The UAE is strongly positioned in the regional and global economy, and we are confident in its future. Al Masraf stands by its enduring commitment to the economic development of the UAE.

I take this opportunity to extend my sincere thanks and gratitude to Faisal Galadari who stepped down in October 2020 from his position as CEO of Al Masraf for his tangible efforts and dedication during his tenure.

On behalf of the Board and the entire team at Al Masraf, I extend our 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 Central Bank of the UAE for their constant support. I would also like to extend our sincere gratitude and appreciation towards all the health care workers and those who are serving on the front lines who have selflessly worked to protect us. Lastly, we would like to thank our shareholders, our valued customers as well as Al Masraf employees for their continued support, belief and commitment towards the bank.

Farhat Omar Ben Gdara
Chairman

ACTING CEO'S MESSAGE

We are living in unprecedented times. The coronavirus (COVID-19) pandemic is sweeping the globe leaving almost no community untouched – both from a human and an economic perspective.

Year 2020 was an exceptional year with an unprecedanted crisis affecting the global economy, including the banking sector. The global markets have witnessed the greatest recession since the end of World War II. At Al Masraf, from the start of the COVID-19 crisis, we have promptly focused our resources and efforts on protecting and supporting our customers, colleagues and communities. The investments we have carried out in recent years to transform our culture, systems and business model supported our ability to quickly adapt to the impacts of COVID-19.

These external factors are quite evident in our 2020 financial results. We adopted a proactive and prudent approach in carrying out provisioning, in the context of an uncertain and evolving macroeconomic outlook. The effect of Covid-19 was primarily visible in the level of impairment charges, which rose to AED 1,377 million compared to AED 114 million in 2019. As a result, Al Masraf reported a net loss of AED 890 million for the year 2020, compared to net profit of AED 491 million in 2019. The total Operating Income decreased by 14% to AED 760 Million.

Despite the challenges, the bank's balance sheet remains healthy and growth oriented with total assets growing by 2.3% during 2020 to reach AED 24 billion and Customers' Deposits increased by 3% to reach AED 16.2 billion compared to AED 15.7 billion in 2019. Current and Saving Account balances remained stable at AED 4.7 billion. Term Deposits increased by 5% to reach AED 11.6 billion in 2020 from AED 11 billion in 2019 and the Investments Portfolio increased by 23% to reach AED 2.45 billion compared to AED 1.99 billion in 2019. Loans and Advances increased by 1% to reach AED 15.7 billion.

Throughout the year, we focused on extending support to our customers and have taken various initiatives, which include deferred payments, new or extended overdraft and credit facilities, financing and interest-only loans. Our primary focus has been the availability of our banking services and supporting our customers at all times. We have worked closely with our Corporate clients to facilitate access to relief and support programs and addressed customer concerns with solutions tailored to their specific needs. In every decision we made, we put the well-being of our colleagues and customers at the forefront and have also implemented health and safety precautions at all our branches and offices. At the same time, we have maintained discipline and focus on our strategic priorities throughout 2020. We have built on the delivery of new digital capabilities to enhance customer service.

During the year, Fitch Ratings agency reaffirmed Al Masraf's "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 increasing our efforts to recover our loss assets.

Al Masraf remains committed to supporting government led initiatives. As part of our commitment to promote the national economy and in line with the UAE government's directives to support clients and ease the impacts and financial challenges caused by the spread of the novel coronavirus (COVID-19), Al Masraf has developed various initiatives to support our customers across business segments, most notably, helping to restructure or defer their liabilities in line with their cash flow, waiving fees, extending loan repayment periods, reducing cash advance charges and avoiding suspending accounts.

Throughout 2020, we have continued to manage costs carefully, keeping the growth in our cost base at a low, strategically acceptable level. At the same time, we have ensured that our effective management of costs has not compromised our ability to generate revenues or implement our investment plans.

The Bank's disaster recovery (DR) data center was relocated to a new strategic location in Dubai with enhanced capabilities of a Tier 3 data center. In the wake of the COVID-19 outbreak, work-from-home (WFH) technology facilities were rolled out for employees in quick time to ensure banking services are provided uninterrupted to customers. The WFH facilities were rolled out following the best information security practices, with no compromise on the data security.

The Bank is embarking on a journey to modernize its core integration platform to equip itself with advanced capabilities that will make it Cloud-ready. This platform will also vastly aid in the implementation of an SOA-based integration backbone for the bank which will help the bank to offer state of the art digital solutions. Considering the fact that a revamped Cash Management offering is a key part of our corporate digital transformation strategy, we developed iCashpro+ Corporate Internet banking & Cash Management suite to enhance Al Masraf's Corporate Banking services.

The scope of this implementation covers a robust Digital Corporate portal, Mobile app and other Cash & Trade modules for payments, Direct Debit, Virtual Accounts, Trade initiation and Receivable Management services.

While banking services to our Corporate clients, including companies and institutions, has been the major focus of our business, over the past few years we continued our efforts to expand a number of Personal Banking services in order to meet the needs of our corporate clients' employees and our individual clients. Our objective is to diversify our business portfolio and expand our income sources. The bank has been able to grow its retail portfolios and expand its customer base. This has been mainly attributed to management and staff agility in responding to the COVID-19 situation and ensuring that customers continue to be served with the highest standards through conventional and digital channels.

Retail has also continued it's strive to acquire market share through multiple marketing campaigns including the "Save and Win Gold" deposit and Cashback promotions. Developing customer-centric products including investment products and UAE's first double faced metal card has allowed Al Masraf to significantly increase its investment portfolio as well as the credit card acquisitions.

In 2021, Al Masraf will continue its focus on growing its retail business through customer-centric products and propositions while leveraging progressive marketing and promotional approaches. The bank will also continue its efforts to more efficiently serve and sell to its customers through digitizing and streamlining the onboarding and loan origination processes. Within the framework of the digital transformation plan, we will continue to improve our digital channels. This will allow us to provide integrated solutions by supporting our strategy and increasing our ability to develop innovative products, and enhance customer experience.

Moving forward, despite the challenging operating environment, the bank continues to be cautiously optimistic of its performance and support its customers in line with guidance from the UAE Central Bank. We will build on our capabilities and provide tailored solutions by leveraging our digital advantage and years of banking expertise. Building on the foundations laid in recent years, we aspire to deliver a seamless Omni channel experience to our customers and with this objective we continue to strengthen and improve efficiencies across the channels like branches, call centers and digital platforms using process transformation and automation initiatives. As a part of our ongoing change and improvement process to respond to the current challenges and prepare for the future, we will accelerate use of digital channels and invest in innovative solutions and mobile service. In our corporate and commercial business, we will further simplify and enhance our operating model. We remain cognizant of the challenges posed by COVID-19 and are continually re-assessing and re-aligning our operational strategies as we continue to serve our customers and clients.

In conclusion, I would like to express my deep gratitude to the entire Management team, and our dedicated employees, especially those on the frontline who have supported our customers throughout the year, for their notable contributions. I wish you all the best of health in the days to come and expect the same level of commitment and dedication as we move towards achieving our goals together, as part of the Al Masraf family.

Abderrezak Trabelsi
Acting Chief Executive Officer

EXECUTIVE MANAGEMENT

Mr. Abderrezak Trabelsi

Acting Chief Executive Officer
(ACEO)

Mr. Charles Doghlass

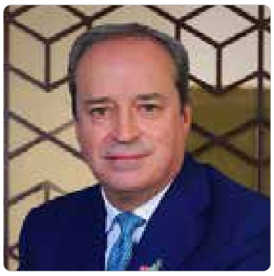
Chief Business Officer
(CBO)

Mr. Vikesh Mirani

Chief Financial Officer
(CFO)

Mr. Ahmed Alrefaei

Chief Operating Officer
(COO)



Mr. Andrew McKechnie

Chief Retail Banking Officer
(CRBO)

Mr. Ammar Husain

Head – Human Resources

Mr. Mohammad Ashour

Head - Audit

Mr. Ajay Sehgal

Head - Treasury &
Investment

Mr. Ali Musmar

Chief Credit Officer
(CCO)

Mr. Sangameswar Rao

Acting Chief Risk Officer
(ACRO)

Mr. Razi Heyasat

General Counsel &
Board Secretary

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 senior 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 Senior Management.
2. Supervising the Senior 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 Managementthat 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.

9/2/2020	Board Meeting No. 1/2020/224
29/3/2020	Board Meeting No. 2/2020/225 and Annual General Assembly Meeting No. 44
18/05/2020	Board Meeting No. 3/2020/226
28/06/2020	Board Meeting No. 4/2020/227
8/09/2020	Board Meeting No. 5/2020/228
11/10/2020	Board Meeting No. 6/2020/229
15/11/2020	Board Meeting No. 7/2020/230
13/12/2020	Board Meeting No. 8/2020/231
27/12/2020	Board Meeting No. 9/2020/232

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 Senior 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 is a set of systems, principles and processes by which an organization is directed and controlled for the long-term benefit of all Stakeholders.

The purpose of the Corporate Governance 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 2020
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	1 21/4/2020
Audit and Compliance Committee	Raja AlMazrouei Mohamed Najib Eljamal Abdulqader Obaid Ali	Chairperson Member Independent Audit Member	At least quarterly	8
Risk Committee	Khalaf AlDhaheri Mustapha Makhlouf Amr Yaklaf Amr Al Hgag	Chairman Member Member	At least 4 times in a year	5
Nomination and Remuneration Committee	Mohamed Saif Al-Suwaidi Lazhar LatrecheAmr Yaklaf Amr Al Hgag	Chairman Member Member	At least once yearly	3
Corporate Governance Committee	Farhat Ben Gdara Mohamed Saif Al-Suwaidi Lazhar Latreche	Chairman Member Member	At least once yearly	1 18/5/2020
Strategy and Innovation Committee	Farhat Ben Gdara Raja Al Mazrouei Abdulqader Obaid Ali	Chairman Member Advisor	6	8

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 2020

The Board of Directors met 9 times in 2020 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 committee to ensure that the activities of the institution and its employees are conducted in accordance with; applicable laws, regulations, relevant internal rules, policies & procedures, as well as international best practices.

(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 is following the requirements of relevant Central Bank Corporate Governance Regulation for Banks with respect to related party transactions. Related parties can include its Controlling Shareholders, Members of the Board and Senior Management (and their First-Degree Relatives) and person with control, joint control or significant influence over the Bank (and their First Degree Relatives).

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 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 2020, 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 2020, 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 the field of social welfare

The bank participated in the initiative launched by the National Default Debt Settlement 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.

In the health field

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

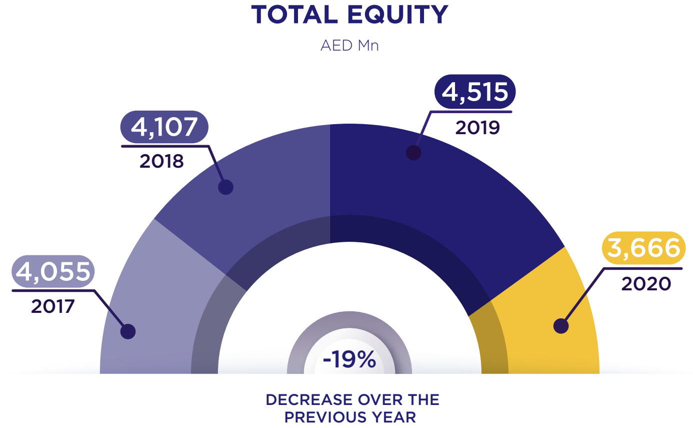
As part of its efforts to reduce the spread of breast cancer, the bank launched a campaign "Protect yourself" to raise awareness of breast cancer and how to prevent it.

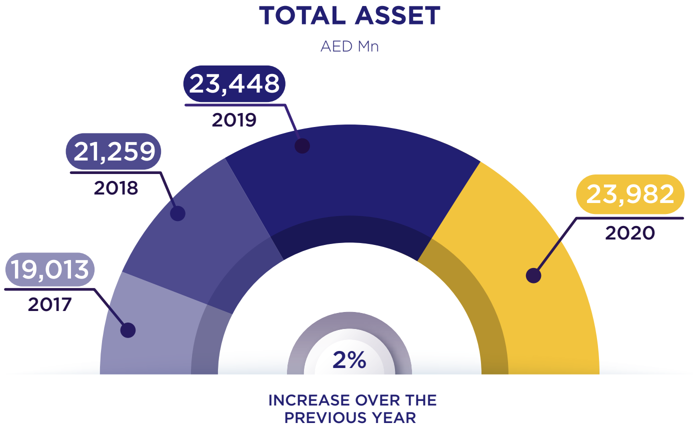
As part of UAE Government's campaign against COVID-19, the Bank has provided COVID-19 vaccination for Al Masraf staff.

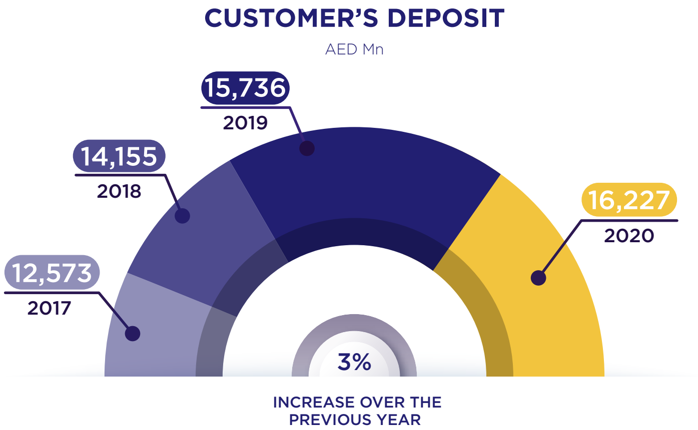
In the economic sphere

The bank participated in the initiative launched by the National Default Debt Settlement 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.

FINANCIAL HIGHLIGHTS

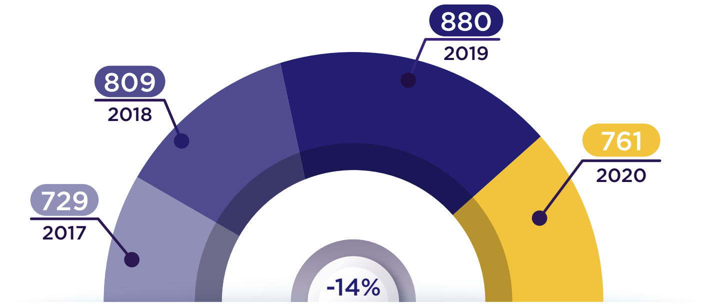






OPERATING INCOME

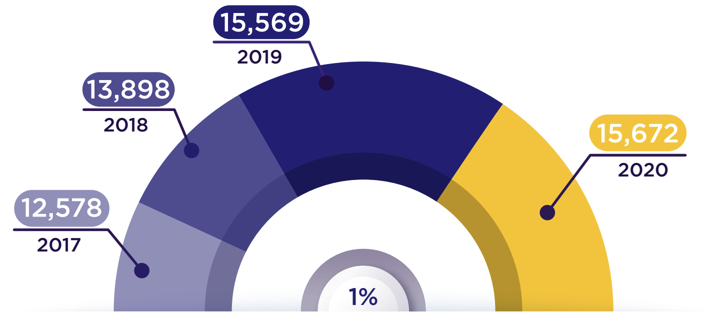
AED Mn



DECREASE OVER THE PREVIOUS YEAR

NET LOANS & ADVANCES

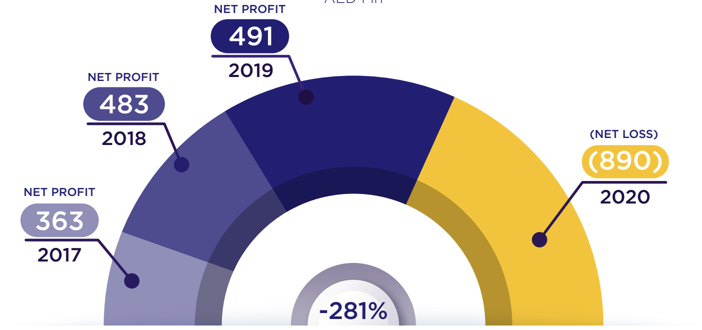
AED Mn



INCREASE OVER THE PREVIOUS YEAR

NET PROFIT (LOSS)

AED Mn



DECREASE 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 Arab Bank for Investment and Foreign Trade PJSC (the "Bank") for the year ended 31 December 2020. 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

As of 31 December 2020, the total assets stood at AED 23,982 million (2019: AED 23,448 million), an increase of 2% driven by growth in loans and advances and investment in debt securities. The gross loans and advances of the Bank increased by 8% to AED 17,926 million from AED 16,635 million. However, the net loans and advances only increased by 1% due to the increase in the impairment charges. Bank's Investment designated at Fair Value through Other Comprehensive Income has increased by 25%, to AED 2,407 million from AED 1,919 million.

FUNDING

Customer deposits increased to AED 16,227 million as at 31 December 2020 from AED 15,736 million as at 31 December 2019. The inter-bank deposits and borrowings increased to AED 3,418 million from AED 2,584 million in the previous year, an increase of 32%.

DEPLOYMENT 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 8% growth on gross loans.

BALANCES WITH CENTRAL BANK & DUE FROM BANKS

The Bank's liquidity was well maintained, with sizeable portfolio in short-term interbank placements and balances with the Central Bank.

The balances with the Central Bank, which also includes the statutory reserves and certificate of deposits was at AED 3,103 million as at 31 December 2020 against AED 1,789 million in the previous year. The placements with banks is AED 1,686 million as at 31 December 2020 compared to AED 2,794 million as at 31 December 2019.

The Bank was in total compliance with the Central Bank Regulatory Limits on Liquidity Ratios at the end of the year.

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 other than those carried at amortised cost. The total value of the investments of the Bank amounted to AED 2,450 million as at 31 December 2020 compared to AED 1,998 million as at 31 December 2019.

NET IMPAIRMENT CHARGE ON FINANCIAL ASSETS

In light of the extremely challenging operating conditions and economic climate due to the COVID-19 pandemic, the impairment on the financial assets during the year rose to AED 1,301 million (2019: AED 96 million).

IMPAIRMENT AND FAIR VALUE LOSS ON PROPERTIES

The properties held by the Bank were revalued during the year by an external valuation firm. This resulted into an impairment charge and a fair value loss of AED 47 million (2019: AED 18 million).

CONTINGENT LIABILITIES

The Bank had a total outstanding in Documentary Credits and Letters of Guarantee of AED 5,143 million as at the end of the year, compared to AED 5,957 million in the previous year.

COMPREHENSIVE INCOME ACCOUNT

The Bank reported a net loss (before change in other comprehensive income) of AED 890 million in the current year from net profit of AED 491 million in 2019.

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

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 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including international independence standards) (the "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

The Board of Directors and management are responsible for the other information. The other information comprises the Board of Directors' report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or 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.

When we read the Board of Directors' report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of management and those charged with governance for the financial statements

The Board of Directors and management are responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs and in compliance with the applicable provisions of the UAE Federal Law No. (14) of 2018 and the Bank's Articles of Association, 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.

Auditor's responsibilities for the audit of the financial statements

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

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

- Evaluate the overall presentation, structure and content of the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other matter

The financial statements of the Bank for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 24 February 2020.

Report on Other Legal and Regulatory Matters

Further, as required by the UAE Federal Law No. (2) of 2015, we report that for the year ended 31 December 2020:

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

ii) 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 and the Articles of Association of the Bank;

iii) the Bank has maintained proper books of account;

Report on Other Legal and Regulatory Matters continued

iv) the financial information included in the Board of Directors' report is consistent with the books of account and records of the Bank;

v) notes 9, 10 and 11 to the financial statements of the Bank disclose purchases and investments made by the Bank during the year ended 31 December 2020;

vi) note 33 reflects material related party transactions and the terms under which they were conducted;

vii) 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 2020, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would have a material impact on its activities or its financial position as at 31 December 2020; and

viii) note 36 to the financial statements discloses social contributions made during the year.

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.

Signed by
Anthony O' Sullivan
Partner
Ernst & Young
Registration No. 687

4 March 2021
Abu Dhabi

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

Statement of Financial Position

as at 31 December

	Note	2020 AED'000	2019 AED'000
Assets			
Cash and balances with the Central Bank of the UAE	7	3,102,884	1,788,798
Due from banks – net	8	1,686,180	2,794,410
Investments at fair value through other comprehensive income (FVOCI) – net	9	2,406,828	1,919,048
Investment at fair value through profit or loss (FVTPL) – net	10	11,021	40,446
Investment at amortised cost	11	31,905	38,143
Loans and advances – net	12	15,671,535	15,569,483
Investment properties – net	13	330,776	366,621
Other assets	14	409,248	519,572
Property and equipment	15	282,011	290,523
		23,932,388	23,327,044
Asset held-for-sale	16	49,690	120,568
Total assets		23,982,078	23,447,612
Liabilities			
Customers' deposits	17	16,226,696	15,735,610
Due to banks	18	3,418,217	2,584,080
Other liabilities	19	671,085	613,193
Total liabilities		20,315,998	18,932,883
Equity			
Share capital	20	1,500,000	1,500,000
Statutory reserve	20	642,722	642,722
Special reserve	20	638,132	638,132
General reserve	20	380,000	380,000
Revaluation reserve	20	129,613	129,542
Fair value reserve	20	98,430	55,457
Retained earnings		277,183	1,168,876
Total equity		3,666,080	4,514,729
Total liabilities and equity		23,982,078	23,447,612

These financial statements were authorized and approved for issue by the Board of Directors on 4 March 2021, and signed on their behalf by:

Mr. Farhat Omar Ben Gdara
Chairman

Abderrezak Trabelsi
Acting Chief Executive Officer

The notes on pages 42 to 110 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 35 to 37.

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

Statement of Comprehensive Income
for the year ended 31 December

	Note	2020 AED'000	2019 AED'000
Interest income	21	758,644	960,611
Interest expense	22	(218,898)	(319,986)
Net interest income		539,746	640,625
Income from Islamic financing contracts	23	100,815	104,963
Depositors' share of profit	24	(33,875)	(59,337)
Net income from Islamic financing		66,940	45,626
Net interest and Islamic financing income		606,686	686,251
Fee and commission income	25	110,271	151,113
Fee and commission expense	25	(7,953)	(12,311)
Net fee and commission income		102,318	138,802
Dividend income		6,047	6,020
Net investment income		681	1,374
Net foreign exchange gain	26	27,006	27,884
Other operating income	27	17,426	19,854
		51,160	55,132
Operating income		760,164	880,185
General, administration and other operating expenses	28	(272,548)	(275,855)
Profit before net impairment charge		487,616	604,330
Net impairment charge on financial assets	29	(1,300,711)	(95,640)
Change in fair value of investment at FVTPL		(29,425)	-
Impairment loss on properties	30	(31,069)	(18,116)
Fair value loss on properties	30	(16,233)	-
Net (loss) / profit for the year		(889,822)	490,574
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation gain / (loss) on property and equipment	15	71	(16,153)
Change in fair value of equity investments at FVOCI		(13,840)	11,932
Item that are or may be reclassified subsequently to profit or loss			
Change in fair value of debt investments at FVOCI		56,813	73,680
Other comprehensive income for the year		43,044	69,459
Total comprehensive (loss) / income for the year attributable to shareholders		(846,778)	560,033
(Loss) / earnings per share	34	(11.86)	6.54

The notes on pages 42 to 110 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 35 to 37.

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 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 for the year	**-**	**-**	**-**	**-**	**(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**
Balance at 1 January 2020	1,500,000	642,722	638,132	380,000	129,542	55,457	1,168,876	4,514,729
Loss for the year	-	-	-	-	-	-	(889,822)	(889,822)
Fair value adjustment	-	-	-	-	71	42,973	-	43,044
Total comprehensive loss for the year	-	-	-	-	**71**	**42,973**	**(889,822)**	**(846,778)**
Zakat	-	-	-	-	-	-	(1,871)	(1,871)
Balance at 31 December 2020	**1,500,000**	**642,722**	**638,132**	**380,000**	**129,613**	**98,430**	**277,183**	**3,666,080**

The notes on pages 42 to 110 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 35 to 37.

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

Statement of cash flows
for the year ended 31 December

	Note	2020 AED'000	2019 AED'000
Operating activities			
(Loss) / profit for the year		(889,822)	490,574
Adjustments for:			
Depreciation on investment properties	13	10,691	10,637
Depreciation on property and equipment	15	22,571	18,504
Net impairment charge on financial assets	29	1,300,711	95,640
Amortization of premium on bonds		16,057	12,645
Net impairment charge for financial instruments		-	457
Allowance for impairment of due from banks		-	5,338
Change in fair value of investment at FVTPL		29,425	-
Impairment loss on properties	30	31,069	18,116
Fair value loss on properties	30	16,233	-
Dividend income		(6,047)	(6,020)
Provision for employees' end of service benefits	19	8,570	7,773
Operating cash flows before payment of employees' end of service benefits and changes in working capital		539,458	653,664
Payment of employees' end of service benefits	19	(7,349)	(5,269)
Changes in:			
Loans and advances		(1,277,082)	(1,766,919)
Due from banks		18,368	(3,669)
Other assets		104,409	(259,875)
Customers' deposits		491,086	1,580,800
Due to banks		(110,190)	1,212,090
Other liabilities		(58,289)	233,548
Cash reserve with Central Bank of the UAE	31	(52,551)	(74,399)
Net cash flows (used in) / generated from operating activities		(352,140)	1,569,971
Investing activities			
Purchases of property and equipment	15	(17,256)	(22,962)
Proceeds from sale of asset held for sale		60,996	22
Proceeds from sale of property and equipment		-	196
Proceeds from sale/redemption of investments at FVOCI	9	292,004	255,000
Proceeds from redemption of investments at amortized cost	11	4,526	2,262
Purchases of investments at FVOCI	9	(762,816)	(744,113)
Purchase of investments at amortized cost	11	-	(40,405)
Dividends received		6,047	6,020
Net cash flows used in investing activities		(416,499)	(543,980)
Financing activities			
Payment of lease liabilities		(6,206)	(6,365)
Dividend paid to equity holders	20	-	(150,000)
Zakat paid		(1,871)	(2,031)
Net cash flows used in financing activities		(8,077)	(158,396)
Net (decrease) / increase in cash and cash equivalents		(776,716)	867,595
Cash and cash equivalents at 1 January		2,277,274	1,409,679
Cash and cash equivalents at 31 December	31	1,500,558	2,277,274

The notes on pages 42 to 110 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 35 to 37.

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 2020 are 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. Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Bank is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

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 the effective interest method;
- 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 and equipment which are measured based on the revaluation model.

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

In the current period, the Bank has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Bank's future transactions or arrangements.

- Amendments to references to the Conceptual Framework for Financial Reporting.
- Amendment to IFRS 3 regarding the definition of business.
- Amendment to IFRS 7, IFRS 9 and IAS 39 regarding the interest rate benchmark reforms.
- Amendments to IAS 1 and IAS 8 regarding the definition of materiality.
- Amendments to IFRS 16 regarding Covid-19 related rent concession.

Other than the above, there are no other significant IFRSs, amendments or interpretations that were effective for the first time for the financial year beginning on or after January 1, 2020.

(b) Financial assets and liabilities

(i) Recognition and initial measurement

All financial assets are recognised and derecognised on a settlement date basis (other than derivative contracts which are recognised and derecognised on a trade date basis) where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Settlement date is the date that the Bank physically receives or transfers the assets. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

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

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.

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)*

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the 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.

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.

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 statement of comprehensive income. 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 for financial assets.

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

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.

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

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.

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)*

No impairment loss is recognised on equity investments as these are measured at fair value.

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.

- Under 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. 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.

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(x) Impairment of financial assets *(continued)*

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.

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.

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)*

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.

(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 a debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

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

3 Significant accounting policies *(continued)*

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

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

(g) 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.

(h) 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.

(i) 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)*

(i) 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.

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

3 Significant accounting policies *(continued)*

(i) Islamic financing activities (continued)

iv) Mudaraba (continued)

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.

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.

(j) Property 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.

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

3 Significant accounting policies *(continued)*

(j) Property, plant and equipment *(continued)*

(i) Recognition and measurement (continued)

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.

(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 statement of financial position 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.

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

3 Significant accounting policies *(continued)*

(k) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented within Note 15 property and equipment and are subject to impairment in line with the Bank's policy.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(l) 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.

3 Significant accounting policies *(continued)*

(l) Investment properties *(continued)*

(i) Investment properties (continued)

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.

(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.

(m) 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.

(n) 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.

3 Significant accounting policies *(continued)*

(o) 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.

(p) 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.

(q) 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.

(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.

(r) 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.

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3 Significant accounting policies *(continued)*

(s) 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 statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

(t) Collateral pending sale

Real estate and other collaterals that were acquired as the result of settlement of certain loans and advances are 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.

(u) 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.

(v) 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. 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.

3 Significant accounting policies *(continued)*

(v) Interest income and expense *(continued)*

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.

(w) 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.

(x) 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.

(y) 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.

(z) Foreign currency

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

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3 Significant accounting policies *(continued)*

(z) Foreign currency *(continued)*

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.

(aa) Value Added Tax ("VAT")

Expenses and assets are recognised net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; or
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other assets or other liabilities in the statement of financial position.

4 New standards or amendments for 2020 and forthcoming requirements

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

New standards and significant amendments to standards applicable to the Bank:	Effective for annual periods beginning on or after
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The amendments clarify that hedge accounting is not discontinued solely because of the IBOR reform and also introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.	January 1, 2021
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 'Insurance Contracts' from applying IFRS 9 'Financial Instruments', so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023.	January 1, 2023

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4 New standards or amendments for 2020 and forthcoming requirements *(continued)*

New standards and significant amendments to standards applicable to the Bank:	Effective for annual periods beginning on or after
Amendments to IAS 1 'Presentation of Financial Statements' to address classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	January 1, 2023
Amendments to IAS 16 'Property, Plant and Equipment' regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.	January 1, 2022
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.	January 1, 2022
Amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements.	January 1, 2022
Annual improvements to IFRS Standards 2018–2020.	January 1, 2022
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures (2011)' relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted
IFRS 17 'Insurance Contracts' which requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of January 1, 2021.	January 1, 2023
Amendments to IFRS 17 'Insurance Contracts' to address concerns and implementation challenges that were identified after IFRS 17 was published in 2017.	January 1, 2023

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

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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.

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 and 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.

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5 Financial risk management *(continued)*

(a) Credit risk *(continued)*

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to 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 Investments 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 ratings (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.

- 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.

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

Credit quality analysis

The table below provides the mapping of the Bank's internal credit risk grades.

Grouping	Rating Category
Low fair risk	Grades 1 to 7+
Higher risk	Grade 7 and 7-
Substandard	Grade 8
Doubtful	Grade 9
Loss	Grade 10

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5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

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 2020				31 December 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Due from banks								
Low-fair risk	529,696	1,162,183	-	1,691,879	2,422,604	382,248	-	2,804,852
Higher risk	-	-	-	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	529,696	1,162,183	-	1,691,879	2,422,604	382,248	-	2,804,852
Loss allowance (Stage 1 + Stage 2)	(2,438)	(3,261)	-	(5,699)	(7,482)	(2,960)	-	(10,442)
Carrying amount	527,258	1,158,922	-	1,686,180	2,415,122	379,288	-	2,794,410

	31 December 2020				31 December 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
Low-fair risk	9,777,439	2,634,889	-	12,412,328	12,382,460	1,560,543	-	13,943,003
Higher risk	14,169	1,984,994	-	1,999,163	31,340	1,697,320	-	1,728,660
Grade 8: Substandard	-	-	1,508,779	1,508,779	-	-	777,082	777,082
Grade 9: Doubtful	-	-	1,924,154	1,924,154	-	-	113,443	113,443
Grade 10: Loss	-	-	82,040	82,040	-	-	72,690	72,690
Total gross carrying amount	9,791,608	4,619,883	3,514,973	17,926,464	12,413,800	3,257,863	963,215	16,634,878
Loss allowance (Stage 1 + Stage 2)	(130,250)	(448,332)	-	(578,582)	(126,038)	(329,105)	-	(455,143)
Loss allowance (Stage 3)	-	-	(1,451,351)	(1,451,351)	-	-	(509,077)	(509,077)
Interest in suspense	-	-	(206,145)	(206,145)	-	-	(78,173)	(78,173)
Deferred Profit	(18,851)	-	-	(18,851)	(23,002)	-	-	(23,002)
Carrying amount	9,642,507	4,171,551	1,857,477	15,671,535	12,264,760	2,928,758	375,965	15,569,483

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

5 Financial risk management *(continued)*

(a) Credit risk (continued)

	31 December 2020				31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Debt Securities – FVOCI								
Low-fair risk	2,137,743	150,862	-	2,288,605	1,680,395	106,609	-	1,787,004
Higher risk	-	-	-	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	2,137,743	150,862	-	2,288,605	1,680,395	106,609	-	1,787,004
Loss allowance (Stage 1 + Stage 2)	-	-	-	-	-	-	-	-
Carrying amount	2,137,743	150,862	-	2,288,605	1,680,395	106,609	-	1,787,004

	31 December 2020				31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Debt Securities – Amortised cost								
Low-fair risk	32,238	-	-	32,238	38,143	-	-	38,143
Higher risk	-	-	-	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	32,238	-	-	32,238	38,143	-	-	38,143
Loss allowance (Stage 1 + Stage 2)	(333)	-	-	(333)	-	-	-	-
Carrying amount	31,905	-	-	31,905	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 Margins, Fixed Deposits Under lien, Mortgages over immovable assets, pledges of Shares, Commercial Pledges over movable assets.
- Non Tangible: Guarantees and all other collaterals not having any tangible worth/ value.

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

5 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Loans and advances to customers *(continued)*

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

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. 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 2020, the net carrying amount of credit-impaired loans and advances to customers amounted to AED 1,857,477 (2019: AED 375,965) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 1,914,180 (2019: AED 424,074). 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 the 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.

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

5 Financial risk management *(continued)*

(a) Credit risk *(continued)*

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.

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 risk *(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 risk *(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.

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

- Equity (ADH Equity Index)
- Oil Price

Unemployment data is not a significant indicator in UAE and hence is not considered. UAE Real Estate variables are not yet included since the points pertaining to data series are 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's accounting policies.

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 risk *(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. 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.

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

5 Financial risk management *(continued)*

(a) Credit risk (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 grouped 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 for due from banks for the year ended 31 December 2020.

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Beginning of the period	7,482	2,960	-	10,442
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	**(5,044)**	**301**	-	**(4,743)**
	2,438	**3,261**	-	**5,699**

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

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loss allowance (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance for due from banks for the year ended 31 December 2019.

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Beginning of the period	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**

The following tables show reconciliations from the opening to the closing balance of the loss allowance for loans and advances for the year ended 31 December 2020.

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Beginning of the period	**126,038**	**329,105**	**509,077**	**964,220**
Transfers:				
Transfer from Stage 1 to Stage 2	(12,545)	12,545	-	-
Transfer from Stage 1 to Stage 3	(8,854)	-	8,854	-
Transfer from Stage 2 to Stage 1	20,049	(20,049)	-	-
Transfer from Stage 2 to Stage 3	-	(152,947)	152,947	-
Transfer from Stage 3 to Stage 2	-	28,951	(28,951)	-
Impact of change in provision	5,562	250,727	827,568	1,083,857
Recovery	-	-	(16,732)	(16,732)
Write Back	-	-	(1,412)	(1,412)
	130,250	**448,332**	**1,451,351**	**2,029,933**

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

5 Financial risk management *(continued)*

(a) Credit risk (continued)

Loss allowance (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance for loans and advances for the year ended 31 December 2019.

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Beginning of the period	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	(31,691)	(7,068)	164,619	125,860
Recovery	-	-	(26,187)	(26,187)
Write Back	-	(873)	(72,747)	(73,620)
	126,038	**329,105**	**509,077**	**964,220**

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 statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Gross Maximum Exposure	2020	2019
	AED'000	AED'000
Balances with Central Bank of the UAE	**3,021,568**	1,728,965
Investments at fair value through profit or loss	**43,946**	43,946
Investments at fair value through other comprehensive income	**2,406,828**	1,919,048
Investments at amortised cost	**32,238**	38,143
Due from banks	**1,691,879**	2,804,852
Loans and advances	**17,926,464**	16,634,878
Other assets	**389,449**	486,530
Contingent liabilities	**5,143,200**	5,956,867
Commitments	**5,028,134**	6,599,924
	35,683,706	**36,213,153**

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 risk (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured with 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 twelve 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 twelve 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	2020	2019
	AED'000	AED'000
Gross carrying amount	1,520,017	2,144,701
Impaired loans	1,687,418	582,883
Allowance for impairment	(624,595)	(297,858)
Net loans with renegotiated terms	**2,582,840**	**2,429,726**

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 policies 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 2020, the Bank held credit risk mitigants with an estimated value of AED 11,784,323 thousand (2019: AED 10,953,273 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 no such collateral was held at 31 December 2020 or 31 December 2019.

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

LTV ratio	2020	2019
	AED'000	AED'000
Less than 50%	207,974	190,532
51 – 70%	94,035	142,980
71 – 90%	210,026	74,778
	512,035	**408,290**

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 risk* *(continued)*

Collateral (continued)

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

	2020 AED'000	2019 AED'000
Against individually impaired		
Property	1,754,681	306,130
Equities	152,342	-
Others (FD)	7,157	1,823
	1,914,180	307,953
Against past due but not impaired		
Property	2,161,169	2,665,998
Equities	2,138	181,822
Others	200,526	193,064
	2,363,833	3,040,884
Against neither past due nor impaired		
Property	5,399,716	5,646,948
Equities	479,227	411,028
Others	1,627,367	1,546,460
	7,506,310	7,604,436
	11,784,323	10,953,273

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	2020 AED'000	2019 AED'000
Concentration by industry		
Real estate	3,599,842	3,009,227
Services	3,142,160	2,173,296
Trading	2,654,861	2,707,055
Construction	1,954,194	1,819,407
Individuals	1,596,030	1,594,752
Personal loans for business (HNI)	1,561,091	1,420,975
Financial institutions	1,251,835	2,041,419
Manufacturing	1,200,226	978,322
Transport	725,241	669,526
Mining and quarrying	110,121	102,171
Others	130,863	118,728
Gross loans and Islamic financing	17,926,464	16,634,878
Less: deferred profit	(18,851)	(23,002)
Less: interest suspended	(206,145)	(78,173)
Less: allowance for impairment	(2,029,933)	(964,220)
	15,671,535	15,569,483

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

5 **Financial risk management** *(continued)*

(a) ***Credit risk*** *(continued)*

Concentrations of credit risk (continued)

Due from banks	2020	2019
Concentration by sector:	AED'000	AED'000
Financial institutions	1,691,879	2,804,852
Less: allowance for impairment	(5,699)	(10,442)
	1,686,180	2,794,410

	Investments at FVOCI-Bonds		Investments at FVTPL		Investments at amortised cost	
	2020	2019	2020	2019	2020	2019
Concentration by sector:	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Public sector	1,433,961	986,793	-	-	32,238	38,143
Private sector	73,060	71,900	-	-	-	-
Financial institutions	781,584	728,311	11,021	40,446	-	-
	2,288,605	1,787,004	11,021	40,446	32,238	38,143
Less: allowance for impairment	-	-	-	-	(333)	-
	2,288,605	1,787,004	11,021	40,446	31,905	38,143

	Due from Banks		Loans and Advances	
	2020	2019	2020	2019
	AED'000	AED'000	AED'000	AED'000
Concentration by location:				
UAE	143,423	658,799	15,660,659	15,557,830
Europe	703,738	236,574	-	-
GCC	364.587	928,435	-	548
Arab world	143,200	156,093	10,876	-
North America	290,392	303,954	-	-
Asia	40,840	510,555	-	11,105
	1,686,180	2,794,410	15,671,535	15,569,483

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

5 **Financial risk management** *(continued)*

(a) ***Credit risk*** *(continued)*

Concentrations of credit risk (continued)

	Investments at FVOCI - Bonds		Investments at FVTPL		Investments at amortised cost	
	2020	2019	2020	2019	2020	2019
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Concentration by location:						
UAE	1,738,135	1,285,073	11,021	40,446	31,905	38,143
Europe	-	-	-	-	-	-
GCC	550,470	501,931	-	-	-	-
Arab world	-	-	-	-	-	-
North America	-	-	-	-	-	-
Asia	-	-	-	-	-	-
Others	-	-	-	-	-	-
	2,288,605	1,787,004	11,021	40,446	31,905	38,143

Concentration by location for loans and advances, due from banks and investments at FVOCI, investment at FVTPL and investment at amortised cost is measured based on the residential status of the borrower.

As at 31 December 2020, twelve customers, (group wise exposures), comprised approximately 26.18% of the total balance of loans and advances (2019: 27.98%).

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 an 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.

Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is disclosed in note 32 to the financial statements.

Impact of COVID-19

On 11 March 2020, the World Health Organization made an assessment that the outbreak of a coronavirus (COVID-19) can be characterized as a pandemic. The measures necessary to contain the virus have triggered an economic downturn. At this point, there is great uncertainty about its severity and length. Since the pandemic's outbreak, prices of risk assets have fallen sharply.

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

5 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Impact of COVID-19 (continued)

In response to this crisis, the Central Bank of UAE (CBUAE) has instituted measures in the UAE to support businesses and households. These measures are expected to remain in place through the period of disruption. It is difficult at this time to incorporate the specific effects of COVID-19 and government support measures on a reasonable and supportable basis. The UAE Central Bank has announced an AED 256 billion monetary stimulus package in an attempt to combat the effects of COVID-19 and ease the liquidity constraints in the UAE Banking Sector, to enable local banks to support their customers and the local economy through this challenging period.

a) Temporary relief to customers:

Temporary relief from the payments of principal and interest / profit on outstanding loans for all COVID-19 affected private sector corporates, SMEs and individuals domiciled in UAE. To incentivize UAE banks to participate in the Targeted Economic Support Scheme (TESS), CBUAE has granted AED 50 billion capital buffer for the entire banking industry to facilitate additional lending capacity of banks by granting a zero cost funding facility against eligible collateral until 31 December 2020.

b) Liquidity and capital stimulus package:

The CBUAE has introduced the stimulus package relating to liquidity and capital requirements to support the banking industry in UAE through this disruption. For banks that fully pass on the TESS related benefits to end customers, CBUAE has reduced the requirement of maintaining minimum liquidity coverage ratio (LCR) to 70% (from 100%) and minimum eligible liquid assets ratio (ELAR) to 7% (from 10%). To improve liquidity within the UAE banking system, the CBUAE halved the reserve requirement for demand deposits of all banks from 14% to 7%. The CBUAE has also allowed banks to tap into capital conservation buffer and D-SIB buffers to the extent of 60% and 100% respectively until 31 December 2021. Planned implementation of certain Basel III capital requirements has been postponed to 31 March 2021.

To counter volatility in financial market and its impact on regulatory capital, CBUAE has issued a new requirement for all banks to apply a prudential filter to IFRS 9 expected credit loss (ECL) provisions. Any increase in the provisioning on stage 1 and 2 accounts compared to 31 December 2019 will be added back to regulatory capital and will be gradually phased-out during a five-year period, ending 31 December 2024.

The Bank is constantly monitoring the current situation as it unfolds, noting that it is in early stages and there is limited economic data available to accurately evaluate the impact of the outbreak on the UAE economy, and on the Bank's financial position as at 31 December 2020.

IASB Guidance and Joint Guidance issued by the Central Bank of UAE, Dubai Financial Services Authority (the “DFSA”) and the Financial Services Regulatory Authority (the “FSRA”)

The Bank recognizes any changes made to ECL to estimate the overall impact of COVID-19 will be subject to very high levels of uncertainty as little reasonable and supportable forward-looking information is currently available on which to base those changes. Accordingly, IASB and regulatory bodies in the UAE have proposed certain measures to manage the impact of economic uncertainty on ECL while remaining compliant with IFRS.

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

5 Financial risk management *(continued)*

(a) Credit risk (continued)

Impact of COVID-19 (continued)

IASB Guidance and Joint Guidance issued by the Central Bank of UAE, Dubai Financial Services Authority (the "DFSA") and the Financial Services Regulatory Authority (the "FSRA"). (Continued)

On 27 March 2020, the IASB issued a guidance note on accounting for expected credit losses in the light of current uncertainty arising from the COVID-19 pandemic. As per CBUAE guidelines on "Treatment of IFRS 9 ECL in context of COVID-19 crises", Banks and finance companies were not expected to update macroeconomic scenarios in their ECL systems immediately and were encouraged to (i) estimate the impact of new scenarios by assessing a range of possible outcomes on ECL separately and, (ii) based on these estimations, gradually introduce judgmental overlays on top of ECL with the view that scenarios should be re-introduced in their ECL systems no later than 30 September 2020. Accordingly, the Bank recorded provisions based on judgmental overlays on the top of ECL up to the quarter ended 30 June 2020. Thereafter, the Bank used the macro-economic forecasts to reflect the impact of COVID-19, as would have been used and has taken the provisions accordingly.

The Bank segregated its customers benefitting from payment deferrals into two groups as required by Central Bank as follows:

Group 1 – customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues, caused by the COVID-19 crisis; and

Group 2 – customers expected to be significantly impacted by the COVID-19 crises and are expected to face substantial deterioration in their creditworthiness triggering a migration to stage 2. In exceptional circumstances, stage 3 migration may have also been triggered where significant disruptions have threatened the long-term sustainability of the customers' business model causing the business to be permanently impaired.

The following tables contains a stage-wise classification of the deferred amount of principal outstanding and impairment allowance pertaining to the loans and advances of the customers who have been provided with such benefits:

Assets	Group	Payment Deferrals	Exposure	Impairment Allowance
Stage 1	Group 1	318,291	1,959,263	4,385
	Group 2	113,160	344,575	2,006
		431,451	**2,303,838**	**6,391**
Stage 2	Group 1	37,696	101,693	13,379
	Group 2	251,734	1,692,058	107,264
		289,430	**1,793,751**	**120,643**
Stage 3	Group 1	124	133	88
	Group 2	15,130	143,251	42,524
		15,254	**143,384**	**42,612**
Total		**736,135**	**4,240,973**	**169,646**

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

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Impact of COVID-19 (continued)

The following tables contains a counterparty-wise and stage-wise bifurcation of the impairment allowances pertaining to the loans and advances of the customers who have been provided with deferment benefit:

ECL allowance	Non-credit impaired Stage 1	Stage 2	Credit Impaired Stage 3	Total
1 Jan 2020	8,049	24,653	-	32,702
Other Corporates	(108)	65,359	3,484	68,735
High Net Worth Individuals	(1,595)	28,080	39,041	65,526
SMEs	449	2,505	87	3,041
Others	(404)	46	-	(358)
	6,391	**120,643**	**42,612**	**169,646**

The following tables contains the stage-wise migration of the deferred amount of principal outstanding and impairment allowance pertaining to the loans and advances of the customers who have been provided with such benefits:

	Non-credit impaired				Credit Impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Exposure	Impairment Allowance	Exposure	Impairment Allowance	Exposure	Impairment Allowance	Exposure	Impairment Allowance
As of 1 Jan 2020	3,585,982	8,049	694,963	24,653	-	-	4,280,945	32,702
Transfers from stage 1 to stage 2	(1,363,271)	(3,951)	1,363,271	3,951	-	-	-	-
Transfers from stage 2 to stage 1	254,383	4,447	(254,383)	(4,447)	-	-	-	-
Transfers from 1and 2 to stage 3	(126,652)	(109)	(4,655)	(39)	131,307	148	-	-
Other movements	(46,604)	(2,045)	(5,445)	96,525	12,077	42,464	(39,972)	136,944
As of 31 December 2020	**2,303,838**	**6,391**	**1,793,751**	**120,643**	**143,384**	**42,612**	**4,240,973**	**169,646**

The following tables contains the industry wise split of the deferred amount of principal outstanding and impairment allowance pertaining to the loans and advances of the customers who have been provided with such benefits:

Concentration by industry	Payment Deferrals	Exposure	Impairment Allowance
Mining and quarrying	56,129	13,378	939
Manufacturing	91,263	306,753	20,676
Electricity, Gas and Water	2,208	354	2
Construction	130,052	275,490	14,049
Real Estate	118,242	1,365,394	61,089
Trade	140,198	471,107	20,568
Transport	216	1,404	2
Financial institutions	381	19,573	1,977
Services	130,531	1,204,873	40,186
Individuals	36,688	217,248	1,495
Personal loans for business (HNI)	30,227	365,399	8,663
	736,135	**4,240,973**	**169,646**

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

5 Financial risk management *(continued)*

(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 the Assets and Liability Committee ("ALCO"). The Board approves the Bank's liquidity policies and procedures. The 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 the 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 a 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.

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.

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5 **Financial risk management** *(continued)*

(b) Liquidity risk *(continued)*

Exposure to liquidity risk (continued)

The maturity profile of financial assets and liabilities at 31 December 2020 was as follows:

	Carrying Amount	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Unspecified maturity
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	3,102,884	2,621,884	481,000	-	-	-	-
Due from banks - net	1,686,180	1,523,352	162,828	-	-	-	-
Investments at FVOCI	2,406,828	103,185	203,769	487,072	672,361	822,218	118,223
Investments at FVTPL	11,021	-	-	-	-	-	11,021
Investments at amortised cost	31,905	-	-	-	-	31,905	-
Loans and advances	15,671,535	3,720,081	2,546,381	2,549,562	2,453,027	4,402,484	-
Other assets	375,215	182,265	26,183	4,710	37,925	124,132	-
Total assets	23,285,568	8,150,767	3,420,161	3,041,344	3,163,313	5,380,739	129,244
Liabilities							
Customers' deposits	16,226,696	13,297,560	1,861,069	1,052,864	15,203	-	-
Due to banks	3,418,217	1,736,264	1,681,953	-	-	-	-
Other liabilities	233,043	208,430	21,707	67	2,839	-	-
Total liabilities	19,877,956	15,242,254	3,564,729	1,052,931	18,042	-	-
Statement of financial position gap	3,407,612	(7,091,487)	(144,568)	1,988,413	3,145,271	5,380,739	129,244

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

	Carrying Amount	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Unspecified maturity
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	1,463,798	325,000	-	-	-	-
Due from banks - net	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	4,119,765	3,072,974	2,535,500	2,304,740	3,536,504	-
Other assets	475,376	421,761	53,615	-	-	-	-
Total assets	22,625,704	8,652,862	3,769,295	3,331,009	2,801,531	3,938,963	132,044
Liabilities							
Customers' deposits	15,735,610	10,108,392	4,114,570	1,511,458	1,190	-	-
Due to banks	2,584,080	1,482,180	1,101,900	-	-	-	-
Other liabilities	367,318	313,703	53,615	-	-	-	-
Total liabilities	18,687,008	11,904,275	5,270,085	1,511,458	1,190	-	-
Statement of financial position gap	3,938,696	(3,251,413)	(1,500,790)	1,819,551	2,800,341	3,938,963	132,044

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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 the 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 2020 is as follows:

	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	3,102,884	1,812,947	481,000	-	-	-	808,937
Due from banks - net	1,686,180	1,523,352	162,828	-	-	-	-
Investments at FVOCI	2,406,828	103,185	203,769	487.072	672,361	822,218	118,223
Investments at FVTPL	11,021	-	-	-	-	-	11,021
Investments at amortised cost	31,905	-	-	-	-	31,905	-
Loans and advances	15,671,535	13,168,884	983,385	348,987	285,268	885,011	-
Other assets	409,248	-	-	-	-	-	409,248
Total assets	23,319,601	16,608,368	1,830,982	836,059	957,629	1,739,134	1,347,429
Liabilities							
Customers' deposits	16,226,696	9,920,433	1,861,069	1,130	60	-	4,444,004
Due to banks	3,418,217	2,837,561	580,053	-	-	-	603
Other liabilities	671,085	-	-	-	-	-	671,085
Total liabilities	20,315,998	12,757,994	2,441,122	1,130	60	-	5,115,692
Statement of financial position gap	3,003,603	3,850,374	(610,140)	834,929	957,569	1,739,134	(3,768,263)

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5 Financial risk management *(continued)*

(c) Market risk (continued)

Interest rate risk (continued)

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

	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 - net	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	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
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)

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 (2019: 75 basis points) and estimates the following impact on the profit for the year and equity at that date:

	2020 Profit for the year	2019 Profit for the year	**2020 Equity**	2019 Equity
	AED'000	AED'000	**AED'000**	AED'000
Fluctuation in yield	**5,079**	5,467	**2,750**	3,386

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 21,972 million interest bearing assets at year-end (2019: AED 21,079 million) and AED 15,200 million interest bearing liabilities at year-end (2019: AED 13,791 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 2020, 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 2020 AED'000**	Net exposure 2019 AED'000
GBP	(35)	75	**40**	849
Euro	5,249	(4,558)	**691**	(629)

Exposure to other currencies and the effect of changes in exchange rates is insignificant.

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.

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5 Financial risk management *(continued)*

(d) Operational risk *(continued)*

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.

(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 2020, the Bank's strategy, which was unchanged from 2019, 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. 52/2018 dated January 17, 2018 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 instruments 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).

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5 Financial risk management *(continued)*

(e) Capital management *(continued)*

Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets and 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 is 13% inclusive of capital conservation buffer.

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 2.5%.

CBUAE has issued a notice CBUAE\BSD\N\2020\1479 dated March 18, 2020, providing guidelines for Targeted Economic Support Scheme (TESS). The notice aims to contain the repercussions of Covid-19 pandemic in the UAE. TESS guidelines are immediately effective and will last for one year starting from March 15, 2020. Banks are allowed the following relief under the TESS:

(a) Banks can tap into their CCB up to a maximum of 60% and D-SIB buffer up to 100% without supervisory consequences.

(b) CBUAE allows banks to apply prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of expected volatility due to the Covid-19 crisis.

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").

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5 Financial risk management *(continued)*

(e) ***Capital management*** *(continued)*

The Bank's regulatory capital positions as 31 December 2020 and 2019 is as follows:

	2020	2019
Tier 1 capital	**AED'000**	AED'000
Share capital	**1,500,000**	1,500,000
Statutory reserve	**642,722**	642,722
Special reserve	**638,132**	638,132
General reserve	**380,000**	380,000
Fair value reserve	**44,294**	24,956
Retained earnings	**277,183**	1,168,876
IFRS transitional arrangement: Partial addback of ECL	**181,705**	-
Eligible Tier 1 capital (a)	**3,664,036**	4,354,686
Tier 2 capital		
Eligible general provisions	**238,222**	244,211
Eligible Tier 2 capital (b)	**238,222**	244,211
Total capital base (a+b)	**3,902,258**	4,598,897
Risk weighted assets:		
Credit risk	**19,057,734**	19,536,919
Market risk	**31,057**	58,254
Operational risk	**1,530,757**	1,511,404
Total Risk Weighted Assets	**20,619,548**	21,106,577
CET 1 ratio	**17.8%**	20.6%
Tier 1 ratio	**17.8%**	20.6%
Capital adequacy ratio	**18.9%**	21.8%

Capital Adequacy Ratio for 2019 has been restated after including the proposed dividend of AED 150 million as the shareholders decided to retain the dividends for the year 2019.

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

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 under IFRS 9 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 6(b)(iii)).

6 Use of estimates and judgements *(continued)*

(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).

(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 and other assets

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 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs 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 prices or dealer priced quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

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

6 Use of estimates and judgements *(continued)*

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

(iii) Valuation of financial instruments and other assets (continued)

Fair value hierarchy (continued)

Fair value measurements recognised in the statement of financial position (continued)

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 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 assets 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 2020				
Investments at FVOCI *(Note 9)*	**2,388,287**	**-**	**18,541**	**2,406,828**
Investment at FVTPL *(Note 10)*	**-**	**-**	**11,021**	**11,021**
Investment properties *(Note 13)*	**-**	**-**	**330,776**	**330,776**
Property and equipment *(Note 15)*	**-**	**-**	**182,869**	**182,869**
Property acquired in settlement of Debt *(Note 14)*	**-**	**-**	**9,185**	**9,185**
Asset held-for-sale *(Note 16)*	**-**	**-**	**49,690**	**49,690**
	2,388,287	-	**602,082**	**2,990,369**
At 31 December 2019				
Investments at FVOCI *(Note 9)*	1,903,667	-	15,381	**1,919,048**
Investment at FVTPL *(Note 10)*	-	-	40,446	**40,446**
Investment properties *(Note 13)*	-	-	366,621	**366,621**
Property and equipment *(Note 15)*	-	-	189,500	**189,500**
Property acquired in settlement of Debt *(Note 14)*	-	-	15,100	**15,100**
Asset held-for-sale *(Note 16)*	-	-	120,568	**120,568**
	1,903,667	-	747,616	**2,651,283**

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.

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

6 Use of estimates and judgements *(continued)*

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

(iii) Valuation of financial instruments and other assets (continued)

Fair value hierarchy (continued)

Fair value measurements recognised in the statement of financial position (continued)

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

	2020 AED'000	2019 AED'000
At 1 January	**747,616**	792,430
Change in fair value	**3,142**	467
Translation gain / (loss)	**18**	(5)
Disposals	**(60,996)**	-
Net impairment and depreciation	**(87,698)**	(45,276)
At 31 December	**602,082**	747,616

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 investments at FVOCI and other non-financial assets 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.

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.

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7 Cash and balances with the Central Bank of the UAE

	2020 AED'000	2019 AED'000
Cash in hand	81,997	59,833
Balances with the Central Bank of the UAE	2,211,950	971,898
Cash reserve with Central Bank of the UAE	809,618	757,067
Gross balance	3,103,565	1,788,798
Allowance for expected credit losses	(681)	-
	3,102,884	1,788,798

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

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

	2020 AED'000	2019 AED'000
Opening balance	-	-
Charge for the year, net	681	-
	681	-

8 Due from banks

	2020 AED'000	2019 AED'000
Current, call and nostro balances	1,064,628	635,194
Fixed deposits	458,300	1,982,339
Loan syndication	168,951	187,319
Gross balance	1,691,879	2,804,852
Allowance for expected credit losses	(5,699)	(10,442)
Net balance	1,686,180	2,794,410
By location:		
Within the UAE	143,423	658,799
Outside the UAE	1,542,757	2,135,611
	1,686,180	2,794,410

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

	2020 AED'000	2019 AED'000
Opening balance	10,442	5,104
Charge for the year, net	3,687	-
Transfer (to) from loans and advances	(8,430)	5,326
Exchange and other adjustments	-	12
	5,699	10,442

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

	2020 AED'000	2019 AED'000
Investment in quoted debt securities (UAE)	1,738,135	1,266,442
Investment in quoted debt securities (outside UAE/ others)	550,470	520,562
Total debt securities at FVOCI	2,288,605	1,787,004
Investment in quoted equity securities (UAE)	96,997	112,954
Investment in unquoted equity securities (outside UAE)	17,864	14,722
Investment in quoted equity securities (outside UAE)	2,685	3,709
Investment in unquoted equity securities (UAE)	467	467
Investment in overseas funds	210	192
Total equities at FVOCI	118,223	132,044
Total investments at FVOCI	2,406,828	1,919,048

The above investments at FVOCI are denominated in UAE Dirhams and US Dollar. Unquoted securities are measured at fair value based on the investee company's net asset value as of the year end.

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

	2020 AED'000	2019 AED'000
Fair value at 1 January	1,919,048	1,357,425
Purchase of Investment at FVOCI	762,816	744,113
Sale / redemption of Investment at FVOCI	(292,004)	(255,000)
Change in fair value	31,728	85,612
Amortisation of premium on debt securities	(14,778)	(13,119)
Translation gain	18	17
Fair value at 31 December	2,406,828	1,919,048

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

As at 31 December 2020, the allowance for impairment on debt instruments designated at FVTOCI amounting to AED 16,740 thousand (2019: AED 5,414 thousand) is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

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

	2020 AED'000	2019 AED'000
Opening Balance	40,446	43,946
Less: change in fair value	(29,425)	(3,500)
	11,021	40,446

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11 Investment at amortised cost

	2020 AED'000	2019 AED'000
Investment in quoted debt security (UAE)	32,238	38,143
Allowance for expected credit losses	(333)	-
	31,905	38,143

	2020 AED'000	2019 AED'000
As at 1 January	38,143	-
Purchase of Investment at amortised cost	-	40,813
Sale / redemption of Investment at amortised cost	(4,526)	(2,262)
Amortisation of premium on debt securities	(1,712)	(408)
	31,905	38,143

12 Loans and advances

	2020 AED'000	2019 AED'000
Loans and advances	15,573,220	14,626,638
Islamic financing	2,353,244	2,008,240
Gross loans and Islamic financing	17,926,464	16,634,878
Deferred profit	(18,851)	(23,002)
Allowance for expected credit losses	(2,029,933)	(964,220)
Interest suspended	(206,145)	(78,173)
Net loans and advances	15,671,535	15,569,483

Islamic finance breakdown

	2020 AED'000	2019 AED'000
By type :		
Ijarah	1,126,180	981,435
Murabaha	1,227,064	1,026,805
Gross Islamic financing	2,353,244	2,008,240
Deferred profit	(18,851)	(23,002)
Profit in suspense	(6,882)	(6,854)
Allowance for expected credit losses	(74,210)	(56,822)
Net Islamic Financing	2,253,301	1,921,562

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12 Loans and advances *(continued)*

The maturities of minimum Ijara payments

	2020 AED'000	2019 AED'000
Less than one year	175,854	141,960
Between one year and five years	604,151	562,737
More than five years	346,175	276,738
Gross Ijara financing	1,126,180	981,435

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

	2020 AED'000	2019 AED'000
Corporate segment	16,898,971	15,714,921
Consumer segment	1,027,493	919,957
Gross loans and Islamic financing	17,926,464	16,634,878

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

	2020 AED'000	2019 AED'000
Opening balance	964,220	938,167
Charge for the year	1,180,514	131,186
Recoveries	(16,732)	(26,187)
Net charge during the year	1,163,782	104,999
Net amounts written off	(1,412)	(73,620)
Transfer (to) due from banks / other liabilities	(96,657)	(5,326)
	2,029,933	964,220

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13 Investment Properties

	Freehold land Building AED'000	Investment Properties under development AED'000	Total AED'000
Cost			
At 31 December 2019	488,449	243,206	731,655
At 31 December 2020	**488,449**	**243,206**	**731,655**
Accumulated depreciation			
At 1 January 2019	93,091	-	93,091
Charges for the year	10,637	-	10,637
At 31 December 2019	103,728	-	103,728
Charge for the year	10,691	-	10,691
At 31 December 2020	**114,419**	-	**114,419**
Net carrying amount			
At 31 December 2019	384,721	243,206	627,927
Less: allowance for impairment	(89,400)	(171,906)	(261,306)
	295,321	**71,300**	**366,621**
At 31 December 2020	374,030	243,206	617,236
Less: allowance for impairment	(121,479)	(164,981)	(286,460)
	252,551	**78,225**	**330,776**

Towards the end of 2020, 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 a 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.

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13 Investment Properties *(continued)*

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

	2020 AED'000	2019 AED'000
Rental income	27,176	31,727
Direct operating expenses	(9,785)	(11,882)
	17,391	19,845

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

	2020 AED'000	2019 AED'000
At 1 January	261,306	245,980
Net charge for the year (note 30)	25,154	15,344
Transferred to assets held-for-sale	-	(18)
At 31 December	286,460	261,306

14 Other assets

	2020 AED'000	2019 AED'000
Interest receivable	210,186	254,325
Acceptances	165,029	221,051
Sundry debtors and other assets	24,848	29,096
Property acquired in settlement of debt, net	9,185	15,100
	409,248	519,572

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.

During the year, the Bank carried out an evaluation exercise of the properties acquired in settlement of debt through a qualified, independent external valuator. The external valuator has used the Direct Comparable method valuation methodology. This resulted in a charge for the period amounting to AED 5,915 thousand (2019: AED 2,772 thousand).

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15 Property and equipment

	Freehold land and Building AED'000	Furniture equipment & vehicles AED'000	Project in progress AED'000	Right of Use Assets AED'000	Total AED'000
Cost					
At 1 January 2019	385,904	117,568	42,250	-	545,722
Additions	-	6,457	16,505	-	22,962
Additions of right of use assets	-	-	-	21,340	21,340
Transfers	-	50,824	(50,824)	-	-
Disposals	-	(611)	-	-	(611)
Loss on revaluation	(16,153)	-	-	-	(16,153)
At 31 December 2019	369,751	174,238	7,931	21,340	573,260
At 1 January 2020	369,751	174,238	7,931	21,340	573,260
Additions	-	-	17,256	-	17,256
Additions of right of use assets	-	-	-	3,085	3,085
Transfers	-	13,054	(13,054)	-	-
Disposals	-	(250)	-	-	(250)
Loss on revaluation	(6,282)	-	-	-	(6,282)
At 31 December 2020	**363,469**	**187,042**	**12,133**	**24,425**	**587,069**

Accumulated depreciation	Freehold land Buildings AED'000	Furniture equipment & vehicles AED'000	Project in progress AED'000	Right of Use Assets AED'000	Total AED'000
At 1 January 2019	179,903	84,745	-	-	264,648
Charge for the year	348	11,930	-	-	12,278
Right of use Assets	-	-	-	6,226	6,226
Disposals	-	(415)	-	-	(415)
At 31 December 2019	180,251	96,260	-	6,226	282,737
At 1 January 2020	180,251	96,260	-	6,226	282,737
Charge for the year	349	15,691	-	-	16,040
Right of use Assets	-	-	-	6,531	6,531
Disposals	-	(250)	-	-	(250)
At 31 December 2020	**180,600**	**111,701**	-	**12,757**	**305,058**
Net carrying amount					
At 31 December 2019	189,500	77,978	7,931	15,114	290,523
At 31 December 2020	**182,869**	**75,341**	**12,133**	**11,668**	**282,011**

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15 Property and equipment *(continued)*

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 valuers 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 2020, as provided by the valuers was AED 182.9 million *(2019: AED 189.5 million),* resulting in a decrease in the revaluation reserve by AED 6.3 million *(2019: decrease by AED 16.1 million).* The table below represents the movement in the revaluation reserve of the freehold land and building:

Revaluation reserve – freehold land and buildings	2020 AED'000	2019 AED'000
At 1 January	129,542	145,695
Fair value gain / (loss)	71	(16,153)
At 31 December	**129,613**	129,542

During the year, the Bank booked a fair value loss of AED 6.35 million on one of the properties in the statement of comprehensive income (Note 30).

At 31 December 2020, total cost of AED 178.2 million (2019: AED 178.2 million) of fully depreciated assets was included in freehold land and buildings.

16 Asset held-for-sale

During 2018, the Bank entered into a commercial agreement to sell a part of its investment property portfolio. During the year, the Bank successfully completed the sale of one land. The deal for the second land is expected to be finalized within the 12 month period during 2021. These assets are non-cash generating units and therefore have no impact on the statement of comprehensive income.

	2020 AED'000	2019 AED'000
Land	49,690	120,568

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17 Customers' deposits

	2020 AED'000	2019 AED'000
By type:		
Notice and time deposits	**9,863,657**	9,344,121
Current accounts	**4,119,175**	4,398,154
Savings accounts	**137,236**	108,150
	14,120,068	13,850,425
***Islamic deposits** By type:*		
Current accounts	**380,656**	236,367
Mudaraba term and savings deposits	**15,411**	3,919
Wakala deposits	**1,710,561**	1,644,899
	2,106,628	1,885,185
Total deposits	**16,226,696**	15,735,610
By sector:		
Government sector	**4,763,105**	3,666,445
Private sector	**8,523,578**	8,860,914
Individuals	**2,940,013**	3,208,251
	16,226,696	15,735,610

18 Due to banks

	2020 AED'000	2019 AED'000
Current, call and vostro balances	**229,145**	485,899
Fixed deposits	**2,528,019**	2,098,181
Funds received from CBUAE under TESS*	**661,053**	-
	3,418,217	2,584,080
By location:		
Within the UAE	**1,377,294**	240,000
Outside the UAE	**2,040,923**	2,344,080
	3,418,217	2,584,080

*During the year ended 31 December 2020, the Bank has fully utilized the Zero Cost Facility (ZCF) offered by the CBUAE under the Targeted Economic Support Scheme (TESS) to provide relief for the payments of principal and / or interest / profit to customers affected by the Covid-19 pandemic. These funds have been provided by the CBUAE against eligible collateral as mentioned in the "Standards for the Central Bank of the UAE's Targeted Economic Support Scheme".

Pursuant to the Joint Guidance on the treatment of IFRS 9 ECL provisions in the UAE in the context of the COVID-19 crisis issued by the UAE Central Bank during April 2020, the Bank granted repayment holidays to some of its impacted customers. Of these, those related to TESS under standards issued during 2020, deferred principal and accrued interest amounted to AED 736 million. The Bank has availed the assistance under TESS and has offered payment deferral relief to selected customers. The Bank has repaid AED 75 million as on 31 December 2020.

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19 Other liabilities

	2020 AED'000	2019 AED'000
Acceptances	**165,029**	221,051
Interest payable	**68,014**	146,267
Provision for employees' end of service benefits	**26,610**	25,389
Others *	**411,432**	220,486
	671,085	613,193

* Includes AED 224 million (2019: AED 106 million) pertaining to ECL on non-funded exposures.

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

	2020 AED'000	2019 AED'000
At 1 January	**25,389**	22,885
Provided during the year	**8,570**	7,773
Paid during the year	**(7,349)**	(5,269)
	26,610	25,389

20 Capital and reserves

a) Share capital

The authorised, issued and fully paid share capital of the Bank comprises 75,000 ordinary shares of AED 20,000 each *(2019: 75,000 shares of AED 20,000 each).*

b) Statutory reserve

As required by Article 239 of the UAE Federal Law No. (2) of 2015, 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 no transfer to the reserve during the year (2019: AED 49.1 million).

c) 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 no transfer to the reserve during the year *(2019: AED 49.1 million).*

d) 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.

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20 Capital and reserves *(continued)*

e) *Revaluation reserve*

The revaluation reserve includes gains on revaluation of freehold land and buildings, amounting to AED 130 million *(2019: AED 130 million)*. During the year 2020 a revaluation gain of AED 71 thousand *(2019: loss of AED 16.2 million)* was added to the reserve, resulting from the revaluation exercise performed over freehold land and buildings *(Note 13)*.

f) *Fair value reserve*

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

	2020 AED'000	2019 AED'000
Fair value reserve – Investments designated at FVOCI		
At 1 January	55,457	(30,155)
Fair value changes - net	42,973	85,612
At 31 December	98,430	55,457

g) *Dividends*

For the year ended 31 December 2020, the Board of Directors has proposed to pay a cash dividend of AED NIL per ordinary share (2019: AED NIL per ordinary share). This is subject to the approval of the shareholders in the Annual General Meeting.

h) *Zakat*

The Bank has paid AED 1.9 million as Zakat during the year *(2019: AED 2.03 million)*.

21 Interest income

	2020 AED'000	2019 AED'000
Loans and advances to customers	651,128	818,503
Investment securities	75,614	58,124
Due from banks	31,902	83,984
	758,644	960,161

22 Interest expense

	2020 AED'000	2019 AED'000
Customers' deposits	198,506	280,591
Due to banks	20,392	39,395
	218,898	319,986

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23 Income from islamic financing contracts

	2020 AED'000	2019 AED'000
Murabaha	45,250	56,543
Ijarah	55,565	48,420
	100,815	104,963

24 Depositors' share of profit

	2020 AED'000	2019 AED'000
Mudaraba deposits and saving accounts	10	10
Wakala	33,865	59,327
	33,875	59,337

25 Net fee and commission income

	2020 AED'000	2019 AED'000
Fee and commission income		
Letters of credit	28,486	55,440
Letters of guarantee	19,430	28,028
Retail and corporate lending fees	20,497	28,282
Transfers and other fees	5,404	5,848
Others	36,454	33,515
Total fee and commission income	110,271	151,113
Fee and commission expense		
Brokerage fees	(468)	(1,183)
Handling charges	(1,559)	(1,215)
Others	(5,926)	(9,913)
Total fee and commission expense	(7,953)	(12,311)
Net fee and commission income	102,318	138,802

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25 Net fee and commission income *(continued)*

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
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 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.

26 Net foreign currency exchange gain

	2020 AED'000	2019 AED'000
Trading and retranslation gain	4,278	27,280
Dealing with customers	22,728	604
	27,006	27,884

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27 Other operating income

	2020 AED'000	2019 AED'000
Rental income, net	17,391	19,845
Others	35	9
	17,426	19,854

28 General, administration and other operating expenses

	2020 AED'000	2019 AED'000
Staff costs (i)	179,416	186,136
Depreciation (ii)	33,262	29,141
BOD expenses	14,914	14,751
Others	44,956	45,827
	272,548	275,855

(i) The number of employees as at 31 December 2020 were 390 employees *(2019: 408 employees)*. Staff costs are divided as follows:

	2020 AED'000	2019 AED'000
Salaries and wages	88,155	89,763
End of service benefits (note 19)	8,570	7,773
Other benefits	82,691	88,600
	179,416	186,136

(ii) Depreciation comprises of depreciation charge for the year on property and equipment and right of use assets amounting to AED 22.6 million *(2019: AED 18.5 million)* and investment properties amounting to AED 10.7 million *(2019: AED 10.6 million)* net of depreciation amount related to valuation.

29 Net impairment charge on financial assets

	2020 AED'000	2019 AED'000
Net impairment on loans and advances	1,180,514	131,186
Net impairment on unfunded exposures	118,082	-
Net impairment on due from banks	3,687	-
Net impairment on central bank balances	681	-
Net impairment on investment securities	11,659	-
Write-off of impaired financial assets	16,920	-
Recovery of loan loss provisions	(16,732)	(26,187)
Recovery of loans previously written - off	(14,100)	(9,359)
	1,300,711	95,640

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

29 Net impairment charge on financial assets *(continued)*

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.

30 Impairment and fair value loss on properties

	2020 AED'000	2019 AED'000
Impairment loss on investment properties	**25,154**	15,344
Impairment loss on property acquired in settlement of debt	**5,915**	2,772
Impairment loss on properties	**31,069**	18,116
Fair value loss on asset held for sale	**9,880**	-
Fair value loss on own properties	**6,353**	-
Fair value loss on properties	**16,233**	-

31 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:

	2020 AED'000	2019 AED'000
Cash and balances with the Central Bank of the UAE	**3,103,565**	1,788,798
Due from banks	**1,691,879**	2,804,852
Due to banks	**(3,418,217)**	(2,584,080)
	1,377,227	2,009,570
Less: cash reserve with Central Bank of the UAE	**(809,618)**	(757,067)
Less: due from banks with original maturity of more than 3 months	**(168,951)**	(187,319)
Add: due to banks with original maturity of more than 3 months	**1,101,900**	1,212,090
Cash and cash equivalents	**1,500,558**	2,277,274

32 Commitments and contingencies

	2020 AED'000	2019 AED'000
Letters of credit	**1,574,524**	1,758,119
Letters of guarantee	**3,568,676**	4,198,748
	5,143,200	5,956,867
Commitments at the reporting date are shown below:		
Un-drawn commitments to extend credit	**5,022,247**	6,595,460
Commitment for future capital expenditure	**5,887**	4,464
	5,028,134	6,599,924
Total commitments and contingencies	**10,171,334**	12,556,791

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

32 Commitments and contingencies *(continued)*

Irrevocable undrawn facilities commitments as at 31 December 2020 amounted to AED 554 million *(2019: AED 667 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 2020 the ECL on unfunded exposures amounted to AED 224 million (2019: AED 106 million).

33 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 (%)	
	2020	2019
Emirates Investment Authority	**42.28**	42.28
Libyan Foreign Bank	**42.28**	42.28
Banque Exterieure d'Algerie	**15.44**	15.44

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 either approved by 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 2020 AED'000	31 December 2019 AED'000	**31 December 2020 AED'000**	31 December 2019 AED'000
Balances				
Loans and advances	**16,528**	12,331	**31,381**	41,466
Deposits	**22,312**	8,705	**3,620,867**	2,002,434
Commitments and contingencies	**-**	-	**1,134,808**	1,694,014
Transactions				
Board of Directors' remuneration	**12,000**	12,000	**-**	-
Salaries and benefits	**17,737**	17,396	**-**	-
Post-employment benefits	**1,587**	1,368	**-**	-
Interest income	**500**	857	**-**	2
Interest expense	**100**	524	**34,427**	48,450
Fee and commission	**-**	-	**853**	1,869
Dividend paid	**-**	-	**-**	150,000

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33 Related parties *(continued)*

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.

34 (Loss)/ earnings per share

Basic (loss)/ earnings per share

The calculation of basic (loss) earnings per share at 31 December 2020 was based on the (loss) / profit attributable to ordinary Shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	2020 AED'000	2019 AED'000
(Loss)/ profit for the year	**(889,822)**	490,574
Weighted average number of ordinary shares	**75,000**	75,000
(Loss) / earnings per share (AED)	**(11.86)**	6.54

There were no potentially dilutive securities as at 31 December 2020 or 2019, and accordingly, diluted earnings per share are the same as basic earnings per share.

35 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.

36 Social contributions

There are no social contributions made by the Bank during the year (2019: Nil).

BRANCHES

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Al Ain Branch
Salahuddeen Al Ayyubi Street,
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Sheikh Zayed Road Branch
Near Al Tayer Motors
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PO Box: No. 488090, Dubai, U.A.E

Jumeirah Branch
First-Main Jumeirah Road, Umm Suqeim
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Digital Branch
Al Yalayis Government Transactions Center
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