بنك دبي الإسلامي
Dubai Islamic Bank

#ReadyForTheNew

2020
ANNUAL REPORT

بنك دبي الإسلامي

Dubai Islamic Bank

INDEX

1. Agenda for the Annual General Assembly Meeting
2. Board of Directors' Report
3. Internal Shari'ah Supervision Committee's Report
4. Zakat Notice
5. Independent Auditor's Report and Consolidated Financial Statements for the year ended 31 December 2020

Agenda

Agenda for the Annual General Assembly Meeting of Dubai Islamic Bank P.J.S.C.

The Board of Directors of Dubai Islamic Bank PJSC ("the Bank") is pleased to invite all shareholders to attend the Annual General Assembly Meeting ("AGM") to be held remotely/online through the use of remote presence technology/ virtual meetings with visual communication and electronic voting during the AGM (the link to attend the AGM will be sent to shareholders by text message by the Dubai Financial Market ("DFM") at 5.00pm on Tuesday 16 March 2021. If there is no quorum, the second meeting will be held at the same time on Tuesday, 23 March 2021, to review and discuss the following agenda:

1. Review and ratification of the Board of Directors' report on the Bank's activities and financial position in relation to the financial year ended 31/12/2020.
2. Review and ratification of the Auditor's report for the financial year ended 31/12/2020.
3. Review the Internal Shari'ah Supervision Committee report in relation to the Bank's activities during the financial year ended 31/12/2020 and ratification thereof.
4. Discussion and approval of the Bank's Balance Sheet and Profit and Loss Statement for the year ended 31/12/2020 and ratification thereof.
5. Discussion and approval of the Board of Directors' recommendation in relation to cash dividends of 20% of the paid-up capital, aggregating to an amount of AED 1,445,422,180 (UAE Dirham One billion Four hundred Forty Five million Four hundred Twenty Two thousand One hundred and Eighty).
6. Review of the remuneration of the Board of Directors as per article no.169 of the Federal Act No. (2) of 2015 concerning the Commercial Companies ("Commercial Companies Law").
7. Discharge of the Board of Directors of the Bank from liability for the year ended 31/12/2020 or their termination and filing of a liability claim against them, as the case may be.
8. Discharge of the External Auditors of the Bank from liability for the year ended 31/12/2020 or their termination and filing of a liability claim against them, as the case may be.
9. Appointment of the members of the Internal Shari'ah Supervision Committee for the year 2021.
10. Appointment of the External Auditors of the Bank for the financial year 2021 and determination of their remuneration.
11. Appointment of representatives for shareholders who wish to be represented and to vote on their behalf.

12 Consider passing a Special Resolution:

- To authorise the Board of Directors of the Bank to issue any senior Sukuk and/or other similar instruments which are not convertible into shares, whether under a programme or otherwise, in an aggregate outstanding face amount not exceeding USD 7.5 billion (or the equivalent thereof in other currencies) at any time and to authorise the Board of Directors to determine and agree on the date of issuance provided that such date does not exceed one year from the date of the General Assembly meeting, the amount, offering mechanism, transaction structure and other terms and conditions of any such issuance(s), provided that this is undertaken in compliance with the provisions of the Commercial Companies Law and any regulations or guidelines issued by any governmental or regulatory authority pursuant to such law and after obtaining approvals which may be required from the relevant competent regulatory authorities.

13 Consider passing a Special Resolution:

- To authorise the Board of Directors of the Bank to issue additional Tier 1 sukuk which are not convertible into shares in an aggregate face amount not exceeding USD 1.5 billion (or equivalent thereof in any other currency) and to authorise the Board of Directors to determine and agree on the date of issuance provided that such date does not exceed one year from the date of the General Assembly meeting, the amount, offering mechanism, transaction structure and other terms and conditions of such issuance (provided that such issuance is subordinated, profit payments under the terms and conditions of such issuance are capable of being cancelled under certain circumstances and the terms and conditions also contain a point of non-viability provision), and subject in all cases to obtaining necessary approvals which may be required from the relevant competent regulatory authorities.

14 Consider passing a Special Resolution:

a. To approve the Board of Directors' recommendation to amend and restate the Articles of Association of the Bank in the form attached hereto. Shareholders can further review the amended and restated Articles of Association on the websites of the Bank and DFM.

b. Subject to approving (a) above and obtaining the approvals from the relevant regulatory authorities, to authorize the Board of Directors of the Bank or any person so authorized by the Board of Directors of the Bank, to take all the necessary measures to issue the amendment and restatement of the Bank's Articles of Association.

Board of Directors' Report

Board of Directors' Report

Dear Valued Shareholders,

السلام عليكم ورحمة الله وبركاته،

First and foremost, I would like to extend my gratitude towards the strong and wise leadership of this wonderful nation, United Arab Emirates. The leadership has been championing the fight against the pandemic that has rocked the entire world, and has provided the nation with much needed solidity and stability. The tireless efforts of our leaders and the front line in containing the situation is praiseworthy. We are all in this together and I am certain we will successfully sail through this health crisis and prevail. What is important is for us to stay protected as we continue our daily lives.

2020 was undoubtedly a unique year. As we continue our fight against COVID-19, we must understand that the economic dynamics have changed. There has been a significant shift in the landscape at a regional as well as global level. We are witnessing the evolution of a new world order. I am delighted that we at DIB are ready for this new world. We are evolving and adapting to ensure we stay aligned with the constant changes that are occurring in and around us. The strategic intent of the bank is highlighted in the new positioning for DIB, #ReadyForTheNew and backed by a renewed purpose and energized set of values that will drive home the vision to be the most progressive Islamic financial institution in the world.

DIB draws its inspiration from the UAE Government and its leader's forward thinking and far-sighted vision - to serve today, yet plan for tomorrow - and has aligned its objectives with the UAE's Strategy for the future. The Government has ensured that the economic status of the country remains unblemished. The timely and varied economic stimuli provided by the Government has helped support the various sectors of the UAE economy in these unprecedented times. In addition, we are also grateful for the guidance and backing by the regulators, especially UAE Central Bank, in providing extensive support towards the banking sector via the TESS Program (Targeted Economic Support Scheme) to help our retail and corporate customers that were impacted due to the Pandemic.

Today, I am pleased to present to you Dubai Islamic Bank's Annual Report for the financial year ending 31 December 2020. During this extraordinary year, DIB continued to spearhead the growth of the Islamic banking industry globally and remains one of the strongest banks in UAE today. Our market share stands at over 9% with the balance sheet now at nearly AED 290 billion. Despite significant challenges of 2020, the bank's financial position remains robust with sustained profitability as the total income crossed AED 13 billion and net profit reached AED 3.16 billion.

Our response to the situation that unfolded due to the pandemic has been relentless. Right from the onset of COVID-19, the bank remained at the forefront in handling the crisis by immediately engaging its business continuity and crisis management plans. This enabled us to continue providing uninterrupted services to our customers, whilst ensuring extreme precautionary and safety measures across our branch networks and offices. In addition, DIB also ensured the safety of its employees by adapting flexible work-from-home initiatives, as well as safeguarding the workplace. During the year, the bank also provided national humanitarian support towards those that were impacted by the crisis.

The year also saw one of the fastest acquisitions in the banking sector in the region with the successful integration of Noor Bank into DIB. The integration was completed in record time despite the unprecedented challenges, clearly demonstrating the robust infrastructure of the bank and the unwavering commitment of our employees. The acquisition has further enhanced DIB's franchise and reinforced its status as a leading player in the global Islamic banking industry.

2020 is now history. Let's not remember the year for its challenges. Instead, let's remember 2020 for what it has taught us, how humanity worked together globally to successfully overcome the most dreadful health crisis the world has ever faced. It is now time to look ahead.

I wish you all, our shareholders, customers and employees, good health and safety in the years to come.

السلام عليكم ورحمة الله وبركاته،

H.E. Mohammed Ibrahim Al Shaibani
Chairman,
Dubai Islamic Bank PJSC

Shari'ah Report

DIB's Internal Shari'ah Supervision Committee's Report Presented to the General Assembly for year 2020

Issued on: 29 January 2021

To: Shareholders of Dubai Islamic Bank ("the Bank")

After greetings,

Pursuant to requirements stipulated in the relevant laws, regulations and standards ("the Regulatory Requirements"), the Internal Shari'ah Supervision Committee of the Bank ("ISSC") presents to you the ISSC's Annual Report for the financial year ending on 31 December 2020 ("Financial Year").

1 Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:

a. undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Bank; and the Bank's policies, accounting standards, operations and activities in general (to the extent of what was presented to the ISSC), memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ("Bank's Activities") and issue Shari'ah resolutions in this regard, and

b. determine Shari'ah parameters necessary for the Bank's Activities, and the Bank's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority ("HSA") to ascertain compliance of the Bank with Islamic Shari'ah.

The senior management is responsible for compliance of the Bank with Islamic Shari'ah in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA ("Compliance with Islamic Shari'ah") in all Bank's Activities, and the Board bears the ultimate responsibility in this regard.

2 2. Shari'ah Standards

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has, to the best of its judgment, abided by the Shari'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Bank's Activities, except in matters where the Shari'a Standards do not provide clear guidance, in which case the ISSC shall take the necessary procedures to amend any decision in line with the guidance of the HSA.

3 Duties Fulfilled by the ISSC During the Financial Year

The ISSC conducted Shari'ah supervision of the Bank's Activities by reviewing those Activities, and monitoring them through the internal Shari'ah Control Department and Internal Shari'ah Audit Department, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. The ISSC's activities included the following:

a. Convening (18) meetings during the year.

b. Issuing fatwas, resolutions and opinions on matters presented to the ISSC in relation to the Bank's Activities.

c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Bank to the ISSC for approval.

d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between investment accounts holders and shareholders with parameters set by the ISSC.

e. Supervision through the Internal Shari'ah Control Department and the Internal Shari'ah Audit Department of the Bank's Activities including supervision of executed transactions and adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.

f. Providing guidance to relevant parties in the Bank – to rectify (where possible) incidents cited in the reports prepared by internal Shari'ah Control Department and Internal Shari'ah Audit Department – and issuing of resolutions to set aside revenue derived from transactions in which non-compliances were identified for such revenue to be disposed towards charitable purposes.

g. Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.

h. The ISSC has reviewed and approved the Zakat calculation for the Bank, in accordance with AAOIFI standards, and the Zakat calculation for the shareholders' retained funds, in accordance with the Articles of association and has notified the Bank to act as needed.

i. Communicating with the Board and its subcommittees, and the senior management of the Bank (as needed) concerning the Bank's compliance with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Bank is compliant with Islamic Shari'ah.

4 Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Bank. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5 The ISSC's Opinion on the Shari'ah Compliance Status of the Bank

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that the Bank's Activities are in compliance with Islamic Shari'ah, except for the incidents of non-compliance observed, as highlighted in the relevant reports. The ISSC also provided directions to take appropriate measure in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year, to the extent of matters presented before the ISSC, obtained data, audited matters, observations made and response of the Bank to implementation of these observations.

Signatures of members of the Internal Shari'ah Supervision Committee of the Bank

Dr. Mohamed Ali Ibrahim ElGari BinEid	**Chairman**	
Dr. Mohammad AbdulRahim Sultan Al Olama	**Member**	
Dr. Ibrahim Ali Abdalla Hamad AlMansoori	**Member**	
Dr. Mohamed Akram Bin Laldin	**Member**	
Dr. Muhammad Qaseem Muhammad Ismail	**Executive Member**	

Zakat Notice

Zakat due on DIB Shares for the Year 2020

Pursuant to the provisions of Article (69) of the Bank's Articles of Association regarding Shares' Zakat and in order to facilitate the matter for the Shareholders, the Bank's Internal Sharia Supervision Committee Would like to inform you that the method of calculating the Zakat payable on your shares is as follows:

1. **The Zakat due on shares, purchased for the purpose of trading (i.e. for selling them when their prices increase), is:**

Zakat pool per share	=	the market value of the share at the end of the Hijri year.
Zakat per share	=	[Zakat pool per share x 2.5775*] - 0.04596**
Total Zakat due on your shares	=	Zakat per share x number of shares

2. **Zakat payable per share, purchased for the purpose of benefiting from its annual return and not for the purpose of trading, is calculated as follows:**

Zakat per share for the Gregorian year = 0.03425

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* Amount of Zakat for Hijri year is 2.5% and for Gregorian year is 2.5775%

** Represents portion of a share's Zakat that the Bank has paid in respect of the shareholders' funds retained with the Bank, therefore it should be deducted from the Zakat per share payable by a shareholder.

Dubai Islamic Bank P.J.S.C.

Consolidated financial statements
for the year ended 31 December 2020

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

	Pages
Independent auditors' report	1 - 7
Consolidated statement of financial position	8
Consolidated statement of profit or loss	9
Consolidated statement of comprehensive income	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12 & 13
Notes to the consolidated financial statements	14 – 98

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Dubai Islamic Bank PJSC
Dubai
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Dubai Islamic Bank PJSC (continued)

Key Audit Matters (continued)

Key audit matter	Our audit approach
Impairment of carrying value of Islamic financing and investing assets as per IFRS 9	
The Group's Islamic financing and investing assets are carried on the consolidated statement of financial position at AED 197 billion as at 31 December 2020. The expected credit loss (ECL) allowance was AED 8.4 billion as at this date, which comprised an allowance of AED 2.1 billion against Stage 1 and 2 exposures and an allowance of AED 6.3 billion against exposures classified under Stage 3 and POCI. The audit of the impairment of Islamic financing and investing assets is a key area of focus because of its size (representing 68 % of total assets) and due to the significance and complexity of the estimates and judgments, including those related to COVID-19, which were used in classifying Islamic financing and investing assets into various stages and determining the estimated credit losses ("ECL"). Refer to Note 5 to the consolidated financial statements for the accounting policy, Note 6 for critical judgements and estimates used by management and Note 47.2 for disclosures about credit risk. The Corporate portfolio of Islamic Financing and Investing assets is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging override in accordance with the Group's policies. The measurement of ECL amounts for exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention, however, it is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and subject to validation process by an independent reviewer. The exposures are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Group in accordance with the original contractual terms.	We obtained a detailed understanding of the Group's Islamic financing and investing assets business processes including the critical accounting estimates and judgments used. We have involved our subject matter experts to assist us in auditing the IFRS 9 ECL models as at 31 December 2020. We tested the design, implementation and operating effectiveness of the relevant controls which included testing: • System-based and manual controls over the timely recognition of impaired Islamic financing and investing assets and advances; • Controls over the ECL calculation models; • Controls over collateral valuation estimates; • Controls over governance and approval process related to impairment provisions and ECL Models including continuous reassessment by the management. We understood and evaluated the theoretical soundness of the ECL model by involving our subject matter experts to ensure its compliance with the requirements of IFRS 9. We tested the mathematical integrity of the ECL model by performing recalculations. We assessed the consistency of various inputs and assumptions used by the Group's management to determine impairment. For allowances against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Group's methodology to determine the allowance, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. We assessed the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we checked the appropriateness of the Group's staging.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Dubai Islamic Bank PJSC (continued)

Key Audit Matters (continued)

Key audit matter	Our audit approach
Impairment of carrying value of Islamic financing and investing assets as per IFRS 9 (continued)	
The impact of the Covid-19 pandemic and the resulting economic support and relief measurement programmes of governments and central banks have been incorporated in the Group's measurement of ECL. The Group has updated its macro-economic forecasts and has applied portfolio-level ECL adjustments. During 2020, the Group updated and implemented its IFRS 9 ECL models related to PD, LGD, EAD and macroeconomic forecasts, including the impact of the COVID-19 pandemic. Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral. The impairment loss is calculated based on the shortfall in the Islamic financing and investing assets carrying value compared to the net present value of future cash flows using original effective profit rate. The factors considered when determining impairment losses on individually assessed accounts include the customer's aggregate borrowings, risk rating, value of the collateral and probability of successful repossession and the costs involved to recover the debts.	For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. We selected samples of Islamic financing and investing assets and assessed the accuracy of the Exposure at Default (EAD), appropriateness of the Probability of Default (PD) and calculations of the Loss Given Default (LGD) used by management in their ECL calculations. We have had discussions with management to understand the Bank's assessment of the impact of Covid-19 and we assessed the ECL overlays, which they had calculated. Furthermore, we assessed, as part of our credit review, if the allowances relating to significant Stage 2 and Stage 3 customers, including those customers who availed TESS, were reasonable. For exposures determined to be individually impaired, we tested samples of Islamic financing and investing assets and examined management's estimate of future cash flows, assessed their reasonableness and assessed the resultant allowance calculations. Further, we challenged the estimates and assumptions used by management around the LGD calculation for individually impaired exposures by testing the enforceability and adequacy of valuation of underlying collaterals and estimated recovery on default. We also, assessed the accuracy of disclosures in the consolidated financial statements to determine if they were in compliance with the requirements of IFRSs.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Dubai Islamic Bank PJSC (continued)

Key Audit Matters (continued)

Key audit matter	Our audit approach
Acquisition of Noor Bank P.J.S.C.	
During the year the Group completed the acquisition of a controlling stake of 99.99% in Noor Bank P.J.S.C. for a consideration of AED 3.6 billion. Refer to Note 5 to the consolidated financial statements for the accounting policy and Note 50 for the acquisition disclosure. The cost of the acquisition was accounted for by determining the fair value of assets and liabilities acquired, including intangible assets and negative goodwill. This acquisition resulted in the recognition of intangible assets of AED 287 million and negative goodwill of AED 1,014 million. The Group has undertaken a purchase price allocation as required by IFRS 3 *Business Combinations*. This included complex valuation considerations and required the use of specialists. The process of determining the fair value of assets requires the use of multiple estimates. In particular, we focused on: • Determining purchase price based on acquisition date; • The allocation of the purchase price; • The calculation of the discount rates and credit spreads; • The opening statement of financial position, considering fair value adjustments recognised; • The identification of intangible assets and the useful economic lives used in amortising intangible assets. Due to the size and complexity of the acquisition, we considered this to be a key audit matter.	We confirmed that the effective date of the acquisition was in compliance with the requirements of IFRS 3 by inspecting the salient terms and conditions of the purchase agreement and the date management took control over the acquiree. Our audit procedures included reviewing the sale and purchase agreements for the acquisitions and assessing the acquisition accounting, testing the validity and completeness of consideration and evaluating management's assumptions and methodology supporting the fair values of intangible and net assets acquired. Our audit procedures also included, but were not limited to, an assessment of the competency of the external experts used by the Group to value the acquired intangible assets. We used our own valuation specialists to challenge and corroborate using our experience, market data and information from similar transactions. We also, assessed the accuracy and sufficiency of the disclosure in the consolidated financial statements relating to the acquisition, including the presentation and classification of Purchased or Originated Credit Impaired ("POCI") assets, to determine if they were in compliance with the requirements of IFRSs.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Dubai Islamic Bank PJSC (continued)

Key Audit Matters (continued)

Key audit matter	Our audit approach
IT systems and controls over financial reporting	
We identified IT systems and controls over the Bank's financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Bank and rely on the effective operation of automated and IT dependent manual controls. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data. Further, as a consequence of the aforementioned Noor Bank acquisition, the Group elected to transfer all assets and liabilities of Noor Bank into DIB's accounting system with effect from 28 October 2020. The process entailed considerable amount of data being migrated from Noor Bank systems into DIB's systems, which required exhaustive controls to be implemented by the Bank to assist in ensuring that the data transferred was accurate, valid and complete.	Our audit approach relies on automated controls and therefore the following procedures were designed to test access and control over IT systems: We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications. We tested IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations. We examined computer generated information used in financial reports from relevant applications and key controls over their report logics. We performed testing on the key automated controls on significant IT systems relevant to business processes as well as the controls over the Noor Bank data migration.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' report which we obtained prior to the date of this auditors' report and the Fatwa and Sharia Supervision Board's report which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Dubai Islamic Bank PJSC (continued)

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

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

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

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

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

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

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Dubai Islamic Bank PJSC (continued)

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Bank has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Bank's books of account;
- note 11 to the financial statements of the Bank discloses its investments in shares during the financial year ended 31 December 2020;
- note 43 to the financial statements of the Bank discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- 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 materially affect its activities or its financial position as at 31 December 2020; and
- note 31 to the financial statements discloses social contributions made during the financial year ended 31 December 2020.

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Musa Ramahi
Registration No. 872
16 February 2021
Dubai
United Arab Emirates

Consolidated statement of financial position
as at 31 December 2020

	Note	**2020 AED'000**	2019 AED'000
ASSETS			
Cash and balances with central banks	*7*	**29,205,588**	21,268,495
Due from banks and financial institutions	*8*	**6,448,591**	6,248,173
Islamic financing and investing assets, net	*9*	**196,689,031**	150,913,428
Investments in Islamic sukuk	*10*	**35,354,915**	33,243,858
Other investments measured at fair value	*11*	**1,110,962**	1,266,235
Investments in associates and joint ventures	*12*	**1,939,043**	1,976,718
Properties held for development and sale	*13*	**1,391,038**	1,336,876
Investment properties	*14*	**5,947,023**	5,208,533
Receivables and other assets	*15*	**10,039,628**	8,742,983
Property and equipment	*16*	**1,430,634**	1,590,335
Total assets		**289,556,453**	231,795,634
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	*18*	**205,925,218**	164,418,417
Due to banks and financial institutions	*19*	**13,496,078**	9,146,747
Sukuk issued	*20*	**18,744,131**	14,851,945
Payables and other liabilities	*21*	**7,914,633**	8,319,559
Zakat payable	*23*	**346,018**	326,895
Total liabilities		**246,426,078**	197,063,563
EQUITY			
Share capital	*24*	**7,240,744**	6,589,585
Tier 1 sukuk	*25*	**11,937,250**	6,427,750
Other reserves and treasury shares	*26*	**13,784,668**	11,112,963
Investments fair value reserve	*27*	**(1,102,451)**	(1,174,698)
Exchange translation reserve	*28*	**(1,176,707)**	(1,094,745)
Retained earnings		**9,859,636**	10,131,960
Equity attributable to owners and sukukholders of the Bank		**40,543,140**	31,992,815
Non-controlling interests	*17.3*	**2,587,235**	2,739,256
Total equity		**43,130,375**	34,732,071
Total liabilities and equity		**289,556,453**	231,795,634

To the best of our knowledge, the consolidated financial statements present fairly in all material respects the financial position, financial performance and cash flows of the Group as of, and for, the periods presented therein.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 16 February 2021 and signed on its behalf:

H.E. Mohammad Ibrahim Al Shaibani **Chairman**	**Abdulla Ali Al Hamli** **Managing Director**	**Dr. Adnan Chilwan** **Group Chief Executive Officer**

The notes on pages 14 to 98 form an integral part of these consolidated financial statements.

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

	Note	2020 AED'000	2019 AED'000
NET INCOME			
Income from Islamic financing and investing transactions	*31*	**10,370,351**	10,723,145
Commissions, fees and foreign exchange income	*32*	**1,645,616**	1,482,606
Income from other investments measured at fair value, net	*33*	**50,661**	65,660
Income from properties held for development and sale, net	*34*	**53,693**	126,011
Income from investment properties	*35*	**83,287**	294,955
Share of profit from associates and joint ventures	*12.4*	**20,141**	58,355
Other income	*36*	**918,582**	933,623
Total income		**13,142,331**	13,684,355
Less: depositors' and sukuk holders' share of profit	*37*	**(3,671,626)**	(4,417,563)
Net income		**9,470,705**	9,266,792
OPERATING EXPENSES			
Personnel expenses	*38*	**(1,699,532)**	(1,586,883)
General and administrative expenses	*39*	**(837,682)**	(632,391)
Depreciation of investment properties	*14.2*	**(56,678)**	(36,960)
Depreciation of property and equipment	*16*	**(134,028)**	(102,180)
Total operating expenses		**(2,727,920)**	(2,358,414)
Net operating income before net impairment charges and taxation		**6,742,785**	6,908,378
Impairment charges, net	*40*	**(4,551,689)**	(1,763,501)
Gain on bargain purchase	*50.2*	**1,014,654**	-
Profit for the year before income tax expense		**3,205,750**	5,144,877
Income tax expense	*22.3*	**(46,063)**	(42,266)
Net profit for the year		**3,159,687**	5,102,611
Attributable to:			
Owners of the Bank		**3,293,820**	5,014,391
Non-controlling interests	*17.3*	**(134,133)**	88,220
Net profit for the year		**3,159,687**	5,102,611
Basic and diluted earnings per share (AED per share)	*41*	**0.38**	0.69

The notes on pages 14 to 98 form an integral part of these consolidated financial statements.

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

	2020 AED'000	2019 AED'000
Net profit for the year	**3,159,687**	5,102,611
Other comprehensive income / (loss) items		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations, net	**(81,962)**	(43,230)
Fair value gain on Sukuk investment	**3,164**	-
Items that will not be reclassified subsequently to profit or loss:		
Fair value loss on other investments carried at FVTOCI, net	**(317,913)**	(414,888)
Other comprehensive loss for the year	**(396,711)**	(458,118)
Total comprehensive income for the year	**2,762,976**	4,644,493
Attributable to:		
Owners of the Bank	**2,901,209**	4,560,020
Non-controlling interests	**(138,233)**	84,473
Total comprehensive income for the year	**2,762,976**	4,644,493

The notes on pages 14 to 98 form an integral part of these consolidated financial statements.

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

	Equity attributable to owners and sukukholders of the Bank								
	Share capital AED'000	Tier 1 sukuk AED'000	Other reserves and treasury shares AED'000	Investments fair value reserve AED'000	Exchange translation reserve AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2019	6,589,585	7,346,000	10,860,963	(850,362)	(1,051,515)	8,568,606	31,463,277	2,663,467	34,126,744
Net profit for the year	-	-	-	-	-	5,014,391	5,014,391	88,220	5,102,611
Other comprehensive loss for the year	-	-	-	(411,141)	(43,230)	-	(454,371)	(3,747)	(458,118)
Total comprehensive income / (loss) for the year	-	-	-	(411,141)	(43,230)	5,014,391	4,560,020	84,473	4,644,493
Transaction with owners directly in equity:									
Dividend paid (note 29)	-	-	-	-	-	(2,301,583)	(2,301,583)	(1,327)	(2,302,910)
Zakat (note 23)	-	-	-	-	-	(331,537)	(331,537)	(7,357)	(338,894)
Issue of Tier 1 sukuk	-	2,754,750	-	-	-	-	2,754,750	-	2,754,750
Redemption of Tier 1 sukuk	-	(3,673,000)	-	-	-	-	(3,673,000)	-	(3,673,000)
Tier 1 sukuk profit distribution	-	-	-	-	-	(448,795)	(448,795)	-	(448,795)
Tier 1 sukuk issuance cost	-	-	-	-	-	(10,317)	(10,317)	-	(10,317)
Regulatory credit risk reserve	-	-	252,000	-	-	(252,000)	-	-	-
Board of Directors' remuneration	-	-	-	-	-	(20,000)	(20,000)	-	(20,000)
Transfer on disposal of other investments carried at FVTOCI	-	-	-	86,805	-	(86,805)	-	-	-
Balance at 31 December 2019	6,589,585	6,427,750	11,112,963	(1,174,698)	(1,094,745)	10,131,960	31,992,815	2,739,256	34,732,071
Balance at 1 January 2020	**6,589,585**	**6,427,750**	**11,112,963**	**(1,174,698)**	**(1,094,745)**	**10,131,960**	**31,992,815**	**2,739,256**	**34,732,071**
Net profit for the year	-	-	-	-	-	**3,293,820**	**3,293,820**	**(134,133)**	**3,159,687**
Other comprehensive loss for the year	-	-	-	**(310,649)**	**(81,962)**	-	**(392,611)**	**(4,100)**	**(396,711)**
Total comprehensive income / (loss) for the year	-	-	-	**(310,649)**	**(81,962)**	**3,293,820**	**2,901,209**	**(138,233)**	**2,762,976**
Transaction with owners directly in equity:									
Dividend paid (note 29)	-	-	-	-	-	**(2,529,489)**	**(2,529,489)**	**(3,200)**	**(2,532,689)**
Zakat (note 23)	-	-	-	-	-	**(345,777)**	**(345,777)**	**(3,836)**	**(349,613)**
Issue of shares	**651,159**	-	**2,923,705**	-	-	-	**3,574,864**	-	**3,574,864**
Additional Tier 1 from business combination (note 50)	-	**1,836,500**	-	-	-	-	**1,836,500**	-	**1,836,500**
Issue of Tier 1 sukuk	-	**3,673,000**	-	-	-	-	**3,673,000**	-	**3,673,000**
Tier 1 sukuk profit distribution	-	-	-	-	-	**(534,877)**	**(534,877)**	-	**(534,877)**
Tier 1 sukuk issuance cost	-	-	-	-	-	**(4,930)**	**(4,930)**	-	**(4,930)**
Board of Directors' remuneration	-	-	-	-	-	**(20,000)**	**(20,000)**	-	**(20,000)**
Regulatory credit risk reserve	-	-	**(252,000)**	-	-	**252,000**	-	-	-
Transfer on disposal of other investments carried at FVTOCI	-	-	-	**382,896**	-	**(382,896)**	-	-	-
Others	-	-	-	-	-	**(175)**	**(175)**	**(6,752)**	**(6,927)**
Balance at 31 December 2020	**7,240,744**	**11,937,250**	**13,784,668**	**(1,102,451)**	**(1,176,707)**	**9,859,636**	**40,543,140**	**2,587,235**	**43,130,375**

The notes on pages 14 to 98 form an integral part of these consolidated financial statements.

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

	2020 AED'000	2019 AED'000
Operating activities		
Profit for the year before income tax expense	**3,205,750**	5,144,877
Adjustments for:		
Share of profit of associates and joint ventures	**(20,141)**	(58,355)
Gain from disposal of properties held for development and sale	**(53,693)**	(126,011)
Dividend income	**(50,271)**	(65,760)
Loss on disposal of other investments measured at fair value	**(389)**	127
Revaluation of investments at fair value through profit or loss	**(1)**	-
Gain on sale of investments in Islamic sukuk	**(526,326)**	(328,295)
Gain on disposal of property and equipment	**(5,498)**	(145)
Gain from investment properties	**(18,382)**	(214,615)
Depreciation of property and equipment	**134,028**	102,180
Depreciation of investment properties	**56,678**	36,960
Loss on dilution in investment in associates and joint ventures	**22,158**	-
Amortization of sukuk discount	**4,312**	3,122
Provision for employees' end-of-service benefits	**33,131**	45,334
Amortization of intangibles	**67,795**	-
Gain on bargain purchase	**(1,014,654)**	-
Impairment charge for the year, net	**4,551,689**	1,763,501
Operating cash flow before changes in operating assets and liabilities	**6,386,186**	6,302,920
Decrease in deposits and international murabaha with over three months maturity	**49,924**	78,451
Increase in Islamic financing and investing assets	**(19,096,056)**	(8,424,619)
Increase in receivables and other assets	**(110,020)**	(2,596,333)
Increase in customers' deposits	**6,358,059**	9,348,963
Increase / (decrease) in due to banks and other financial institutions	**7,815,947**	(2,466,633)
Decrease in payables and other liabilities and zakat payable	**(2,196,779)**	(269,035)
Cash (used in) / generated from operations	**(792,739)**	1,973,714
Employees' end-of-service benefits paid	**(37,685)**	(15,932)
Tax paid	**(56,072)**	(58,380)
Net cash (used in) / generated from operating activities	**(886,496)**	1,899,402
Investing activities		
Net movement in investments in Islamic sukuk	**2,471,463**	(1,879,825)
Net movement in other investments measured at fair value	**231,927**	67,340
Dividend received	**50,271**	65,760
Additions to properties held for development and sale	**(272,149)**	(375,707)
Proceeds from disposal of properties held for development and sale	**226,943**	461,344
Additions to investment properties	**(24,468)**	(315,946)
Movement in investments in associates and joint ventures	**(7,214)**	8,681
Additions of property and equipment, net	**(199,012)**	(386,333)
Net cash generated from / (used in) investing activities	**2,477,761**	(2,354,686)

The notes on pages 14 to 98form an integral part of these consolidated financial statements.

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

	2020 AED'000	2019 AED'000
Financing activities		
Dividend paid	**(2,532,689)**	(2,302,910)
Issuance of Tier 1 sukuk	**3,673,000**	2,754,750
Redemption of Tier 1 sukuk	**-**	(3,673,000)
Tier 1 sukuk profit distribution	**(534,877)**	(448,795)
Tier 1 sukuk issuance cost	**(4,930)**	(10,317)
Proceeds from issuance of senior sukuk	**4,780,625**	2,748,093
Payment of senior sukuk	**(4,407,568)**	(257,110)
Net cash generated from / (used in) financing activities	**973,561**	(1,189,289)
Net increase / (decrease) in cash and cash equivalents	**2,564,826**	(1,644,573)
Cash and cash equivalents at the beginning of the year	**22,229,709**	23,887,300
Cash and cash equivalents from business combination (note 50)	**9,110,587**	-
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(21,362)**	(13,018)
Cash and cash equivalents at the end of the year (note 42)	**33,883,760**	22,229,709

The notes on pages 14 to 98 form an integral part of these consolidated financial statements.

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

1. Legal status and principal activity

Dubai Islamic Bank (Public Joint Stock Company) (the "Bank") was incorporated by an Amiri Decree issued on 29 Safar 1395 Hijri, corresponding to 12 March 1975 by His Highness, the Ruler of Dubai, to provide banking and related services based on Islamic Sharia'a principles. It was subsequently registered under the Commercial Companies Law number 8 of 1984 (as amended) as a Public Joint Stock Company.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries as disclosed in note 17 (together referred to as the "Group").

The Bank is listed on the Dubai Financial Market (Ticker: "DIB").

The Group is primarily engaged in corporate, retail and investment banking activities and carries out its operations through its local branches and overseas subsidiaries. The principal activities of the Group entities are described in note 17 to these consolidated financial statements.

The registered head office of the Bank is at P.O. Box 1080, Dubai, United Arab Emirates.

2 Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendment to IFRS 3 Business Combinations relating to definition of a business.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors relating to definition of material.
- Amendments to IFRS 16 Leases relating to COVID-19 related rent concessions.

2.2 New and revised IFRSs in issue but not yet effective

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective. The management is in the process of assessing the impact of the new requirements.

New and revised IFRS	**Effective for annual periods beginning on or after**
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to phase 2 of profit rate benchmark reforms (refer note 51).	1 January 2021
Amendments to IAS 16 *Property, plant and equipment* relating to proceeds before intended use.	1 January 2022
Amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* relating to onerous contracts.	1 January 2022
Annual improvements to IFRS standards 2018 – 2020.	1 January 2022
Amendments to IAS 1 Presentation of Financial Statements relating to classification of Liabilities as Current or Non-Current.	1 January 2023
Amendment to IFRS 17 Insurance contracts.	1 January 2023
Amendment to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* relating to treatment of sale or contribution of assets from investors	Effective date deferred indefinitely.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Bank in the period of initial application.

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

3 Definitions

The following terms are used in the consolidated financial statements with the meaning specified below:

3.1 Murabaha

A contract whereby the Group (the "Seller") sells an asset to its customer (the "Purchaser"), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre-agreed profit amount. Murabaha profit is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding. The Murabaha sale price is paid by the Purchaser to the Seller on an installment basis over the period of the Murabaha as stated in the contract.

3.2 Salam finance

A contract whereby the Group purchases a fixed quantity of a specified commodity and pays the full Salam price of the commodity in advance, whereas the customer delivers the quantity of the commodities in accordance with an agreed delivery schedule. The Group makes profit on Salam transactions, when the Salam commodities are received from the customer and subsequently sold to a third party at profit. Salam profit is internally accounted for on a time-apportioned basis over the period of the Salam contract based on the value of the outstanding Salam commodities.

3.3 Istisna'a

A sale contract between two parties whereby the Group (the "Sani" or "Seller") undertakes to construct or manufacture, for its customer (the "Mustasni" or "Purchaser"), a specific asset or property (being "Al-Masnoo") according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction or manufacturing and a profit amount. The work undertaken is not required to be carried out by the Sani' alone and the whole or part of the construction/development or manufacturing can be undertaken by third parties but it would be the responsibility of the Sani' to deliver the asset at the agreed time. Under an Istisna'a contract the Group could be the Sani' or the Mustasni'. Istisna'a profit (difference between the sale price of Al-Masnoo to the customer and the Group total Istisna'a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

3.4 Ijarah

3.4.1 Ijarah Muntahiya Biltamleek

An agreement whereby the Group (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 Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

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

3 Definitions (continued)

3.4 Ijarah (continued)

3.4.2 Forward Ijarah

Forward Ijarah (Ijarah Mausoofa Fiz Zimma) is an agreement whereby the Group (the "Lessor") agrees to provide, on a specified future date, a certain described asset on lease to its customer (the "Lessee") usually upon its completion and delivery by the developer, contractor or customer, from whom the Group has purchased the same by way of Istisna (Seller).

The Forward Ijarah agreement specifies the description of the leased asset, duration of the lease term, and the basis for rental calculation and the timing of rental payment.

During the construction period, the Group pays to the Seller one payment or multiple payments, Forward Ijarah variable rent during the construction period will be accounted for on a time-apportioned basis over the construction period on account of rentals. These rental amounts are received either during the construction period as advance rental payment or with the first or second rental payment after the commencement of the lease.

The lease rental under Forward Ijarah commences only upon the Lessee having received possession of the leased asset from the Lessor. The Lessee undertakes under the Forward Ijarah agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Forward Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

3.5 Musharaka

An agreement between the Group and its customer, whereby both parties contribute towards the capital of the Musharaka (the "Musharaka Capital"). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement. In principle Musharaka profit is distributed on liquidation of the Musharaka and declaration/distribution by the managing partner. However, since the actual liquidation is not possible, Sharia allows constructive liquidation of the Musharaka and distribution of profit based upon it. However, since the Musharaka profit is always reliably estimated, it is internally accounted for on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner's negligence, breach or default, the Group receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

3.6 Mudaraba

A contract between two parties whereby one party is a fund provider (the "Rab Al Mal") who would provide a certain amount of funds (the "Mudaraba Capital"), to the other party (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. In principle Mudaraba profit is distributed on liquidation of the Mudaraba and declaration/distribution by the Mudarib. However, since the actual liquidation is not possible, Sharia allows constructive liquidation of the Mudaraba and distribution of profit based upon it. . Since the Mudaraba profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding. The Mudarib shall bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal, provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

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

3 Definitions (continued)

3.7 Wakala

An agreement between two parties whereby one party is a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to an agent (the "Wakeel"), who invests the Wakala Capital in a Sharia compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital and Muwakkil is entitled to the entire profit generated from the Wakala. 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 liquidation of Wakala Capital and declaration/distribution by the Wakeel. However, since the actual liquidation is not possible, Sharia allows constructive liquidation of the Mudaraba and distribution of profit based upon it. 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 Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

3.8 Sukuk

Sukuk is the plural of "Suk" and the term is defined as "investment certificates of equal denomination representing undivided ownership interests in a portfolio of eligible assets. Sukuk commonly refers to the Islamic alternative of bonds. Contrary to conventional bonds, which merely confer ownership of a debt, Sukuk represents ownership of the underlying assets by the holder with all the rights and obligations of ownership.

4 Basis of preparation

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB) and applicable requirements of the laws of the U.A.E., including the UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") as amended by the Federal Decretal Law No. 26 of 2020 issued on 27 September 2020, for certain provisions which will take effect on 02 January 2021, and the Decretal Federal Law No. (14) of 2018.

4.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies below.

4.3 Functional and reporting currency

The consolidated financial statements are presented in United Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies applied in preparation of these consolidated financial statements are set out below.

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

5 Significant accounting policies

5.1 Basis of consolidation

5.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date i.e., when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of Islamic financing or equity instruments.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

5.1.2 Subsidiary

These consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group. Control is achieved when the Group has:

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group voting rights in an investee are sufficient to give it power, including:

- the size of the Group holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights raising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary Profit or loss and each component of other comprehensive income are attributable to the owners of the Group and to the non-controlling interests.

Total comprehensive income of the subsidiaries is attributable to the owners of the group and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group accounting policies.

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

5 Significant accounting policies (continued)

5.1 Basis of consolidation (continued)

5.1.2 Subsidiary (continued)

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Group.

5.1.3 Foreign currencies

In preparing the consolidated financial statements, each individual Group entity's transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the consolidated statement of profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to the consolidated statement of profit or loss on settlement of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group foreign operations are translated into Arab Emirates Dirham, which is the Group presentation currency, using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group is reclassified to the consolidated statement of profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

Fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

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

5 Significant accounting policies (continued)

5.1 Basis of consolidation (continued)

5.1.4 Loss of control

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

5.1.5 Special purpose vehicles ("SPVs")

Special purpose vehicles are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of assets, or the execution of a specific Islamic financing transaction. An SPV is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPV's risk and rewards, the Group concludes that it controls the SPV.

5.1.6 Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group consolidated financial statements as they are not assets of the Group.

5.2 Financial instruments

5.2.1 Initial recognition

Financial assets and liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

5.2.2 Initial measurement

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

5.3 Financial assets

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

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

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

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.1 Classification of financial assets

Balances with central banks, due from banks and financial institutions, Islamic financing and investing assets, investments in Islamic sukuk and certain items in receivables and other assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss or other comprehensive income on initial recognition):

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

All other financial assets are subsequently measured at fair value.

5.3.2 Business model assessment

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

- 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;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The expected frequency, value and timing of sales are also important aspects of the Bank’s assessment.

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank’s original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchases financial assets going forward.

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

5.3.3 Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic financing arrangement. Contractual cash flows are consistent with a basic financing arrangement if they represent cash flows that are solely payments of principal and profit on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as any excess to the principal generated from the business for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit rate margin.

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

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

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.4 Amortised cost and effective profit rate method

The effective profit rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the consolidated statement of profit or loss on an effective profit rate basis for financing and investing instruments measured subsequently at amortised cost.

5.3.5 Financial assets at fair value through other comprehensive income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in sharia compliant equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is an Islamic derivative that is not designated and effective as an Islamic hedging instrument or a financial guarantee.

FVTOCI assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. The cumulative gain or loss will not be reclassified to profit or loss on disposals.

5.3.6 Debt instruments at fair value through other comprehensive income (FVTOCI)

Debt instruments are measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit income and foreign exchange gains and losses are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

5.3.7 Financial assets at fair value through profit or loss (FVTPL)

Investments in sharia compliant equity instruments are classified as at FVTPL, unless the Group designates an investment at fair value through other comprehensive income (FVTOCI) on initial recognition.

Financial assets (other than equity instruments) that do not meet the amortised cost criteria are measured at FVTPL. In addition, financial assets (other than equity instruments) that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financial assets (other than equity instruments) may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

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

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.7 Financial assets at fair value through profit or loss (FVTPL) (continued)

The Group has not designated any financial assets (other than equity instruments) as at FVTPL.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets (other than equity instruments) that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit/loss. The net gain or loss recognised in the consolidated statement of profit or loss is included in the 'gain from other investments at fair value' line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 46.2.1 to these consolidated financial statements.

5.3.8 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Accordingly:

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in consolidated statement of profit or loss; and
- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

5.3.9 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at each reporting date.

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are measured at amortised cost:

- Islamic financing and investing assets and investment in Islamic sukuk;
- Off-balance sheet instruments issued;
- Financial guarantee contracts issued;
- Due from banks and financial institutions;
- Balances with Central Banks; and
- Other financial assets

Financial assets migrate through three stages based on the change in credit risk since initial recognition.

No impairment loss is recognised on equity investments.

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

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 Impairment of financial assets (continued)

Expected credit loss impairment model

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. The 12 months ECL is calculated as the portion of life time ECL that represents the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12 month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original effective profit rate.
- 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. The PD and LGD are estimated over the lifetime of the instrument and the expected cash shortfalls are discounted by an approximation to the original effective profit rate.
- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets, with the PD set at 100%.

When estimating ECL for undrawn commitments, the Bank estimates the expected portion of the commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective profit rate on the financing.

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted rate relevant to the exposure.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

COVID-19 and Expected Credit Loss (ECL)

The global outbreak of novel coronavirus (COVID 19) during early 2020 is causing disruptions in normal lives and businesses in many ways. Global economy and banking systems have also been impacted significantly, both from business and accounting and reporting perspective. Governments and banks in many jurisdictions have introduced extraordinary measures to alleviate the financial and economic impact of COVID-19. The relief measures include a range of different payment moratoriums to customer, liquidity support and capital relief by regulators.

The Group has considered the extraordinary conditions and environment due to COVID 19, along with measures provided by the Central Bank of UAE under Targeted Economic Support Scheme (TESS) for determining ECL requirements as on the reporting date, as applicable. The Group has also considered guidelines issued by the International Accounting Standards Board (IASB) on 27 March 2020 and Basel Committee issued on 4 April 2020 on determination of expected credit losses.

In accordance with the Basel committee guidelines, the extraordinary support measures should be taken into account by banks when calculating ECLs. It also agreed on amendments to the transitional arrangements for the regulatory capital treatment of ECLs.

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

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 Impairment of financial assets (continued)

Measurement of ECL

The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective profit rate. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. 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 internally developed statistical models and other historical data and are adjusted to reflect forward-looking information.

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 (and expected cash flows generally in case of stage 3 accounts), 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.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a downside) with a weightage of 40%, 30% and 30% respectively. Each of these is associated with different PDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted financing are expected to be recovered, including the probability that the financing will cure and the value of collateral or the amount that might be received for selling the asset.

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Real house prices – Abu Dhabi and Dubai
- Money supply
- Effective exchange rate – real broad index
- General government finance - expenditure
- Commodity prices
- Consumer price index
- National accounts – compensation of employees
- National accounts – real import of goods and services

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. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 Impairment of financial assets (continued)

Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

The group of assets are moved from stage 1 to stage 2 if:

- the probability of default changes beyond the Bank's established threshold related to the initial recognition;
- an instrument is past due beyond 30 days; and
- an instrument's credit risk is considered higher based on qualitative criteria of the Bank.

The instruments moved to stage 2 from stage 1 remain in the stage until they perform for a sustained period as per Bank's policy.

Movement from stage 2 to stage 3 are based on whether the financial assets are credit impaired at the reporting date.

Experienced credit judgement

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

When measuring ECL, 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 options and extension and rollover options.

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.

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.

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

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 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 realising 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 customer / customer group to the banks; and
(iii) based on data developed internally and obtained from external sources.

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

Renegotiated financing facilities

The Bank sometimes makes concessions or modifications to the original terms of financing as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a financing forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants or that a customer may not be in a position to honour contractual commitments. Forbearance may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms. It is the Bank's policy to monitor forborne financing to help ensure that future payments continue to be likely to occur. Classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a financing, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the financing has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the financing to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing;
- The probation period of one year has passed from the date the forborne contract was considered performing; and
- Regular payments of more than an insignificant amount of principal or profit have been made during the probation period.

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

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.3.9 Impairment of financial assets (continued)

Acquired financing

All acquired financing is initially measured at fair value on the date of acquisition. As a result no allowance for expected credit losses is recorded in the consolidated statement of financial position on the date of acquisition. Acquired financing may fit into either of the two categories: performing financing or Purchased or Originated Credit Impaired (POCI) financing.

Purchased performing financing follow the same accounting as originated performing financing and are reflected in Stage 1 on the date of the acquisition. They will be subject to a 12 month ECL which is recorded as a provision for expected credit losses in the consolidated statement of profit or loss when the carrying value of these assets exceed the nominal values of acquired exposure. The fair value adjustment set up for these financing on the date of acquisition is amortized into profit income over the life of these financing.

POCI financing are separately presented and are always subject to lifetime allowance for credit losses. Any changes in the expected cash flows since the date of acquisition are recorded as a charge / recovery in the provision for credit losses in the consolidated statement of profit or loss at the end of all reporting periods subsequent to the date of acquisition.

5.3.10 Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of profit or loss.

On derecognition of a financial asset that is investment in equity instrument and is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve in equity is not reclassified to the consolidated statement of profit or loss, but is transferred to retained earnings within equity.

5.3.11 Financial guarantees, letters of credit and undrawn financing commitments

The Bank issues financial guarantees, letters of credit and financing commitments in the normal course of business. Financial guarantees are initially recognised in the financial statements at fair value, being the charges received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement and an ECL provision.

Undrawn financing commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a financing with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements.

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

5 Significant accounting policies (continued)

5.3 Financial assets (continued)

5.4 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either 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 by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

5.5 Classification of financial liabilities and equity instruments

Liability and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

5.6 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are recognised and deducted directly in equity. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Tier 1 sukuk are perpetual Mudaraba sukuk which are not redeemable by sukukholders and bear an entitlement to profit distributions that is non-cumulative and at the discretion of the Board of Directors. Accordingly tier 1 sukuk are presented as a component of equity instruments issued by the Group in equity.

Dividends on ordinary shares and profit distribution to tier 1 sukuk are recognised as a liability and deducted from equity when they are approved by the Group shareholders and Board of Directors, respectively. Dividends for the year that are approved after the reporting date are disclosed as an unadjusting event after the reporting date.

5.7 Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantees issued by the Group, and commitments issued by the Group to provide a facility at below-market profit rate are measured in accordance with the specific accounting policies set out below.

5.7.1 Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating customers' share of profit over the relevant period. The effective profit rate is the rate that is used to calculate the present value of estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs through the expected life of the financial liability, or (where appropriate) a shorter period, to arrive at the net carrying amount on initial recognition.

Financial liabilities measured at amortised cost include due to banks and financial institutions, customers' deposits, sukuk instruments, certain payables and other liabilities.

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

5 Significant accounting policies (continued)

5.7 Financial liabilities (continued)

5.7.2 Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated statement of profit or loss.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

5.7.3 Financial guarantee

A financial guarantee is an undertaking/commitment that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the guarantee, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

5.7.4 De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, if any, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss.

5.8 Islamic derivative financial instruments

An Islamic derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic profit rate swap.

Islamic derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All Islamic derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Islamic derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right to setoff exists, and the parties intend to settle the cash flows on a net basis.

Islamic derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the Islamic derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether Islamic derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of Islamic derivatives held for trading are recognised in consolidated statement of profit or loss.

5.9 Unilateral promises to buy/sell currencies (the "Promises")

The Promises are stated at fair value. The fair value of a Promise is the equivalent of the unrealised gain or loss from marking to market the Promise using prevailing market rates. Promises with positive market value (unrealised gain) are included in other assets and Promises with negative market value (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

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

5 Significant accounting policies (continued)

5.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

5.11 Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

On acquisition of the investment in an associate or a joint venture, any excess of the cost of acquisition over the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities of associates and joint ventures recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of profit or loss in the period in which the investment is acquired.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting from the date on which the investment becomes an associate of joint venture. Under the equity method, an investment in associates and joint ventures is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group share of the profit or loss and other comprehensive income of the associates and joint ventures.

When the Group share of losses of associates and joint ventures exceeds the Group interest in that associates and joint ventures (which includes any long-term interests that, in substance, form part of the Group net investment in the associates and joint ventures), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates and joint ventures.

The requirements of International Financial Reporting Standards are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group investment in associates and joint ventures. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains its interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

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

5 Significant accounting policies (continued)

5.11 Investments in associates and joint ventures (continued)

Upon disposal of associates and joint ventures that results in the Group losing significant influence over that associates and joint ventures, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associates and joint ventures attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associates and joint ventures. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associates and joint ventures on the same basis as would be required if that associates and joint ventures had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associates and joint ventures would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associates and joint ventures.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture is recognised in the Group consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

5.12 Properties held for sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress.

5.13 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured at cost less accumulated depreciation and impairment loss, if any. Depreciation on investment in buildings is charged on a straight-line basis over 40 years.

Investment properties that are financed by Wakala deposits pool are carried at fair value which are linked directly to the fair value of, or returns from these investment properties. The Group has elected the fair value model for these investment properties. Fair value of the investment properties is determined on the basis of valuation undertaken periodically by an independent valuer who holds a recognised and relevant qualification and has recent experience in the location and category of the investment properties being valued. Gains and losses arising from changes in the fair value are recognised in the statement of profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the period in which the property is derecognised.

Transfers to investment properties are made when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development.

Transfers from investment properties are made when, and only when, there is change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

5.14 Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

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

5 Significant accounting policies (continued)

5.15 Property and equipment

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

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

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

- Buildings 15-25 years;
- Furniture, office equipment and motor vehicles 3-5 years; and
- Information technology 3-5 years.

Freehold land is not depreciated. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss, if any. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with the Group accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is depreciated in accordance with the Group policies.

5.16 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the present value of the estimated future cash flows are calculated using a profit rate that reflects current market assessments of the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated statement of profit or loss.

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

5 Significant accounting policies (continued)

5.17 Intangible assets

Intangible assets acquired in a business combination are measured at fair value at acquisition date. Subsequent to the initial recognition, the intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

5.18 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

5.19 Employees' end of service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

The Group provides end of service benefits for its expatriate employees in accordance with U.A.E. Labour Law.

The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

5.20 Directors' remuneration

Pursuant to Article 169 of the Federal Law No. 2 of 2015 and in accordance with the articles of association of the Bank, the Directors shall be entitled for remuneration which shall not exceed 10% of the net profits after deducting depreciation and the reserves.

5.21 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiaries in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

5.21.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

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

5 Significant accounting policies (continued)

5.21 Taxation (continued)

5.21.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

5.22 Zakat

Zakat payable by the shareholders is computed based on "Net Invested Funds Method" which is in accordance with the advice of the Internal Sharia Supervision Committee (the ISSC).

The Zakat for the shareholders is accounted for as follows:

5.22.1 Zakat accounted by the Bank on shareholders' behalf

Zakat is calculated as per the Articles and Memorandum of Association of the Bank and is approved by the Bank's Internal Sharia Supervision Committee on the following basis:

- The portion of Zakat payable by the Bank on its shareholders' behalf is calculated on 'statutory reserve', 'general reserve', 'retained earnings', 'other comprehensive income', exchange translation reserve' and 'provision for employees' end of service benefits';
- Zakat paid by investee companies directly are adjusted in shareholders Zakat, if the Bank only accounts for net profit after Zakat of investee;
- Zakat on depositors' investment risk reserve is calculated and deducted from the investment risk reserve balance held with the bank and added to the Zakat payable balance; and
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the terms set by the Board of Directors and the policy approved by the ISSC.

5.22.2 Zakat payable by the shareholders

Zakat payable by the shareholders directly represents the differential/remaining Zakat after deducting the Zakat accounted by the Bank on shareholders' behalf.

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

5 Significant accounting policies (continued)

5.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

5.23.1 Income from financial assets measured at amortised cost

Income from a financial asset measured at amortised cost is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Income from a financial asset measured at amortised cost is accrued/amortised on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that is used to calculate the present value of estimated future net cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

5.23.2 Fee and commission income

Fee and commission income is recognised when the related services are performed. The Group earns fee and commission income from a range of services provided to its customers. The recognition of fee and commission in statement of profit or loss depends on the purposes for which the fees are collected as follows:

- income earned from the provision of services is recognised as revenue as the services are provided;
- income earned on the execution of a significant act is recognised as revenue when the act is completed; and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective profit rate and considered as funded income.

5.23.3 Dividend income

Dividend income from other investments at fair value in equities is recognised when the right to receive the dividend is established.

5.23.4 Income from cancellation of properties sale contract

Income from cancellation of properties sale contract (forfeiture income) is recognised in the consolidated statement of profit or loss when, in the case of properties sold and not yet recognised as revenue, a customer does not fulfil the contractual payment terms. This is deemed to take place when, despite rigorous follow-up with the defaulted customer, the customer continues to default on the contractual terms and an amount is taken under a settlement or pursuant to a decision issued by Dubai Real Estate Regulatory Authority.

5.23.5 Revenue from sale of properties, net

Revenue is recognized when (or as) the Group satisfies the performance obligation at an amount that reflects the consideration to which the Group is entitled in exchange for transferring goods or services to a customer. A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For performance obligations satisfied over time, the Group recognises revenue over time by selecting an appropriate method for measuring the progress towards complete satisfaction of that performance obligation.

5.23.6 Rental income

The Group recognizes revenue from operating leases on a straight line basis over the lease term.

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

5 Significant accounting policies (continued)

5.23 Revenue recognition (continued)

5.23.7 Forfeited income

It is an income resulting from transaction errors and wrong execution of the transactions or late payment donations by the customers as determined by the Internal Sharia Supervision Committee. According to the Bank's Internal Sharia Supervision Committee, the Group is required to identify these incomes and to set aside such amount in a separate account used to pay for charitable causes and activities as per the approved policy for Community Support Services.

5.24 Depositors' share of profit calculation

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures and is approved by the Bank's Internal Sharia Supervision Committee.

5.25 Lease

The Group initially measures the right-of-use asset at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The Group initially measures the lease liability at the present value of the future lease payments discounted using the discount rate implicit in the lease. Subsequently, the lease liability is adjusted for profit and lease payments, as well as the impact of lease modifications, amongst others.

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

5.26 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 44 on Business Segment reporting.

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

6 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in note 5, the management of the Group has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of Islamic financing and investing assets, investment securities and the fair values of Islamic derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of Islamic financing and investing assets, investment securities and fair values of Islamic derivative financial instruments are summarised as follows:

6.1 Significant increase in credit risk

As explained in note 5.3.9, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased or not, the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

Sensitivity assessment due to movement in each macroeconomic variable and the respective weights under the three scenarios is periodically assessed by the Group. The table below summarizes key macroeconomic indicators included in the economic scenarios for the years ending 2020 to 2023:

Macro-economic variable	Scenario	2020	2021	2022	2023
Real House Prices: Residential properties - Abu Dhabi and Dubai, (Index 2010=100, NSA)	Baseline	97.7	93.1	91.0	90.7
	Upside	97.7	95.4	95.1	95.3
	Downside	97.6	87.3	78.6	77.2
Money Supply: M2, (Bil. AED, NSA)	Baseline	1,348.3	1,516.8	1,702.0	1,856.0
	Upside	1,348.3	1,663.5	1,962.5	2,189.3
	Downside	1,348.3	1,452.0	1,543.9	1,631.5
Effective Exchange Rate - Real Broad Index, (Index 2010=100, NSA)	Baseline	107.2	102.6	99.5	97.8
	Upside	107.2	101.8	100.4	100.1
	Downside	107.2	107.6	105.1	100.2
Commodity prices: Crude Oil [Dubai Fateh], (USD per Bbl, NSA)	Baseline	41.4	44.8	52.9	56.1
	Upside	41.4	49.3	58.0	61.1
	Downside	41.4	29.1	25.7	37.9
Consumer Price Index: Total, (Index 2014=100, SA)	Baseline	106.9	108.3	110.7	112.8
	Upside	106.9	110.8	58.0	61.1
	Downside	106.9	104.9	105.7	107.0

6.2 Establishing groups of assets with similar credit risk characteristics

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

6.3 Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

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

6 Critical accounting judgements and key sources of estimation of uncertainty (continued)

6.4 Classification of investments

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Group investment in securities are appropriately classified and measured.

Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit.

Financial assets that are measured at FVTOCI are investments in sharia compliant equity instruments and investment funds that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

Financial assets that are measured at FVTPL are either held for trading or designated as FVTPL.

6.5 Impairment of associates and joint ventures

After application of equity method of accounting, the Group determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associates and joint ventures by comparing their recoverable amounts with the higher of value in use or fair value less costs to sell with their carrying amounts.

In determining the value in use of the investment, the Group estimates:

- its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or
- the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

6.6 Fair value of financial instruments

Certain assets and liabilities are measured at fair value for financial reporting purposes. The management has set up a valuation process, which involves finance and investment banking departments to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market observable data to the extent it is available. Where level 1 inputs are not available, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as present value calculation rates, prepayment rates and default rate assumptions for 'asset-backed' securities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 46 to these consolidated financial statements.

6.7 Valuation of investment properties

The Group determines the fair value of its investment properties on the basis of market valuations prepared by independent professional valuers. The valuations are carried out on assumptions which are based on the market conditions existing at the reporting date. Therefore, any future change in the market conditions can have an impact on the fair values.

6.8 Determination of control over investee

Management applies its judgement to determine whether control indicators as set out in 5.1 exist to establish that the Group controls an investee.

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

7 Cash and balances with central banks

7.1 Analysis by category

	Note	**2020 AED'000**	2019 AED'000
Cash on hand		**2,200,174**	1,670,001
Balances with central banks:			
Balances and reserve requirements with central banks	*7.3*	**9,505,265**	9,571,486
Certificates of deposits with the Central Bank of the U.A.E.		**17,500,149**	10,027,008
Total		**29,205,588**	21,268,495

Balances with Central Banks are in stage 1 at 31 December 2020 and 31 December 2019.

7.2 Analysis by geography

	2020 AED'000	2019 AED'000
Within the U.A.E.	**28,756,268**	20,785,242
Outside the U.A.E.	**449,320**	483,253
Total	**29,205,588**	21,268,495

7.3 Statutory cash reserve requirements

The reserve requirements are kept with the Central Banks of the U.A.E., Pakistan and Kenya in the respective local currencies and US Dollar. These reserves are not available for use in the Group's day to day operations, and cannot be withdrawn without the approval of the respective central banks. The level of reserve required by Central Bank of the UAE changes every 14 days whereas for other jurisdictions changes every month in accordance with the requirements of the respective central banks' directives.

8 Due from banks and financial institutions

8.1 Analysis by category

	2020 AED'000	2019 AED'000
Current accounts	**2,164,669**	1,328,685
Wakala deposits	**889,306**	436,826
International murabaha - short term	**3,397,534**	4,486,228
Less: Provision for impairment	**(2,918)**	(3,566)
Total	**6,448,591**	6,248,173

8.2 Analysis by geography

	2020 AED'000	2019 AED'000
Within the U.A.E.	**3,721,327**	4,915,056
Outside the U.A.E.	**2,727,264**	1,333,117
Total	**6,448,591**	6,248,173

Due from banks and financial institutions are in stage 1 at 31 December 2020 and 31 December 2019.

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

9 Islamic financing and investing assets, net

9.1 Analysis by category

	Note	2020 AED'000	2019 AED'000
Islamic financing assets			
Vehicles murabaha		**8,739,071**	8,800,363
International murabaha - long term		**49,225,764**	27,174,230
Other murabaha		**6,356,245**	4,448,037
Total murabaha		**64,321,080**	40,422,630
Ijarah		**59,619,862**	52,258,699
Home finance ijarah		**20,769,759**	14,358,198
Personal finance		**20,694,070**	18,794,856
Istisna'a		**873,582**	1,090,330
Islamic credit cards		**1,954,023**	1,491,509
		168,232,376	128,416,222
Less: deferred income		**(3,707,679)**	(3,726,780)
Less: contractors and consultants' istisna'a contracts		**(6,784)**	(6,799)
Total Islamic financing assets		**164,517,913**	124,682,643
Islamic investing assets			
Musharaka		**6,710,619**	7,114,522
Mudaraba		**9,764,912**	11,134,451
Wakala		**24,096,435**	14,062,495
Total Islamic investing assets		**40,571,966**	32,311,468
Total Islamic financing and investing assets		**205,089,879**	156,994,111
Less: provisions for impairment	*9.3*	**(8,400,848)**	(6,080,683)
Total Islamic financing and investing assets, net		**196,689,031**	150,913,428

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

9 Islamic financing and investing assets, net (continued)

9.2 Carrying value of exposure by internal risk rating category and by stage

As at 31 December 2020

	Gross book values (AED'000)					Expected credit loss (AED'000)				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Low	**67,446,626**	**-**	**-**	**-**	**67,446,626**	**19,162**	**-**	**-**	**-**	**19,162**
Moderate	**91,197,679**	**6,431,144**	**-**	**-**	**97,628,823**	**773,725**	**312,057**	**-**	**-**	**1,085,782**
Fair	**17,900,696**	**10,052,806**	**-**	**-**	**27,953,502**	**339,785**	**624,562**	**-**	**-**	**964,347**
Default	**-**	**-**	**10,838,957**	**1,221,971**	**12,060,928**	**-**	**-**	**6,314,658**	**16,899**	**6,331,557**
Total	**176,545,001**	**16,483,950**	**10,838,957**	**1,221,971**	**205,089,879**	**1,132,672**	**936,619**	**6,314,658**	**16,899**	**8,400,848**

As at 31 December 2019

	Gross book values (AED'000)					Expected credit loss (AED'000)				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Low	43,764,785	-	-	-	43,764,785	9,668	-	-	-	9,668
Moderate	81,014,810	5,793,870	-	-	86,808,680	850,024	330,841	-	-	1,180,865
Fair	13,887,833	6,307,642	-	-	20,195,475	216,303	635,104	-	-	851,407
Default	-	-	6,225,171	-	6,225,171	-	-	4,038,743	-	4,038,743
Total	138,667,428	12,101,512	6,225,171	-	156,994,111	1,075,995	965,945	4,038,743	-	6,080,683

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

9 Islamic financing and investing assets, net (continued)

9.3 Provision for impairment

Movement of provision for impairment, including regulatory profit suspension, is as follows:

2020	***Note***	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**POCI AED'000**	**Total AED'000**
Balance at 1 January		**1,075,996**	**965,945**	**4,038,742**	**-**	**6,080,683**
Impairment charge during the year	*40*	**56,676**	**225,236**	**4,065,946**	**16,899**	**4,364,757**
Write back/recoveries during the year	*40*	**-**	**-**	**(555,363)**	**-**	**(555,363)**
Transfer to other stages		**-**	**(254,562)**	**254,562**	**-**	**-**
Write off		**-**	**-**	**(1,642,234)**	**-**	**(1,642,234)**
Exchange and other adjustments		-	**-**	**153,005**	**-**	**153,005**
Balance at 31 December		**1,132,672**	**936,619**	**6,314,658**	**16,899**	**8,400,848**

2019	***Note***	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**POCI AED'000**	**Total AED'000**
Balance at 1 January		1,014,083	1,006,837	3,706,452	-	5,727,372
Impairment charge during the year	*40*	61,123	(40,646)	2,074,820	-	2,095,297
Write back/recoveries during the year	*40*	-	-	(434,522)	-	(434,522)
Write off		-	-	(1,311,317)	-	(1,311,317)
Exchange and other adjustments		789	(246)	3,310	-	3,853
Balance at 31 December		1,075,995	965,945	4,038,743	-	6,080,683

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

9 Islamic financing and investing assets, net (continued)

9.4 Collaterals and mitigations

The Group, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with Islamic financing and investing assets. The collaterals include mortgage on land and buildings and lien on deposits, equities and other fixed assets. The estimated value of collaterals for Islamic financing and investing assets which are mainly asset based financing, is as follows:

	2020 AED'000	2019 AED'000
Properties and mortgages	**64,727,008**	45,104,459
Deposits and shares	**7,264,805**	5,392,812
Movable assets	**20,670,135**	18,811,214
Government and financial guarantees	**3,533,441**	5,362,327

The estimated fair value of collaterals that the Group holds relating to facilities individually determined to be impaired at 31 December 2020 amounts to AED 7.3 billion (2019: AED 4.4 billion).

During the year ended 31 December 2020, the Group took possession of various underlying assets, primarily vehicles and residential mortgage properties. The Group has sold repossessed assets amounting to AED 44.7 million (2019: AED 38.0 million) and acquired the properties amounting to AED 79.8 million (2019: AED 95.9 million) which has been adjusted against the outstanding receivables.

9.5 Analysis by economic sector and geography

	Within the U.A.E. AED'000	**Outside the U.A.E. AED'000**	**Total AED'000**
2020			
Government	**22,719,913**	**3,691,050**	**26,410,963**
Financial institutions	**8,398,452**	**1,076,379**	**9,474,831**
Real estate	**41,908,952**	**493,451**	**42,402,403**
Contracting	**4,193,307**	**1,146,929**	**5,340,236**
Trade	**7,091,342**	**1,068,915**	**8,160,257**
Aviation	**20,425,447**	**120,522**	**20,545,969**
Services and others	**38,341,686**	**3,607,718**	**41,949,404**
Consumer financing	**29,115,345**	**546,695**	**29,662,040**
Consumer home finance	**20,884,627**	**259,149**	**21,143,776**
	193,079,071	**12,010,808**	**205,089,879**
Less: provision for impairment			**(8,400,848)**
Total			**196,689,031**
2019			
Government	6,277,755	2,852,836	9,130,591
Financial institutions	5,816,744	944,382	6,761,126
Real estate	32,289,495	511,083	32,800,578
Contracting	5,073,452	944,228	6,017,680
Trade	7,514,410	713,249	8,227,659
Aviation	17,488,595	-	17,488,595
Services and others	31,840,318	3,540,207	35,380,525
Consumer financing	26,134,291	501,520	26,635,811
Consumer home finance	14,283,393	268,153	14,551,546
	146,718,453	10,275,658	156,994,111
Less: provision for impairment			(6,080,683)
Total			150,913,428

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

10 Investments in Islamic sukuk

10.1 Analysis by geography

	2020 AED'000	2019 AED'000
Within the U.A.E.	**19,664,339**	15,880,157
Other G.C.C. Countries	**7,216,564**	6,591,432
Rest of the World	**8,580,988**	10,871,848
	35,461,891	33,343,437
Less: provision for impairment	**(106,976)**	(99,579)
Total	**35,354,915**	33,243,858

10.2 Analysis by economic sector

	2020 AED'000	2019 AED'000
Government	**24,271,111**	21,058,832
Financial institutions	**3,537,161**	3,889,442
Real estate	**3,086,694**	3,278,733
Aviation	**1,193,354**	1,160,166
Services and others	**3,373,571**	3,956,264
	35,461,891	33,343,437
Less: provision for impairment	**(106,976)**	(99,579)
Total	**35,354,915**	33,243,858

Investments in Islamic sukuk within the U.A.E. include investments in bilateral sukuk amounting to AED 5.8 billion as at 31 December 2020 (2019: AED 3.2 billion). Investment in Islamic sukuk include an amount of AED 1.0 billion which is measured at fair value through other comprehensive income.

Investment in Sukuk classified at stage 3 at 31 December 2020 amounts to AED 44.2 million (2019: AED Nil).

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

11 Other investments measured at fair value

11.1 Analysis by category and geography

	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the World AED'000	Total AED'000
As at 31 December 2020				
Investments measured at fair value through profit or loss				
Quoted equity instruments	**-**	**-**	**-**	**-**
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	**98,941**	**93,823**	**903**	**193,667**
Unquoted equity instruments	**46,785**	**29,418**	**841,092**	**917,295**
	145,726	**123,241**	**841,995**	**1,110,962**
Total	**145,726**	**123,241**	**841,995**	**1,110,962**
As at 31 December 2019				
Investments measured at fair value through profit or loss				
Quoted equity instruments	10	10	-	20
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	452,387	99,468	997	552,852
Unquoted equity instruments	50,442	33,514	629,407	713,363
	502,829	132,982	630,404	1,266,215
Total	502,839	132,992	630,404	1,266,235

During the year ended 31 December 2020, dividends received from investments measured at fair value through other comprehensive income amounting to AED 50.3 million (2019: AED 65.8 million) were recognised in the consolidated statement of profit or loss (note 33).

During the year ended 31 December 2020, the Group did not purchase any shares (2019: AED 0.02 million).

11.2 Analysis by economic sector

	2020 AED'000	2019 AED'000
Services and others	**406,259**	932,988
Financial institutions	**573,485**	199,175
Real estate	**131,218**	134,072
Total	**1,110,962**	1,266,235

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

12 Investments in associates and joint ventures

12.1 Analysis of carrying value

	2020 AED'000	2019 AED'000
Balance at 1 January	**1,976,718**	1,928,629
Additions	**15,002**	-
Dividend received	**(7,788)**	(8,681)
Share of profit	**20,141**	58,355
Loss on dilution of an associate (note 36)	**(22,158)**	-
Acquired entities as part of Noor bank acquisition	**16,058**	-
Others	**(58,930)**	(1,585)
Balance at 31 December	**1,939,043**	1,976,718

12.2 Analysis by geography

	2020 AED'000	2019 AED'000
Within the U.A.E.	**1,442,712**	1,484,874
Other G.C.C. Countries	**41,182**	43,928
Rest of the world	**455,149**	447,916
Total	**1,939,043**	1,976,718

12.3 Fair value of investment in associates and joint ventures

As at 31 December 2020, the cumulative fair value of the Group's listed associates is AED 349.3 million (2019: AED 231.4 million), and the carrying amount of the Group's interest in those associates is AED 356.7 million (2019: 356.1 million). All other investments in associates and joint ventures are not listed in active markets and the management considers the carrying amounts of these investments approximate their fair values.

12.4 Analysis of the Group's share of total comprehensive income of associates and joint ventures

	2020 AED'000	2019 AED'000
The Group's share of profit for the year	**20,141**	58,355
The Group's share of other comprehensive income / (loss) for the year	**-**	-
The Group's share of total comprehensive income for the year	**20,141**	58,355

12.5 List of associates and joint ventures

	Name of associate or joint venture	Principal activity	Place of incorporation	Percentage holding 2020	Percentage holding 2019
1.	Bank of Khartoum	Banking	Sudan	**29.5%**	29.5%
2.	PT. Bank Panin Dubai Syariah Tbk	Banking	Indonesia	**25.1%**	38.3%
3.	Bosnia Bank International	Banking	Bosnia	**27.3%**	27.3%
4.	Liquidity Management Center	Financial services	Bahrain	**25.0%**	25.0%
5.	Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.	**20.0%**	20.0%
6.	Solidere International Al Zorah Equity Investments Inc	Property development	Cayman Islands	**22.7%**	22.7%
7.	Al Bustan Center Company L.L.C.	Leasing apartments and shops	U.A.E.	**50.0%**	50.0%
8.	Arady Development LLC	Property development	U.A.E.	**50.0%**	50.0%
9.	Digital Financial Services	Financial services	U.A.E.	**50.0%**	-

All of the above associates and joint ventures are accounted for using the equity accounting method in these consolidated financial statements.

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

12 Investments in associates and joint ventures (continued)

12.6 Material associates and joint ventures

Summarised financial information in respect of the Group material associates and joint ventures is set out below.

	2020 AED'000	2019 AED'000
Arady Development LLC		
Statement of financial position		
Assets	**1,465,551**	1,508,139
Liabilities	**33,779**	39,649
Net assets	**1,431,772**	1,468,490
Carrying amount of Group's interest	**980,692**	987,039
Statement of Comprehensive income		
Revenue	**83,461**	77,335
Net profit	**15,629**	5,491

13 Properties held for development and sale

13.1 Movement in properties held for development and sale

	Note	Other real estate AED'000	Properties under construction AED'000	Land AED'000	Total AED'000
Balance at 1 January 2020		**317,984**	**190,507**	**828,385**	**1,336,876**
Additions		**141,653**	**128,596**	**1,900**	**272,149**
Disposals	*34*	**(44,480)**	**(128,770)**	**-**	**(173,250)**
Transfer to property and equipment		**(9,119)**	**-**	**-**	**(9,119)**
Reclassification		**98,043**	**32,293**	**(130,336)**	**-**
Impairment		**(31,938)**	**(338)**	**(3,801)**	**(36,077)**
Foreign exchange effect		**459**	**-**	**-**	**459**
Balance at 31 December 2020		**472,602**	**222,288**	**696,148**	**1,391,038**
Balance at 1 January 2019		261,132	360,663	827,180	1,448,975
Additions		-	374,502	1,205	375,707
Disposals	*34*	(14,786)	(320,547)	-	(335,333)
Transfers		(83)	(155,715)	-	(155,798)
Reclassification		68,396	(68,396)	-	-
Foreign exchange effect		3,325	-	-	3,325
Balance at 31 December 2019		317,984	190,507	828,385	1,336,876

Properties held for sale represent properties in the U.A.E. and outside the U.A.E. that are registered in the name of the Group entities.

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

14 Investment properties

14.1 Analysis by category

	Note	**2020 AED'000**	2019 AED'000
Investment properties carried at cost	*14.2*	**5,947,023**	4,920,055
Investment properties carried at fair value		**-**	288,478
Balance at 31 December		**5,947,023**	5,208,533

14.2 Movement in investment properties at cost

	Other real estate AED'000	**Investment properties under construction AED'000**	**Land AED'000**	**Total AED'000**
Cost:				
Balance at 1 January 2020	**1,707,807**	**2,316,653**	**1,374,898**	**5,399,358**
Additions	**745**	**23,723**	**-**	**24,468**
Disposal	**(407,992)**	**-**	**-**	**(407,992)**
Transfers *	**718,684**	**-**	**-**	**718,684**
Reclassification	**1,001,165**	**(1,001,165)**	**-**	-
Addition from Noor bank acquisition	**224,879**	**-**	**711,432**	**936,311**
Balance at 31 December 2020	**3,245,288**	**1,339,211**	**2,086,330**	**6,670,829**
Accumulated depreciation and impairment:				
Balance at 1 January 2020	**371,732**	**-**	**107,572**	**479,304**
Depreciation charged for the year	**56,678**	**-**	**-**	**56,678**
Disposal	**(237,224)**	**-**	**-**	**(237,224)**
Impairment	**425,048**	**-**	**-**	**425,048**
Balance at 31 December 2020	**616,234**	**-**	**107,572**	**723,806**
Carrying amount at 31 December 2020	**2,629,054**	**1,339,211**	**1,978,758**	**5,947,023**
Cost:				
Balance at 1 January 2019	1,623,824	2,129,286	1,253,139	5,006,249
Additions	6,820	187,367	121,759	315,946
Transfers	250,648	-	-	250,648
Reclassification	(166,188)	-	-	(166,188)
Foreign exchange effect	(7,296)	-	-	(7,296)
Balance at 31 December 2019	1,707,808	2,316,653	1,374,898	5,399,359
Accumulated depreciation and impairment:				
Balance at 1 January 2019	435,306	-	75,888	511,194
Depreciation charged for the year	36,960	-	-	36,960
Reclassification	(92,325)	-	-	(92,325)
Other impairment charges	(3,844)	-	31,684	27,840
Foreign exchange effect	(4,365)	-	-	(4,365)
Balance at 31 December 2019	371,732	-	107,572	479,304
Carrying amount at 31 December 2019	1,336,076	2,316,653	1,267,326	4,920,055

* Transfer to investment properties include properties acquired in settlement of Islamic financing and investing assets amounting to AED 79.8 million (2019: 95.9 million) and transfer from property, plant and equipment amounting to AED 350.4 million (2019: AED Nil).

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

14 Investment properties (continued)

14.3 Analysis by geography

	Other real estate	Investment properties under construction	Land	Total
	AED'000	AED'000	AED'000	AED'000
2020				
Carrying amount at 31 December:				
Within the U.A.E.	**2,629,054**	**1,339,211**	**1,927,027**	**5,895,292**
Outside the U.A.E.	**-**	**-**	**51,731**	**51,731**
Total carrying amount	**2,629,054**	**1,339,211**	**1,978,758**	**5,947,023**
2019				
Carrying amount at 31 December:				
Within the U.A.E.	1,521,056	2,316,653	1,192,213	5,029,922
Outside the U.A.E.	126,880	-	51,731	178,611
Total carrying amount	1,647,936	2,316,653	1,243,944	5,208,533

Investment properties include properties with a book value of AED 222.3 million (2019: AED 393.1 million) that have been mortgaged by Group's entities as a security in respect of Islamic financing arrangements to another financial institution.

14.4 Fair value of investment properties

The fair value of the Group's investment properties as at 31 December 2020 is AED 6.4 billion (2019: AED 5.7 billion) based on unobservable market inputs (i.e. level 3).

The Group has carried out external valuations of these properties as at 31 December 2020. The valuations are carried out by professional valuators who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued. The valuations were based on comparable transaction method and present value calculation of the estimated future cash flow model supported by existing lease and current market rents for similar properties in the same location adjusted to reflect the level of completion of construction of these properties. The profit rate, which is used to calculate the present value of the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

The valuations were based on an individual assessment, for each property type, of both the future earnings and the required yield. In assessing the future earnings of the properties, potential changes in rental levels from each contract's rent and expiry date is compared with estimated current market rent, as well as changes in occupancy rates and property costs.

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

15 Receivables and other assets

15.1 Analysis by category

	Note	**2020 AED'000**	2019 AED'000
Receivables on sale of investment properties, net	*15.1.1*	**592,519**	1,242,530
Due from customers	*15.1.2*	**1,355,233**	1,222,262
Acceptances		**516,240**	1,926,306
Prepaid expenses		**101,798**	89,238
Fair value of Islamic derivatives	*45.1*	**1,888,534**	856,146
Deferred tax asset	*22.2*	**40,443**	36,224
Right of use asset		**259,491**	277,451
Intangible assets	*15.1.3*	**219,205**	-
Others		**5,066,165**	3,092,826
Total		**10,039,628**	8,742,983

15.1.1 Receivables on sale of investment properties, net

The Bank and its subsidiary entered into sale and purchase agreements to sell investment properties in prior years. The salient terms and conditions of the sales and purchase agreements are as follows:

- The sales consideration of transactions of the Bank and its subsidiary was receivable on or before 31 December 2019. The arrangement has been extended to 31 December 2024 on the similar terms provided below;
- The sales consideration can be settled in cash or in kind or a combination of cash and in kind, at the discretion of the buyer. In case full settlement of consideration or part thereof is in kind, assets to be offered in lieu of the full sales consideration or part thereof must be of equal value to the amount due and payable under the agreement;
- The commitments on the remaining original purchase price for the plots of land remain with the Bank; and
- The exposure is classified in stage 2 and accordingly life time expected credit loss amounting to AED 517 million is held at 31 December 2020 (2019: AED 536.0 million).

15.1.2 Due from customers

Due from customers represent overdrawn current accounts and other accounts that do not meet the definition of Islamic financing and investing assets and are in stage 2 and 3 respectively. The balances are stated net of provision for impairment amounting to AED 876 million (2019: AED 630 million). The Group holds collaterals amounting to AED 960 million (2019: AED 913 million) against these accounts.

15.1.3 Intangible assets

Intangible assets have been recognized on the acquisition of Noor bank and comprise of the core deposits and customer relationships. These are being amortized over a useful life of 4 years from the date of acquisition. Refer note 50.

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

16 Property and equipment

	Land and buildings AED'000	Furniture, equipment, and vehicles AED'000	Information technology AED'000	Capital work in progress AED'000	Total AED'000
Cost:					
Balance at 1 January 2020	**1,755,002**	**339,681**	**811,902**	**107,228**	**3,013,813**
Additions	**36,394**	**8,533**	**8,741**	**171,428**	**225,096**
Disposals	**(13,424)**	**(5,629)**	**(372)**	**(900)**	**(20,325)**
Transfers	**(350,382)**	**1,463**	**866**	**(2,386)**	**(350,439)**
Addition from Noor acquisition	**120,736**	**329**	**53,407**	**13,857**	**188,329**
Reclassification	**4,270**	**1,356**	**51,919**	**(57,545)**	**-**
Exchange and others	**(7,320)**	**(2,419)**	**(2,032)**	**(231)**	**(12,002)**
Balance at 31 December 2020	**1,545,276**	**343,314**	**924,431**	**231,451**	**3,044,472**
Accumulated depreciation:					
Balance at 1 January 2020	**451,156**	**298,375**	**673,947**	**-**	**1,423,478**
Charge for the year	**54,399**	**17,316**	**62,313**	**-**	**134,028**
Disposals	**(10,357)**	**(5,305)**	**(715)**	**-**	**(16,377)**
Impairment	**75,342**	**-**	**-**	**-**	**75,342**
Exchange and others	**-**	**(1,570)**	**(1,063)**	**-**	**(2,633)**
Balance at 31 December 2020	**570,540**	**308,816**	**734,482**	**-**	**1,613,838**
Carrying amount					
Balance at 31 December 2020	**974,736**	**34,498**	**189,949**	**231,451**	**1,430,634**
Cost:					
Balance at 1 January 2019	800,100	333,956	762,917	759,762	2,656,735
Additions	11,447	12,918	5,379	353,668	383,412
Disposals	(3,247)	(7,174)	(1,985)	(2,137)	(14,543)
Transfers	939,434	12,179	51,182	(1,002,795)	-
Others	7,268	-	-	-	7,268
Exchange adjustments	-	(12,198)	(5,591)	(1,270)	(19,059)
Balance at 31 December 2019	1,755,002	339,681	811,902	107,228	3,013,813
Accumulated depreciation:					
Balance at 1 January 2019	405,597	301,998	634,901	-	1,342,496
Charge for the year	39,430	17,268	45,482	-	102,180
Disposals	(216)	(6,509)	(1,834)	-	(8,559)
Other	5,638	(7,942)	-	-	(2,304)
Exchange adjustments	707	(6,440)	(4,602)	-	(10,335)
Balance at 31 December 2019	451,156	298,375	673,947	-	1,423,478
Carrying amount					
Balance at 31 December 2019	1,303,846	41,306	137,955	107,228	1,590,335

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

17 Subsidiaries

17.1 List of material subsidiaries

Below are material interest held by the Group directly or indirectly in subsidiaries:

	Name of subsidiary	Principal activity	Place of incorporation and operation	Ownership interest and voting power 2020	2019
1.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	**100.0%**	100.0%
2.	Noor Bank P.J.S.C.	Banking	U.A.E	**100.0%**	-
3.	Tamweel P.S.C	Financing	U.A.E	**92.0%**	92.0%
4.	DIB Bank Kenya Ltd.	Banking	Kenya	**100.0%**	100.0%
5.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	**99.0%**	99.0%
6.	Deyaar Development P.J.S.C.	Real estate development	U.A.E	**44.9%**	44.9%
7.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial and legal advisory	U.A.E.	**60.0%**	60.0%
8.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	**99.5%**	99.5%
9.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	**100.0%**	100.0%
10.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	100.0%
11.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	100.0%
12.	Naseej Private Property Management Services	Property management	U.A.E.	**99.0%**	99.0%
13.	Dubai Islamic Bank Printing Press L.L.C.	Printing	U.A.E.	**99.5%**	99.5%
14.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	**100.0%**	100.0%
15.	Dubai Islamic Trading Center L.L.C.	Trading in vehicles	U.A.E.	**100.0%**	100.0%
16.	Creek Union Limited FZ LLC	Investments	U.A.E	**100.0%**	100.0%
17.	Madinat Bader Properties Co. L.L.C.	Real Estate Development	U.A.E.	**99.0%**	99.0%
18.	Premium Marketing Services L.L.C	Outsourcing and Marketing activities	U.A.E	**100.0%**	-
19.	Noor BPO L.L.C	Outsourcing and Consultancy services	U.A.E	**100.0%**	-
20.	Zawaya Realty L.L.C	Real Estate Management Services	U.A.E	**100.0%**	-

In addition to the registered ownership described above, the remaining equity in the entities 5, 8, 12, 13 and 17 are also beneficially held by the Bank through nominee arrangements.

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

17 Subsidiaries (continued)

17.2 List of Special Purpose Vehicles ("SPV")

Below is the list of special purpose vehicles which were formed to manage specific transactions including funds, and are expected to be closed upon completion of the related transactions:

	Name of SPV	Principal activity	Place of incorporation and operation	Ownership interest and voting power 2020	2019
21.	HoldInvest Real Estate Sarl	Investments	Luxembourg	**100.0%**	100.0%
22.	France Invest Real Estate SAS	Investments	France	**100.0%**	100.0%
23.	SARL Barbanniers	Investments	France	**100.0%**	100.0%
24.	SCI le Sevine	Investments	France	**100.0%**	100.0%
25.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
26.	MESC Investment Company	Investments	Jordan	**40.0%**	40.0%
27.	Levant One Investment Limited	Investments	U.A.E.	**100.0%**	100.0%
28.	Petra Limited	Investments	Cayman Islands	**100.0%**	100.0%
29.	Deyaar Investments LLC	Investments	U.A.E.	**Controlling Interest**	Controlling Interest
30.	Deyaar Funds LLC	Investments	U.A.E.	**Controlling Interest**	Controlling Interest
31.	Sequia Investments L.L.C.	Investments	U.A.E.	**99.0%**	99.0%
32.	Blue Nile Investments L.L.C.	Investments	U.A.E.	**99.0%**	99.0%
33.	DIB FM Ltd	Investments	Cayman Islands	**100.0%**	100.0%
34.	Noor Sukuk Company Limited	Investments	Cayman Islands	**100.0%**	-
35.	Noor Tier 1 Sukuk Limited	Investments	Cayman Islands	**100.0%**	-
36.	Noor Structured Certificates Ltd.	Investments	Cayman Islands	**100.0%**	-
37.	Noor Derivatives Limited	Investments	Cayman Islands	**100.0%**	-

In addition to the registered ownership described above, the remaining equity in the entities 29, 30, 31 and 32 are also beneficially held by the Bank through nominee arrangements.

17.3 Non-controlling interests

Below are details of subsidiaries of the Group that have material non-controlling interests:

	Name of subsidiary	Proportion of ownership interests and voting rights held by the non-controlling interests 2020 AED'000	2019 AED'000	Profit / (loss) allocated to non-controlling interests 2020 AED'000	2019 AED'000	Accumulated non-controlling interests 2020 AED'000	2019 AED'000
1	Tamweel P.S.C.	**8.0%**	8.0%	**(8,150)**	14,870	**189,485**	201,472
2	Deyaar Development P.J.S.C.	**55.0%**	55.0%	**(127,413)**	71,609	**2,396,598**	2,534,863
3	Others	**-**	-	**1,430**	1,741	**1,152**	2,921
	Total			**(134,133)**	88,220	**2,587,235**	2,739,256

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

17 Subsidiaries (continued)

17.4 Material non-controlling interests

Summarised financial information of material non-controlling interests before intragroup elimination is as follows:

17.4.1 Tamweel P.S.C

	31 December 2020 AED'000	31 December 2019 AED'000
Statement of financial position		
Islamic financing and investing assets, net	**1,588,261**	1,937,855
Receivable and other assets	**1,245,825**	1,182,417
Total assets	**2,834,086**	3,120,272
Due to banks and financial institutions	**-**	185,000
Payable and other liabilities	**81,765**	70,658
Total liabilities	**81,765**	255,658
Net assets	**2,752,321**	2,864,614

	2020 AED' 000	2019 AED' 000
Statement of comprehensive income		
Total revenue	**158,397**	378,405
Total operating expenses	**(91,582)**	(90,903)
Impairment charges	**(162,116)**	(71,362)
Depositors' share of profit	**(2,391)**	(26,084)
Net profit for the year	**(97,692)**	190,056
Other comprehensive income	**(10,766)**	6,101
Total comprehensive income	**(108,458)**	196,157
Statement of cash flows		
Net cash flows generated from operating activities	**103,467**	26,579
Net cash flows generated from investing activities	**13,454**	5,508
Net cash flows generated during the year	**116,921**	32,087

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

17 Subsidiaries (continued)

17.4 Material non-controlling interests (continued)

17.4.2 Deyaar Development P.J.S.C

	31 December 2020 AED'000	31 December 2019 AED'000
Statement of financial position		
Investment in associates and joint ventures	**1,345,230**	1,350,633
Properties held for sale	**1,334,432**	1,280,729
Investment properties	**712,575**	830,724
Receivables and other assets	**1,258,733**	1,659,163
Other	**973,264**	1,097,455
Total assets	**5,624,234**	6,218,704
Due to banks and financial institutions	**826,500**	981,305
Payables and other liabilities	**441,866**	702,696
Total liabilities	**1,268,366**	1,684,001
Net assets	**4,355,868**	4,534,703

	2020 AED'000	2019 AED'000
Statement of comprehensive income		
Total income	**205,941**	237,674
Total expenses	**(425,368)**	(153,511)
Depositors' and sukukholders' share of profit	**(36,889)**	(30,207)
Share of profit from associates and joint ventures	**24,741**	17,582
Profit for the year	**(231,575)**	71,538
Other comprehensive income	**(7,452)**	(8,470)
Total comprehensive income	**(239,027)**	63,068
Statement of cash flows		
Net cash flows generated from operating activities	**131,604**	(106,575)
Net cash flows used in investing activities	**16,388**	(74,882)
Net cash flows generated from financing activities	**(191,363)**	(29,712)
Net cash flows generated during the year	**(43,371)**	(211,169)

* Adjustments were made to the above financial information to bring the subsidiary's accounting policies in line with those used by the Group.

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

18 Customers' deposits

18.1 Analysis by category

	Note	2020 AED'000	2019 AED'000
Current accounts		**50,246,390**	32,033,450
Saving accounts		**35,594,493**	22,043,412
Investment deposits		**119,642,844**	109,848,209
Margin accounts		**373,260**	382,754
Depositors' investment risk reserve	*18.3*	**13,941**	14,098
Depositors' share of profit payable	*18.4*	**54,290**	96,494
Total		**205,925,218**	164,418,417

18.2 Analysis by geography

	2020 AED'000	2019 AED'000
Within the U.A.E.	**178,488,916**	148,923,394
Outside the U.A.E.	**27,436,302**	15,495,023
Total	**205,925,218**	164,418,417

18.3 Depositors' investment risk reserve

Depositors' investment risk reserve represents a portion of the depositors' share of profits set aside as a reserve. This reserve is payable to the depositors upon the approval of the Bank's Internal Sharia Supervision Committee. Zakat on depositors' investment risk reserve is included under Zakat payable and is deducted from the depositors' investment risk reserve balance.

Movement of depositors' investment risk reserve is as follows:

	Note	2020 AED'000	2019 AED'000
Balance at 1 January		**14,098**	9,640
Zakat for the year	*23*	**(368)**	(373)
Net transfer from depositors' share of profit during the year	*18.4*	**211**	4,831
Balance at 31 December		**13,941**	14,098

18.4 Depositors' share of profit payable

	Note	2020 AED'000	2019 AED'000
Balance at 1 January		**96,494**	103,419
Depositors' share of profit for the year	*37*	**832,526**	623,786
Net transfer to depositors' investment risk reserve	*18.3*	**(211)**	(4,831)
Less: amount paid during the year		**(874,519)**	(625,880)
Balance at 31 December		**54,290**	96,494

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

19 Due to banks and financial institutions

19.1 Analysis by category

	2020 AED'000	2019 AED'000
Current accounts with banks	**404,023**	104,432
Zero Cost Facility from Central Bank of the U.A.E	**3,200,000**	-
Investment deposits	**9,892,055**	9,042,315
Total	**13,496,078**	9,146,747

Investment deposits include deposits of AED 6.8 billion (2019: AED 3.0 billion) under collateralized commodity murabaha arrangement from banks and financial institutions.

Refer note 49 for details of Zero Cost Facility under the Targeted Economic Support Scheme (TESS) from Central Bank of the U.A.E and collateralized with eligible sukuk.

19.2 Analysis by geography

	2020 AED'000	2019 AED'000
Within the U.A.E.	**7,752,580**	6,360,958
Outside the U.A.E.	**5,743,498**	2,785,789
Total	**13,496,078**	9,146,747

20 Sukuk issued

20.1 Analysis by issuance

The analysis of the Sukuk instruments issued by the Group is as follows:

	Expected annual profit rate	**Maturity**	**2020 AED'000**	2019 AED'000
Listed sukuk - Irish Stock Exchange / Nasdaq Dubai				
Sukuk issued by the Bank	2.92%	June 2020	**-**	2,754,750
Sukuk issued by the Bank	3.60%	March 2021	**1,836,500**	1,836,500
Sukuk issued by the Bank	3.66%	February 2022	**3,673,000**	3,673,000
Sukuk issued by the Bank	3.63%	February 2023	**3,666,627**	3,663,594
Sukuk issued by the Bank	2.95%	February 2025	**2,749,371**	2,748,093
Sukuk issued by the Bank	2.95%	January 2026	**4,780,625**	-
Sukuk issued by a subsidiary	4.47%	April 2023	**1,870,258**	-
Private placement				
Sukuk issued by a subsidiary	6M Kibor + 50 bps	June 2027	**95,316**	100,990
Sukuk issued by a subsidiary	3M Kibor + 175 bps	December 2023	**72,434**	75,018
Total			**18,744,131**	14,851,945

20.2 Sukuk issued by the Bank

The terms of the Programme include transfer of certain identified assets (the "Co-Owned Assets") including original leased and musharaka assets, Sharia compliant authorised investments and any replaced assets of the Bank to DIB Sukuk Limited, Cayman Islands (the "Issuer"). These assets are under the control of the Bank and shall continue to be serviced by the Bank.

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

20 Sukuk issued (continued)

20.2 Sukuk issued by the Bank (continued)

The Issuer will pay the semi-annually distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi-annually distribution amount payable to the sukuk holders on the semi-annually distribution dates. Upon maturity of the sukuk, the Bank has undertaken to buy these assets at the exercise price from the Issuer.

These sukuk are expected to pay profit to the investors semi-annually based on relevant margin at the time of issuance.

20.3 Sukuk issued by a subsidiary

In June 2017, a subsidiary issued Sharia'a Compliant Trust Certificates of PKR 4,000 million (AED 95.3 million) at an expected profit rate equal to 6M Kibor plus 50 bps per annum. Realised profit on these certificates is payable semi-annually in arrears. The certificates are privately placed among the local banks and financial institution.

In December 2018, a subsidiary issued Sharia'a Compliant Trust Certificates of PKR 3,300 million (AED 72.4 million) at an expected profit rate equal to 3M Kibor plus 175 bps per annum. Realised profit on these certificates is payable monthly in arrears. The certificates are privately placed among the local banks and financial institution.

21 Payables and other liabilities

21.1 Analysis by category

	Note	**2020 AED'000**	2019 AED'000
Sundry deposits and amanat		**1,126,280**	939,506
Acceptances payable		**516,240**	1,926,306
Depositors' and sukuk holders' share of profit payable	*21.2*	**856,325**	1,132,687
Provision for employees' end-of-service benefits	*21.3*	**246,839**	251,394
Fair value of Islamic derivative liabilities	*45.1*	**1,704,417**	742,931
Provision for taxation	*22.1*	**105**	5,647
Liability for right of use asset		**260,648**	277,451
Others		**3,203,779**	3,043,637
Total		**7,914,633**	8,319,559

21.2 Depositors' and sukuk holders share of profit payable

		2020 AED'000	2019 AED'000
Balance at 1 January		**1,132,687**	883,948
Wakala and other investment deposits from banks and customers	*37*	**2,219,251**	3,326,698
Sukukholders' accrued/realised profit on sukuk issued	*37*	**619,849**	467,079
Paid during the year		**(3,115,462)**	(3,545,038)
Balance at 31 December		**856,325**	1,132,687

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

21 Payables and other liabilities (continued)

21.3 Provision for employees' end-of-service benefits

	Note	2020 AED'000	2019 AED'000
Balance at 1 January		**251,394**	221,992
Charged during the year	*38*	**33,131**	45,334
Paid during the year		**(37,686)**	(15,932)
Balance at 31 December		**246,839**	251,394

22 Taxation

22.1 Provision for taxation

		2020 AED'000	2019 AED'000
Balance at 1 January		**5,647**	7,280
Charged during the year	*22.3*	**50,618**	56,830
Paid during the year		**(56,072)**	(58,380)
Foreign exchange effect		**(88)**	(83)
Balance at 31 December		**105**	5,647

22.2 Deferred tax liability / (asset)

		2020 AED'000	2019 AED'000
Balance at 1 January		**(36,224)**	(19,445)
Charged during the year	*22.3*	**(4,555)**	(14,564)
Foreign exchange effect		**336**	(2,215)
Balance at 31 December		**(40,443)**	(36,224)

22.3 Income tax expense

		2020 AED'000	2019 AED'000
Current taxation	*22.1*	**50,618**	56,830
Deferred taxation	*22.2*	**(4,555)**	(14,564)
Total		**46,063**	42,266

Effective tax rate reconciliation is not material in relation to the consolidated financial statements as tax charge relates to overseas subsidiaries only.

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

23 Zakat payable

	Note	2020 AED'000	2019 AED'000
Zakat charged to equity attributable to shareholders of the Bank		**345,650**	326,592
Zakat accounted and paid by investees		**-**	(70)
Shareholders' Zakat for the year payable by the Bank		**345,650**	326,522
Zakat adjustment related to previous years		**127**	5,015
Net Zakat payable by the Bank on shareholders' behalf		**345,777**	331,537
Zakat on depositors' investment risk reserve	*18.3*	**368**	373
Zakat paid for previous years		**(127)**	(5,015)
Total Zakat payable		**346,018**	326,895

24 Share capital

As at 31 December 2020, 7,240,744,377 authorised ordinary shares of AED 1 each (2019: 6,589,585,179 ordinary shares of AED 1 each) were fully issued and paid up.

During the period the Bank issued 651,159,198 new shares in consideration for acquisition of Noor Bank. Refer note 50.

25 Tier 1 sukuk

SPV ("the Issuer")	Date of issuance	Discretionary profit rate	Callable period	Issuance amount Equivalent AED '000 31 December 2020	Issuance amount Equivalent AED '000 31 December 2019
DIB Tier 1 Sukuk (2) Limited	January 2015	6.75% per annum paid semi-annually	On or after January 2021	**3,673,000**	3,673,000
DIB Tier 1 Sukuk (3) Limited	January 2019	6.25% per annum paid semi-annually	On or after January 2025	**2,754,750**	2,754,750
DIB Tier 1 Sukuk (4) Limited	November 2020	4.63% per annum paid semi-annually	On or after May 2026	**3,673,000**	-
Noor Tier 1 Sukuk Limited	May 2016	6.25% per annum paid semiannually	On or after June 2021	**1,836,500**	-
				11,937,250	6,427,750

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 sukuk are listed on the Irish Stock Exchange and Dubai Financial Market / Nasdaq Dubai callable by the Bank after the "First Call Date" or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the Mudaraba Common pool.

At the Issuer's sole discretion, it may elect not to make any Mudaraba profit distributions expected and the event is not considered an event of default. In such event, the Mudaraba profit will not be accumulated but forfeited to the issuer. If the Issuer makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on ordinary shares issued by the Bank, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by the Bank.

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

26 Other reserves and treasury shares

26.1 Movements in other reserves and treasury shares

Movement of the other reserves and treasury shares during the years ended 31 December 2020 and 2019 is as follows:

	Statutory reserve AED'000	General reserve AED'000	Regulatory credit risk reserve AED'000	Share premium AED'000	Treasury shares AED'000	Total AED'000
2020						
Balance at 1 January 2020	**8,542,279**	**2,350,000**	**252,000**	**-**	**(31,316)**	**11,112,963**
Transfer to retained earnings	**-**	**-**	**(252,000)**	**-**	**-**	**(252,000)**
Issuance of shares	**-**	**-**	**-**	**2,923,705**	**-**	**2,923,705**
Transfer to statutory reserve	**2,923,705**	**-**	**-**	**(2,923,705)**	**-**	**-**
Balance at 31 December 2020	**11,465,984**	**2,350,000**	**-**	**-**	**(31,316)**	**13,784,668**
2019						
Balance at 1 January 2019	8,542,279	2,350,000	-	-	(31,316)	10,860,963
Transfer from retained earnings	-	-	252,000	-	-	252,000
Balance at 31 December 2019	8,542,279	2,350,000	252,000	-	(31,316)	11,112,963

26.2 Statutory reserve

Article 239 of the U.A.E. Federal Law No. (2) of 2015 and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

26.3 Regulatory credit risk reserve

Regulatory credit risk reserve is a non-distributable reserve held for regulatory general provision requirement.

In accordance with Guidance Note to Banks for the Implementation of IFRS 9, issued by Central Bank of UAE (CBUAE), in case where provision for impairment required under CBUAE guidance exceed provisions for impairment raised in IFRS 9, the excess amount is required to be transferred to a non-distributable regulatory credit risk reserve.

	2020 AED'000	2019 AED'000
Regulatory general provision – 1.5% of credit risk weighted assets	**3,074,005**	2,587,110
Aggregate expected credit loss for stage 1 and 2	**2,448,862**	2,335,110
Acquisition fair value adjustment and Stage 1 and 2 ECL of acquired entity	**802,000**	-
Regulatory credit risk reserve	**-**	252,000
Regulatory general provision available	**3,250,862**	2,587,110

26.4 General reserve

Transfer to general reserve is made based on the discretion of the Board of Directors and is subject to the approval of the Shareholders at the annual general meeting.

26.5 Treasury shares

The Group holds 13,633,477 treasury shares (2019: 13,633,477 shares) amounting to AED 31.3 million (2019: AED 31.3 million).

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

27 Investments fair value reserve

	2020 AED'000	2019 AED'000
Balance at 1 January	**(1,174,698)**	(850,362)
Fair value loss on other investments at FVTOCI, net	**(310,649)**	(411,141)
Transfer to retained earnings on disposal of FVTOCI investments	**382,896**	86,805
Balance at 31 December	**(1,102,451)**	(1,174,698)

28 Exchange translation reserve

Exchange translation reserve relating to the translation of the results and net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. AED) are recognised directly in other comprehensive income and accumulated in the exchange translation reserve.

29 Dividends paid and proposed

The Board of Directors has proposed a cash dividend of AED 0.20 per share at their meeting held on 16 February 2021.

For the year ended 31 December 2019, the shareholders approved a cash dividend of AED 0.35 per share (AED 2,529.5 million) at the Annual General Meeting held on 15 March 2020.

30 Contingent liabilities and commitments

Financing-related financial instruments include commitments to extend Islamic financing, standby letters of credit and guarantees which are designed to meet the requirements of the Group customers.

Commitments to extend Islamic financing represent contractual commitments to provide Islamic financing. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being utilised, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Analysis of contingent liabilities and commitments as at 31 December 2020 and 2019 is as follows:

	2020 AED'000	2019 AED'000
Contingent liabilities and commitments:		
Letters of guarantee	**13,362,142**	12,937,122
Letters of credit	**1,480,532**	1,514,220
Undrawn facilities commitments	**26,004,328**	18,728,478
Total contingent liabilities and commitments	**40,847,002**	33,179,820
Other commitments:		
Capital expenditure commitments	**1,090,986**	715,193
Total other commitments	**1,090,986**	715,193
Total contingent liabilities and commitments	**41,937,988**	33,895,013

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

31 Income from Islamic financing and investing transactions

	2020 AED'000	2019 AED'000
Income from Islamic financing and investing assets	**8,672,203**	8,910,079
Income from investments in Islamic sukuk	**1,571,860**	1,472,126
Income from international murabaha with the Central Bank	**87,406**	250,464
Income from investment and wakala deposits with financial institutions	**13,837**	28,346
Income from international murabaha with financial institutions	**25,045**	62,130
Total	**10,370,351**	10,723,145

Income from financing and investing assets is presented net of forfeited income of AED 6.1 million (2019: AED 7.2 million). During the year ended 31 December 2020, the Group has paid AED 37.1 million (2019: AED 13.4 million) for various social contribution purposes.

32 Commissions, fees and foreign exchange income

	2020 AED'000	2019 AED'000
Commission and fees	**1,176,461**	1,203,915
Foreign exchange income	**290,857**	128,510
Fair value gain of Islamic derivatives	**16,295**	26,127
Other commissions and fees	**162,003**	124,054
Total	**1,645,616**	1,482,606

33 Income from other investments measured at fair value, net

	2020 AED'000	2019 AED'000
Dividend income from investments measured at FVTOCI	**50,271**	65,760
Gain / (loss) on investments measured at FVTPL	**390**	(127)
Dividend income from investments designated at FVTPL	**-**	27
Total	**50,661**	65,660

34 Income from properties held for development and sale, net

	Note	2020 AED'000	2019 AED'000
Sales proceeds		**226,943**	461,344
Less: cost of sale	*13.1*	**(173,250)**	(335,333)
Total		**53,693**	126,011

35 Income from investment properties

Income from investment properties represents the net rental income amounting to AED 64.9 million (2019: AED 80.3 million) recognised by the Group from its investment properties and a gain of AED 18.4 million on disposal of certain investment properties.

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

36 Other income

	Note	2020 AED'000	2019 AED'000
Realised gain on disposal of investments in Islamic sukuk		**526,326**	328,295
Services income, net		**66,740**	96,736
Net gain on disposal of property and equipment		**5,498**	145
Others		**320,019**	508,447
Total		**918,583**	933,623

Others include loss on dilution of associate amounting to AED 22.5 million. Refer note 12.1.

37 Depositors' and sukuk holders' share of profit

	Note	2020 AED'000	2019 AED'000
Mudaraba investment and savings deposits from customers	*18.4*	**832,526**	623,786
Wakala and other investment deposits of banks and customers	*21.2*	**2,219,251**	3,326,698
Sukukholders' accrued/realised profit on sukuk issued	*21.2*	**619,849**	467,079
Total		**3,671,626**	4,417,563

38 Personnel expenses

	Note	2020 AED'000	2019 AED'000
Salaries, wages and other benefits		**1,666,401**	1,541,549
Staff terminal benefits	*21.3*	**33,131**	45,334
Total		**1,699,532**	1,586,883

39 General and administrative expenses

	2020 AED'000	2019 AED'000
Premises and equipment maintenance costs	**133,631**	98,287
Administrative expenses	**154,469**	106,703
Rental charges under operating leases	**104,248**	109,874
Other operating expenses	**445,335**	317,527
Total	**837,683**	632,391

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

40 Impairment charges, net

		2020 AED'000	2019 AED'000
Financial assets			
Provision for Islamic financing and investing assets charged	*9.3*	**4,364,757**	2,095,297
Provision for Islamic financing and investing assets released	*9.3*	**(555,363)**	(434,522)
Net provision charge for other assets		**205,828**	74,886
Impairment charges for financial assets, net		**4,015,222**	1,735,661
Non-financial assets			
Impairment charge for investment properties and properties held for sale		**461,125**	27,840
Impairment charge for property and equipment		**75,342**	-
Impairment charge for non-financial assets		**536,467**	27,840
Total impairment charges, net		**4,551,689**	1,763,501

41 Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to owners of the Bank, net of directors' remuneration and profit attributable to Tier 1 sukukholders by the weighted average number of shares outstanding during the year as follows:

	2020 AED'000	2019 AED'000
Profit for the year attributable to owners of the Bank	**3,293,820**	5,014,391
Profit attributable to Tier 1 sukukholders	**(534,877)**	(448,795)
Board of Directors' remuneration	**(20,000)**	(20,000)
	2,738,943	4,545,596
Weighted average number of shares outstanding during the year ('000)	**7,227,111**	6,575,952
Basic and diluted earnings per share (AED per share)	**0.38**	0.69

As of the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Bank has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

42 Cash and cash equivalents

	Note	2020 AED'000	2019 AED'000
Cash and balances with the central banks	*7.1*	**29,205,588**	21,268,495
Due from banks and financial institutions	*8.1*	**6,448,591**	6,248,173
Due to banks and financial institutions	*19.1*	**(13,496,078)**	(9,146,747)
		22,158,101	18,369,921
Less: balances and deposits with banks and financial institutions with original maturity over three months		**-**	(49,924)
Add: Due to banks and financial institutions over three months		**11,725,659**	3,909,712
Balance at 31 December		**33,883,760**	22,229,709

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

43 Related party transactions

43.1 Identification of related parties

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

The Bank enters into transactions with shareholders, associates, directors, key management personnel and their related concerns in the ordinary course of business at terms agreed between both parties.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

43.2 Major shareholders

As at 31 December 2020, the major shareholder of the Bank is Investment Corporation of Dubai ("ICD"), a company in which the Government of Dubai is the majority shareholder.

43.3 Significant balances and transactions

Proportion of various assets and liabilities with Investment Corporation of Dubai ("ICD") related entities, other than those that have been individually disclosed below are as follows. These entities are independently run commercial entities, and all financial transactions with the Bank are on arm's length basis.

	2020	2019
	%	%
Islamic financing and investing assets	**9.1**	7.0
Customer deposits	**8.9**	7.5
Due to banks and financial institutions	**-**	12.0
Due from banks and financial institutions	**-**	41.1

43.4 Compensation of key management personnel

	2020	2019
	AED'000	AED'000
Salaries and other benefits	**86,090**	84,331
Employee terminal benefits	**986**	1,750
	=========	=========

43.5 Related parties balances

Significant balances of related parties included in the consolidated financial statement are as follows:

	Major shareholders AED'000	**Directors and key management personnel AED'000**	**Associates and joint ventures AED'000**	**Total AED'000**
2020				
Islamic financing and investing assets	**1,851,900**	**51,902**	**1,363**	**1,905,165**
Investment in Islamic sukuk	**157,747**	**-**	**-**	**157,747**
Customers' deposits	**2,102,644**	**183,935**	**6,847**	**2,293,426**
Contingent liabilities and commitments	**-**	**-**	**1,186**	**1,186**
Income from Islamic financing and investing	**43,258**	**2,194**	**131**	**45,583**
Depositors' share of profits	**34,434**	**2,636**	**-**	**37,070**
Income from investment in Islamic sukuk	**12,930**	**-**	**-**	**12,930**

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

43 Related party transactions (continued)

43.5 Related parties balances (continued)

	Major shareholders AED'000	Directors and key management personnel AED'000	Associates and joint ventures AED'000	Total AED'000
2019				
Islamic financing and investing assets	1,637,642	50,215	2,750	1,690,607
Investment in Islamic sukuk	556,607	-	-	556,607
Customers' deposits	2,081,280	196,689	12,086	2,290,055
Contingent liabilities and commitments	-	-	1,186	1,186
Income from Islamic financing and investing assets	63,161	2,392	235	65,788
Depositors' share of profits	87,486	6,203	1	93,690
Income from investment in Islamic sukuk	27,316	-	-	27,316

No impairment allowances have been recognised against Islamic financing and investing assets extended to related parties or contingent liabilities and commitments issued in favour of related parties during the years ended 31 December 2020 and 2019.

44 Segmental information

44.1 Reportable segments

Reportable segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group's reportable segments are organised into five major segments as follows:

- Consumer banking: Principally handling individual customers' deposits, providing consumer murabaha, salam, home finance, ijarah, credit cards and funds transfer facilities, priority banking and wealth management.
- Corporate banking: Principally handling financing, other credit facilities, deposits, current accounts, cash management and risk management products for corporate and institutional customers.
- Treasury: Principally responsible for managing the Bank's overall liquidity and market risk and provides treasury services to customers. Treasury also runs its own Islamic sukuk and specialised financial instruments book to manage the above risks.
- Real estate development: Property development and other real estate investments by a subsidiary.
- Others: Functions other than above core lines of businesses including investment banking services.

The accounting policies of the above reportable segments are the same as the Group's accounting policies. There has been no change in the reportable segments as a result of acquisition of Noor Bank.

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

44 Segmental information (continued)

44.2 Segment profitability

The following table presents profit or loss and certain asset and liability information regarding the Group's business segments for the year ended 31 December:

	Consumer banking		Corporate banking		Treasury		Real estate development		Others		Total	
	2020 AED'000	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000
Net operating revenue	**3,909,982**	3,490,186	**3,202,215**	3,427,682	**1,557,185**	968,510	**193,793**	252,818	**607,530**	1,127,596	**9,470,705**	9,266,792
Operating expense	**(1,292,486)**	(1,116,180)	**(585,497)**	(472,392)	**(131,382)**	(96,939)	**(186,938)**	(164,928)	**(531,617)**	(507,975)	**(2,727,920)**	(2,358,414)
Net operating revenue	**2,617,496**	2,374,006	**2,616,718**	2,955,290	**1,425,803**	871,571	**6,855**	87,890	**75,913**	619,621	**6,742,785**	6,908,378
Impairment charge, net											**(4,551,689)**	(1,763,501)
Gain on bargain purchase											**1,014,654**	-
Profit before income tax											**3,205,750**	5,144,877
Income tax expense											**(46,063)**	(42,266)
Profit for the year											**3,159,687**	5,102,611

44.3 Segment financial position

Following table presents assets and liabilities regarding the Group's business segments:

	Consumer banking		Corporate banking		Treasury		Real estate development		Others		Total	
	2020 AED'000	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000	**2020 AED'000**	2019 AED'000
Segment assets	**49,489,685**	38,764,864	**145,728,116**	112,501,959	**39,408,050**	35,967,376	**5,477,731**	6,009,932	**49,452,871**	38,551,503	**289,556,453**	231,795,634
Segment liabilities	**90,952,775**	72,974,252	**115,429,744**	93,864,413	**3,043,591**	1,120,275	**1,072,125**	1,214,602	**35,927,843**	27,890,021	**246,426,078**	197,063,563

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

44 Segmental information (continued)

44.4 Geographical information

Although the management of the Group is based primarily on business segments, the Group operates in two geographic markets: inside the U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international.

The following table show the distribution of the Group's external gross income allocated based on the location of the operating centres for the years ended 31 December 2020 and 2019:

	Gross income from external customers	
	2020	2019
	AED'000	AED'000
Within the U.A.E.	**12,447,867**	12,939,060
Outside the U.A.E.	**694,464**	745,295
Total	**13,142,331**	13,684,355

Gross income from external customers geographical analysis is based on the Group's operating centres and subsidiaries and associates locations.

Revenue from major products and services are disclosed in notes 31 to 36 to the consolidated financial statements.

45 Islamic derivative financial instruments

45.1 Fair values of Islamic derivative financial instruments

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

				Notional amounts by term to maturity				
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount total AED'000**	**Within 3 months AED'000**	**Over 3 months to 1 year AED'000**	**Over 1 year to 3 years AED'000**	**Over 3 to 5 years AED'000**	**Over 5 years AED'000**
2020								
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	**405,447**	**309,430**	**12,836,473**	**3,486,309**	**9,350,164**	**-**	**-**	**-**
Islamic profit rate swaps	**1,476,818**	**1,388,879**	**68,024,353**	**2,750**	**2,440,446**	**13,013,911**	**10,583,068**	**41,984,178**
Islamic currency (Call/Put) options	**6,269**	**6,108**	**537,587**	**208,877**	**211,174**	**117,536**	**-**	**-**
Total	**1,888,534**	**1,704,417**	**81,398,413**	**3,697,936**	**12,001,784**	**13,131,447**	**10,583,068**	**41,984,178**
2019								
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	92,966	93,242	11,145,753	4,789,269	6,356,484	-	-	-
Islamic profit rate swaps	762,551	649,060	58,353,599	1,406,305	3,601,355	10,877,838	16,747,950	25,720,151
Islamic currency (Call/Put) options	629	629	5,498	-	5,498	-	-	-
Total	856,146	742,931	69,504,850	6,195,574	9,963,337	10,877,838	16,747,950	25,720,151

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

45 Islamic derivative financial instruments (continued)

45.2 Types of Islamic derivatives

45.2.1 Unilateral Promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase/sale offers and acceptances between the relevant parties and delivering (exchanging) the relevant currencies on spot basis.

45.2.2 Islamic Swaps

Islamic Swaps are based on a Waa'd (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase/sale of commodity under "Murabaha Sale Agreement" in a single currency. For Islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase/sale of commodity under "Murabaha Sale Agreement".

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

46 Financial assets and liabilities

46.1 Financial instruments classification

The table below sets out the Group classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2020 and 2019:

2020	**Fair value through OCI AED'000**	**Fair value through profit or loss AED'000**	**Amortised cost AED'000**	**Carrying amount AED'000**
Financial assets				
Cash and balances with central banks	**-**	**-**	**29,205,588**	**29,205,588**
Due from banks and financial institutions	**-**	**-**	**6,448,591**	**6,448,591**
Islamic financing and investing assets, net	**-**	**-**	**196,689,031**	**196,689,031**
Investment in Islamic sukuk	**1,033,809**	**-**	**34,321,106**	**35,354,915**
Other investments measured at fair value	**1,110,962**	**-**	**-**	**1,110,962**
Receivables and other assets	**-**	**1,888,534**	**7,524,617**	**9,413,151**
	2,144,771	**1,888,534**	**274,188,933**	**278,222,238**
Financial liabilities				
Customers' deposits	**-**	**-**	**205,925,218**	**205,925,218**
Due to banks and financial institutions	**-**	**-**	**13,496,078**	**13,496,078**
Sukuk issued	**-**	**-**	**18,744,131**	**18,744,131**
Payables and other liabilities	**-**	**1,704,417**	**6,389,992**	**8,094,409**
	-	**1,704,417**	**244,555,419**	**246,259,836**
2019				
Financial assets				
Cash and balances with central banks	-	-	21,268,495	21,268,495
Due from banks and financial institutions	-	-	6,248,173	6,248,173
Islamic financing and investing assets, net	-	-	150,913,428	150,913,428
Investment in Islamic sukuk	-	-	33,243,858	33,243,858
Other investments measured at fair value	1,266,215	20	-	1,266,235
Receivables and other assets	-	856,146	7,814,873	8,671,019
	1,266,215	856,166	219,488,827	221,611,208
Financial liabilities				
Customers' deposits	-	-	164,418,417	164,418,417
Due to banks and financial institutions	-	-	9,146,747	9,146,747
Sukuk issued	-	-	14,851,945	14,851,945
Payables and other liabilities	-	742,931	7,763,209	8,506,140
	-	742,931	196,180,318	196,923,249

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

46 Financial assets and liabilities (continued)

46.2 Fair value of financial instruments

This note provides information about how the Group determines the fair value of various financial assets and financial liabilities.

46.2.1 Fair value of the Group's financial assets and financial liabilities

All of the Group's financial assets and financial liabilities, which are reported at their fair value in these consolidated financial statements, are measured at fair value at end of each reporting period. The fair value of financial assets and financial liabilities are determined as follows:

- Fair value of all quoted other investments measured at fair value through profit or loss and at fair value through other comprehensive income (note 11) are based on quoted price in an active market (unadjusted);
- Fair value of all unquoted other investments measured at fair value through other comprehensive income are mainly based on unobservable inputs like net asset valuation method and market based valuation techniques which include comparable proxy inputs and recent market transactions. The Group has determined that the reported net asset value represents the fair value at end of the reporting period; and
- Fair value of all Islamic derivatives financial instruments (Sharia compliant profit rate swap and unilateral promise to buy/sell currencies) is based on present value calculation of the estimated future cash flows. Future cash flows are estimated, based on forward (promise) profit rates and/or exchange rates (from observable yield curves and/or forward exchange rates at the end of each reporting period) and contract (based on promise) profit and/or forward (promise) rates, estimated at a rate that reflects the credit risk of various counterparties.

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

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable 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 in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumption are required to reflect differences between the instruments.

The table below summarises the Group's financial instruments' fair value according to fair value hierarchy:

2020	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Investments measured at fair value through profit or loss				
Quoted equity instruments	-	-	-	-
Investments measured at fair value through other comprehensive income				
Quoted instruments	1,227,476	-	-	1,227,476
Unquoted instruments	-	-	917,295	917,295
Other assets				
Islamic derivative assets	-	1,888,534	-	1,888,534
Financial assets measured at fair value	1,227,476	1,888,534	917,295	4,033,305
Other liabilities				
Islamic derivative liabilities	-	1,704,417	-	1,704,417

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

46 Financial assets and liabilities (continued)

46.2 Fair value of financial instruments (continued)

46.2.1 Fair value of the Group's financial assets and financial liabilities (continued)

2019	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Investments measured at fair value through profit or loss				
Quoted equity instruments	20	-	-	20
Investments measured at fair value through other comprehensive income				
Quoted instruments	552,852	-	-	552,852
Unquoted instruments	-	-	713,363	713,363
Other assets				
Islamic derivative assets	-	856,146	-	856,146
Financial assets measured at fair value	552,852	856,146	713,363	2,122,361
Other liabilities				
Islamic derivative liabilities	-	742,931	-	742,931

There were no transfers between Level 1, 2 and 3 during the years ended 31 December 2020 and 2019.

46.2.2 Reconciliation of Level 3 fair value measurement of financial assets measured at fair value through other comprehensive income

	2020 AED'000	2019 AED'000
Balance at 1 January	**713,363**	970,117
Losses in other comprehensive income	**(209,905)**	(193,003)
Addition on Noor bank acquisition	**390,074**	-
Disposals during the year	**-**	(74,307)
Others	**23,763**	10,556
Balance at 31 December	**917,295**	713,363

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

46 Financial assets and liabilities (continued)

46.2.3 Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities (other than cash which is stated at level 2) recognised in the consolidated financial statement approximate their fair values and is included in level 3.

	Carrying amount	Fair value			
2020	**AED'000**	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial assets:					
Investments in Islamic sukuk	**35,354,915**	**29,873,618**	**-**	**6,983,661**	**36,857,279**
Financial liabilities:					
Sukuk issued	**18,744,131**	**19,303,728**	**-**	**167,750**	**19,471,478**
2019					
Financial assets:					
Investments in Islamic sukuk	33,243,858	30,515,057	-	3,942,233	34,457,290
***Financial liabilities*:**					
Sukuk issued	14,851,945	14,862,470	-	176,008	15,038,478

47 Financial risk management

47.1 Introduction

Risk is inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his responsibilities.

The Group is exposed to various risks including but not limited to:
- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk;
- Reputational risk;
- Regulatory / compliance risk; and
- Sharia compliance risk

47.1.1 Risk management structure

The Board of Directors, supported by the Board Risk Compliance and Governance Committee, Risk Management Committee of the management and Group Risk Management Department, is ultimately responsible for identifying, monitoring and controlling risks; additionally there are other independent bodies / functions also responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

Board Risk Compliance and Governance Committee

The Board Risk Compliance and Governance Committee has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues, and manages and monitors relevant risk decisions.

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

47 Financial risk management (continued)

47.1 Introduction (continued)

47.1.1 Risk management structure (continued)

Risk Management Committee

The day-to-day monitoring of risk has been delegated to Risk Management Committee of the management.

The Risk Management Committee has the overall responsibility to support the Board Risk Management Committee for the development and formulation of the risk strategies, frameworks, policies and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies (e.g. The Central Bank of the U.A.E.).

Group Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Management Committee and the Board of Directors. The department is responsible for credit administration, portfolio management, credit risk, market risk, operational risk and overall risk control.

Asset and Liability Management Committee

Asset and Liability Management Committee ("ALCO") is responsible for managing the Group's assets and liabilities. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit Department

Risk management processes throughout the Group are audited periodically by the Internal Audit Department which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit Department comments on the results of their assessments with management, and reports its findings and recommendations to the Board Audit Committee.

Internal Sharia Audit Department

Compliance to Sharia and the Fatawa issued by the ISSC of the Bank in all the matters of the Bank including the execution of the transactions are audited periodically by the Internal Sharia Audit Department which examines the adequacy of the procedures and the Group's compliance with the Fatawa and guidance of the ISSC. Internal Sharia Audit Department discusses the findings of their assessments with the management and submits the findings along with responses of the relevant departments and its recommendations to the ISSC then to the Board Audit Committee.

Sharia Compliance Unit
Moreover, there is a Sharia Compliance Unit under Internal Sharia Control Department of the Bank which constantly monitors Sharia Risk and Sharia compliance level of the Bank and submits its quarterly reports to the ISSC and the management.

47.1.2 Risk measurement and reporting systems

The Group measures risks using qualitative as well as quantitative methods for credit, market, liquidity and operational risks. Further, the Group also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Group also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Board of Directors and management. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries.

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

47 Financial risk management (continued)

47.1 Introduction (continued)

47.1.2 Risk measurement and reporting systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse the risk profile and identify early risks. This information is presented and explained to the management, management committees, the Risk Management Committee, and Board Risk Compliance and Governance Committee. Specialized reports are presented to the pertinent heads of business and are delivered with a frequency suited to the volatility of the risk. The report includes aggregate credit exposure, limit exceptions, liquidity, operational loss incidents and other risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

47.1.3 Model risk management

The Bank uses a number of quantitative models in many of its financial and business activities from underwriting a credit facility to reporting expected credit losses under IFRS 9 and many other areas.

To manage the model risks, the Bank has developed and implemented Model Risk Management Policy which contains Bank wide development, implementation and validation policies and practices. According to the framework, all internally or externally developed risk quantification models that directly affect the financial reporting on expected credit losses require validation periodically (internally or externally). Model Risk Management Committee (MRMC) is responsible for overseeing all model related development, implementation of framework and performance of the models. MRMC reports to Risk Management Committee of the Bank.

The Framework establishes a systematic approach to manage the development, implementation, approval, validation and ongoing use of models. It sets out an effective governance and management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework is approved by the Risk Management Committee upon recommendation of MRMC.

The Bank has an independent validation function that performs independent model validation. It provides Fit-for-Purpose, Conditional Approval or Not Fit-for-Purpose recommendation to MRMC to approve the use of the new risk quantification / valuation models. In addition to new model validation, the validation function also evaluates the performance of existing models through an annual validation process.

47.1.4 Risk mitigation

As part of its overall risk management, the Group uses various methods to manage exposures resulting from changes in credit risks, liquidity risks, market risks (including profit rate risk, foreign exchange risk, and equity price risk), and operational risks.

The Group seeks to manage its credit risk exposures through diversification of financing and investing activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Group actively uses collateral to reduce its credit risks.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed with overall liquidity in consideration maintaining a healthy balance of liquid assets (i.e. cash and cash equivalents).

The market risks are managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity prices.

To manage all other risks, the Group has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

47.1.5 Risk concentration

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

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

47 Financial risk management (continued)

47.2 Credit risk

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk measurement

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. These segments include: Corporate, Contracting, SME, FI and Real Estate. Models are developed with the external support of accredited consultants and are also subjected to external validation. Models are calibrated to the Group's internal rating scale, and are housed within the Moody's CreditLens platform.

The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for facilities provided, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

- Mortgages over residential and commercial properties;
- Corporate guarantees;
- Charges over business assets such as premises, machinery, vehicles and inventory; and
- Charges over financial instruments such as deposits and equity investments.

Islamic derivative financial instruments

Credit risk arising from Islamic derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfil certain obligations to other parties. This exposes the Group to a similar risk to Islamic financing and investing assets and these are mitigated by the same control processes and policies.

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

47 Financial risk management (continued)

47.2 Credit risk (continued)

47.2.1 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 by class of financial asset, including Islamic derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2020 AED'000	Gross maximum exposure 2019 AED'000
Balances with central banks	**27,005,414**	19,598,494
Due from banks and financial institutions	**6,451,509**	6,251,739
Islamic financing and investing assets	**205,089,878**	156,994,111
Investment in Islamic sukuk	**35,461,891**	33,343,437
Other investments measured at fair value	**1,110,962**	1,266,235
Receivables and other assets	**10,397,637**	9,406,206
	285,517,291	226,860,222
Contingent liabilities	**14,842,674**	14,454,548
Commitments	**27,095,313**	19,440,465
Total	**327,455,278**	260,755,235

47.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2020 AED'000	2019 AED'000
The U.A.E.	**292,727,776**	228,699,898
Other Gulf Cooperation Council (GCC) countries	**11,681,221**	10,364,264
Asia	**14,284,729**	14,595,349
Europe	**6,805,688**	5,804,403
Africa	**419,558**	543,349
Others	**1,536,306**	747,972
Total	**327,455,278**	260,755,235

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

47 Financial risk management (continued)

47.2 Credit risk (continued)

47.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Gross Maximum Exposure 2020 AED'000	Gross Maximum Exposure 2019 AED'000
Government	**54,067,144**	27,589,909
Financial Institutions	**54,073,712**	44,856,620
Real estate	**63,030,203**	51,764,791
Contracting	**12,137,645**	13,831,768
Trade	**13,159,738**	12,440,448
Aviation	**22,562,428**	19,808,739
Services and others	**54,361,717**	44,778,960
Consumer financing	**32,678,443**	30,874,518
Consumer home finance	**21,384,248**	14,809,482
Total	**327,455,278**	260,755,235

47.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Credit policy guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial Islamic financing and investing facilities, charges over real estate properties, inventory, leased assets and trade receivables, and
- For retail Islamic financing and investing facilities, charge over assets and mortgages over properties.
- Shares, corporate guarantees, deposits and equity investments.

The Group also obtains guarantees from parent companies for Islamic financing and investing assets granted to their subsidiaries, but the benefits are not included in the above table.

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

47 Financial risk management (continued)

47.2 Credit risk (continued)

47.2.4 Analysis of credit quality

Credit risk exposure of the Group's financial assets for each internal risk rating

	Moody's equivalent grades	**Total 2020 AED'000**	Total 2019 AED'000
Low risk			
Risk rating class 1 to 3	*Aaa – A3*	**142,538,119**	105,962,274
Moderate risk			
Risk rating class 4 to 5	*Baa1 – Ba3*	**128,494,414**	117,632,360
Fair risk			
Risk rating classes 6 to 7	*B1 - Caa3*	**43,413,692**	29,933,278
Default			
Risk rating classes 8 to11	Ca - C	**13,009,053**	7,227,323
Total		**327,455,278**	260,755,235

It is the Group policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group rating policy. The attributable risk ratings are assessed and updated regularly.

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

47 Financial risk management (continued)

47.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains statutory deposits with the central banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The high quality of the asset portfolio ensures its liquidity and coupled with the Group's own funds and stable customer deposits help form a stable funding source. Even under adverse conditions, the Group has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool (in addition to other tools) for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

47.3.1 Liquidity risk management process

The Group liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury department, includes:

- Monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are financed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring financial position liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of Islamic financing and investing exposures maturities; and
- Monitoring liquidity ratios

Liquidity management under COVID-19

COVID 19 crises has also affected liquidity in global and regional markets. CBUAE proactively addressed the concern considering its pervasive impact on the overall economy by providing Zero Cost Funding to all eligible banks and easing out regulatory cash reserve requirements for banks. In order to pass on benefits of liquidity support measures to customers, the CBUAE reduced the liquidity ratios (LCR and ELAR) minimum threshold by 30%.

The Bank's ALCO and Liquidity Management Committee has been meeting on a regular basis with particular focus on liquidity management. The Bank has proactively considered exploring new options for expanding its liabilities base (changed tenors and currency) and focused on its capital market funding plan. The Bank is strengthening its liquidity buffers by timing disbursements to customers along with strict focus on enhancing deposit relationships across all customer segments.

47.3.2 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

The Bank issued Tier 1 sukuk of AED 3,673 million (USD 1,000 million) each during the year ended 31 December 2013 and 31 December 2015, AED 2,755 million (USD 750 million) during the year ended 31 December 2019 and AED 3,673 million (USD 1,000 million) during the year ended 31 December 2020 to diversify sources of funding to support business growth (note 25).

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

47 Financial risk management (continued)

47.3 Liquidity risk and funding management (continued)

47.3.3 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities analysed according to when they are expected to be recovered or settled.

2020	Less than 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	No maturity AED'000	Total AED'000
Assets:						
Cash and balances with central banks	29,205,588	-	-	-	-	29,205,588
Due from banks and financial institutions	6,448,591	-	-	-	-	6,448,591
Islamic financing and investing assets, net	17,775,733	29,101,252	96,894,576	52,917,470	-	196,689,031
Investments in Islamic sukuk	448,946	3,104,059	16,200,351	15,601,559	-	35,354,915
Other investments measured at fair value	-	-	-	-	1,110,962	1,110,962
Investments in associates and joint ventures	-	-	-	-	1,939,043	1,939,043
Properties held for development and sale	-	-	-	-	1,391,038	1,391,038
Investment properties	-	-	-	-	5,947,023	5,947,023
Receivables and other assets	391,117	4,675,341	4,956,161	17,009	-	10,039,628
Property and equipment	-	-	-	-	1,430,634	1,430,634
Total assets	54,269,975	36,880,652	118,051,088	68,536,038	11,818,700	289,556,453
Liabilities and equity:						
Customers' deposits	74,715,329	96,336,147	34,859,114	14,628	-	205,925,218
Due to banks and financial institutions	1,736,934	10,633,499	1,125,645	-	-	13,496,078
Sukuk issued	1,888,473	-	11,988,599	4,867,059	-	18,744,131
Payables and other liabilities	3,708,867	2,830,346	1,364,888	10,532	-	7,914,633
Zakat payable	-	346,018	-	-	-	346,018
Equity	-	-	-	-	43,130,375	43,130,375
Total liabilities and equity	82,049,603	110,146,010	49,338,246	4,892,219	43,130,375	289,556,453

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

47 Financial risk management (continued)

47.3 Liquidity risk and funding management (continued)

47.3.3 Maturity analysis of assets and liabilities (continued)

2019	Less than 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	No maturity AED'000	Total AED'000
Assets:						
Cash and balances with central banks	20,201,689	1,066,806	-	-	-	21,268,495
Due from banks and financial institutions	6,198,249	49,924	-	-	-	6,248,173
Islamic financing and investing assets, net	13,511,244	24,206,764	70,047,794	43,147,626	-	150,913,428
Investments in Islamic Sukuk	929,282	1,473,037	14,205,691	16,635,848	-	33,243,858
Other investments measured at fair value	20	-	-	-	1,266,215	1,266,235
Investments in associates and joint ventures	-	-	-	-	1,976,718	1,976,718
Properties held for development and sale	-	-	-	-	1,336,876	1,336,876
Investment properties	-	-	-	-	5,208,533	5,208,533
Receivables and other assets	1,721,918	5,698,309	1,321,776	980	-	8,742,983
Property and equipment	-	-	-	-	1,590,335	1,590,335
Total assets	42,562,402	32,494,840	85,575,261	59,784,454	11,378,677	231,795,634
Liabilities and equity:						
Customers' deposits	60,168,409	74,475,755	29,772,061	2,192	-	164,418,417
Due to banks and financial institutions	4,897,131	2,754,508	1,495,108	-	-	9,146,747
Sukuk issued	-	2,754,750	11,996,205	100,990	-	14,851,945
Payables and other liabilities	4,734,494	2,404,560	1,164,799	15,706	-	8,319,559
Zakat payable	-	326,895	-	-	-	326,895
Equity	-	-	-	-	34,732,071	34,732,071
Total liabilities and equity	69,800,034	82,716,468	44,428,173	118,888	34,732,071	231,795,634

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

47 Financial risk management (continued)

47.3 Liquidity risk and funding management (continued)

47.3.4 Non-derivative cash flows

The table below summarises the maturity profile of the gross cash flows of the Group financial assets and liabilities as at 31 December 2020 and 2019. The amounts disclosed in the table are the contractual gross cash flows, whereas the Group manages the inherent liquidity risk based on expected gross cash flows.

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

2020	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**	**Over 5 Years AED'000**	**Total AED'000**
Customers' deposits	**109,725,565**	**73,425,657**	**26,724,668**	**115,596**	**209,991,486**
Due to banks and other financial institutions	**1,017,044**	**10,948,900**	**1,565,181**	**-**	**13,531,125**
Sukuk issued	**-**	**1,906,739**	**12,785,307**	**5,697,372**	**20,389,418**
Payables and other liabilities	**3,708,867**	**2,830,346**	**1,364,888**	**10,531**	**7,914,632**
Zakat payable	**-**	**346,018**	**-**	**-**	**346,018**
Total liabilities	**114,451,476**	**89,457,660**	**42,440,044**	**5,823,499**	**252,172,679**
Contingent liabilities:					
Letters of guarantee	**11,783,304**	**1,225,210**	**353,084**	**544**	**13,362,142**
Letters of credit	**1,023,295**	**290,162**	**167,075**	**-**	**1,480,532**
	12,806,599	**1,515,372**	**520,159**	**544**	**14,842,674**
Capital expenditure commitments	**9,335**	**-**	**1,081,651**	**-**	**1,090,986**
Total contingent liabilities and commitments	**12,815,934**	**1,515,372**	**1,601,810**	**544**	**15,933,660**

2019	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**	**Over 5 Years AED'000**	**Total AED'000**
Customers' deposits	79,007,795	69,490,524	18,784,535	5,968	167,288,822
Due to banks and other financial institutions	3,643,219	2,995,802	2,573,263	-	9,212,284
Sukuk issued	-	2,788,266	13,231,779	179,243	16,199,288
Payables and other liabilities	3,365,945	3,562,161	1,164,799	15,706	8,108,611
Zakat payable	-	326,895	-	-	326,895
Total liabilities	86,016,959	79,163,648	35,754,376	200,917	201,135,900
Contingent liabilities:					
Letters of guarantee	11,286,923	1,228,202	371,727	50,270	12,937,122
Letters of credit	1,142,972	366,407	4,841	-	1,514,220
	12,429,895	1,594,609	376,568	50,270	14,451,342
Capital expenditure commitments	9,730	-	705,463	-	715,193
Total contingent liabilities and commitments	12,439,625	1,594,609	1,082,031	50,270	15,166,535

Assets available to meet all of the liabilities and to cover outstanding commitments include cash and balances with central banks, Islamic financing and investing assets, other investments at fair value and items in the course of collection.

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

47 Financial risk management (continued)

47.4 Market risk

Market risk is the risk that the value of financial instruments in the Group's books could produce a loss because of changes in future market conditions. The Group takes on market risks in the pursuit of its strategic and business objectives. The Group predominantly pursues opportunities in the market that exposes itself to the following categories of market risk - which are actively managed and monitored:

- profit rate risk: losses in value due to changes in the level, slope and curvature of yield curves, the volatility of profit rates and changes in credit spreads;
- foreign exchange risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of currency rates; and

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

- approval by the Board Risk Compliance and Governance Committee of a set of risk limits with appropriate monitoring, reporting and limits excesses' escalation procedures;
- independent valuation of financial instruments in the Trading Book and measurement of market risk;
- a comprehensive set of policies, procedures and limits; and
- monitoring a wide range of risk metrics appropriate for the respective trading activities - such as risk sensitivities, gross and net open positions, Value-at-Risk (VaR) and stop-loss limits.

47.4.1 Profit margin risk

The Group is not significantly exposed to risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Group does not provide pre-determined contractual rates of return to its depositors or investment account holders. The return payable to depositors and investment account holders is based on the principle of the Mudaraba and wakala by which the depositors and investment account holders agree to share the profit or loss made by the Group's common and wakala asset pool over a given period.

47.4.2 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

The effective profit rate (effective yield) 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 a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2020 and 2019.

Currency	**Increase in basis points**	**2020 AED'000**	2019 AED'000
Sensitivity of net profit income	**50**	**202,212**	76,602

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

47 Financial risk management (continued)

47.4 Market risk (continued)

47.4.3 Foreign exchange risk (continued)

The table below summarises the Group exposure to foreign currency exchange rate risk at 31 December 2020 and 2019. Included in the table are the Group financial instruments at their carrying amounts, categorised by currency.

2020	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
Financial Assets:							
Cash and balances with the central banks	28,670,787	85,481	-	-	-	449,320	29,205,588
Due from banks and financial institutions	316,859	4,522,586	1,114,537	33,724	109,951	350,934	6,448,591
Islamic financing and investing assets, net	134,376,711	55,773,638	1,533,889	32,931	21,112	4,950,750	196,689,031
Investment in Islamic sukuk	-	33,831,655	-	-	-	1,523,260	35,354,915
Other investments at fair value	339,594	658,143	100,633	-	-	12,592	1,110,962
Receivables and other assets	5,335,170	3,387,295	298,100	-	175,321	217,265	9,413,151
Total	169,039,121	98,258,798	3,047,159	66,655	306,384	7,504,121	278,222,238
Financial Liabilities:							
Customers' deposits	152,029,526	27,338,582	17,955,049	434,457	2,271,260	5,896,344	205,925,218
Due to banks and other financial institutions	4,882,088	8,186,541	-	20,047	5,711	401,691	13,496,078
Sukuk issued	-	18,576,381	-	-	-	167,750	18,744,131
Payables and other liabilities	4,148,786	3,345,280	196,591	12,807	56,868	334,077	8,094,409
Total	161,060,400	57,446,784	18,151,640	467,311	2,333,839	6,799,862	246,259,836
Net on balance sheet	7,978,721	40,812,014	(15,104,481)	(400,656)	(2,027,455)	704,259	31,962,402
Unilateral promise to buy/sell currencies	334,359	(10,401,163)	7,762,289	397,233	1,988,035	21,530	102,283
Currency position - long/(short)	8,313,080	30,410,851	(7,342,192)	(3,423)	(39,420)	725,789	32,064,685

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

47 Financial risk management (continued)

47.4 Market risk (continued)

47.4.3 Foreign exchange risk (continued)

2019	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
Financial Assets:							
Cash and balances with central banks	20,171,339	613,433	74	135	260	483,254	21,268,495
Due from banks and financial institutions	1,635,462	3,732,142	474,845	38,301	51,017	316,406	6,248,173
Islamic financing and investing assets, net	108,789,637	36,420,858	1,267,118	-	-	4,435,815	150,913,428
Investment in Islamic sukuk	-	32,101,855	-	-	-	1,142,003	33,243,858
Other investments at fair value	542,996	594,831	109,905	-	-	18,503	1,266,235
Receivables and other assets	5,226,550	2,975,841	80,568	-	32,695	355,365	8,671,019
Total	136,365,984	76,438,960	1,932,510	38,436	83,972	6,751,346	221,611,208
Financial Liabilities:							
Customers' deposits	124,187,496	25,834,875	8,826,331	79,557	248,616	5,241,542	164,418,417
Due to banks and other financial institutions	3,697,530	5,200,135	3	8	27	249,044	9,146,747
Sukuk issued	-	14,675,936	-	-	-	176,009	14,851,945
Payables and other liabilities	6,139,106	1,828,861	189,452	1,614	66,512	280,595	8,506,140
Total	134,024,132	47,539,807	9,015,786	81,179	315,155	5,947,190	196,923,249
Net on balance sheet	2,341,852	28,899,153	(7,083,276)	(42,743)	(231,183)	804,156	24,687,959
Unilateral promise to buy/sell currencies	6,327,692	(9,901,210)	3,399,984	41,856	148,383	(12,666)	4,039
Currency position – long / (short)	8,669,544	18,997,943	(3,683,292)	(887)	(82,800)	791,490	24,691,998

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

47 Financial risk management (continued)

47.4 Market risk (continued)

47.4.3 Foreign exchange risk (continued)

Sensitivity analysis - impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Group was exposed to currency risk at 31 December 2020 and 2019 on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant on the consolidated statement of profit or loss (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated statement of profit or loss and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

Currency	**Increase in currency rate in %**	**Effect on profit or loss 2020 AED'000**	Effect on profit or loss 2019 AED'000
US Dollar	**+2**	**608,217**	379,959
GBP	**+2**	**(68)**	(18)
EURO	**+2**	**(788)**	(1,656)

Currency	**Decrease in currency rate in %**	**Effect on profit or loss 2020 AED'000**	Effect on profit or loss 2019 AED '000
US Dollar	**-2**	**(608,217)**	(379,959)
GBP	**-2**	**68**	18
EURO	**-2**	**788**	1,656

47.4.4 Foreign investment

The Group has income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Group presentation currency, the U.A.E. Dirham.

The table below indicates the change in profit before tax and equity had the result for the year ended 31 December 2020 and 2019 been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Group that might be taken to mitigate the effect of such changes.

Currency	**Increase in currency rate in %**	**Effect on profit or loss 2020 AED'000**	**Effect on equity 2020 AED'000**	Effect on profit or loss 2019 AED'000	Effect on equity 2019 AED'000
Pak Rupees	+5	**4,196**	**30,129**	4,303	26,645
Egypt Sterling	+5	**279**	**5,890**	309	5,502

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

47 Financial risk management (continued)

47.4 Market risk (continued)

47.4.4 Foreign investment (continued)

Currency	Decrease in currency rate in %	Effect on profit or loss 2020 AED'000	Effect on equity 2020 AED'000	Effect on profit or loss 2019 AED'000	Effect on equity 2019 AED'000
Pak Rupees	**-5**	**(3,796)**	**(26,219)**	(3,894)	(23,067)
Egypt Sterling	**-5**	**(253)**	**(5,327)**	(280)	(4,978)

47.4.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as fair value through other comprehensive income (FVTOCI) at 31 December 2020 and 2019) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	Change in market Indices %	Effect on other comprehensive income 2020 AED'000	Effect on other comprehensive income 2019 AED'000
Dubai Financial Market	**± 5%**	**2,883**	14,943
Abu Dhabi Exchange	**± 5%**	**1,808**	1,210
Bahrain Stock Exchange	**± 5%**	**1,475**	1,293
Other	**± 5%**	**3,549**	3,816

An increase of 5% in fair value of Level 3 financial instruments due to change in unquoted market price / valuation of financial instruments as at the reporting date would have increased the net assets attributable to the Bank by AED 45.9 million (2019: AED 35.6 million)

47.5 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The Group has developed a detailed operational risk framework. The framework clearly defines roles and responsibilities of individuals/units across different functions of the Group that are involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Group are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of KRIs, risk analysis and risk management reporting.

The Group is currently using operational risk tracking system, i.e. ORMS to track operational risk events across the Group. The system houses more than five years of operational loss data. The subject system is also capable to record KRI, RCSA and scenario based fraud risk self-assessment.

In addition to ORMS, the Bank is also implementing eGRC system (centralized governance framework) for all control activities.

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

47 Financial risk management (continued)

47.5 Operational risk (continued)

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Group's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

47.6 Reputational risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution. Reputational risk can arise as a consequence of failures with a strong negative perception amongst clients, shareholders, creditors or the public. The Group has measures to ensure a positive perception of the Group and that overall risk management ensures appropriate management of reputational risk.

47.7 Regulatory / compliance risk

Regulatory/Compliance risk is the risk of reputational and/or financial losses due to the failure to comply with applicable laws, regulations or sanctions. The Group has an independent Compliance function, with the necessary mandate and authority to enforce and monitor compliance on a Group wide basis. This includes compliance with the applicable laws and regulations across the various jurisdictions where the Group operates as well as those of the USD / EU clearing centres.

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

47.8 Non-Shariah Compliance Risk

In compliance with the Sharia Governance Standard for Islamic Financial Institutions issued by the Higher Sharia Authority of the Central Bank of UAE ("HSA") on 21 April 2020 (the "Standard"), the Bank's Board of Directors ("Board") is ultimately responsible for the Bank's compliance with Sharia principles. The ISSC is the highest authority in the Bank from a Sharia governance perspective.

The Board is expected to be aware of Sharia non-compliance risk and its potential impact on the Bank. The Board Risk, Compliance and Governance Committee ("BRCGC″) supervises and monitors management of Sharia non-compliance risk, and set controls in relation to this type of risk, in consultation with ISSC and through the Internal Sharia control Department of the Bank. ("ISCD"). The BRCGC ensures the availability of an information system that enables the Bank to measure, assess and report Sharia non-compliance risk. Reports are provided in a timely manner to the Board and Senior Management, in formats suitable for their use and understanding.

The Bank implements effective internal Sharia controls adopting the three lines of defence approach where each line is independent, which includes:

- the first line of defence, represented by the business line, sets clear policies, procedures, and controls, approved by Internal Sharia Supervision Committee of the Bank ("ISSC"), and executes the business activities in a manner compliant with the principles of sharia at all times.
- the second line of defence, represented by the ISCD, undertakes amongst the others the sharia compliance and sharia risk functions.
- the third line of defence represented by Internal Sharia Audit Department ("ISAD"), undertakes the post execution risk based sharia audit of the Bank and reports the findings to the ISSC.

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

48 Capital management

48.1 Capital management objective

The Group objectives with managing capital, which is a broader concept than the 'equity' on the face of consolidated financial position are:

- To comply with the capital requirements set by the Central Bank of U.A.E.;
- To safeguard the Group ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

48.2 Regulatory capital

The Group lead regulator, the Central Bank of U.A.E. (CBUAE), sets and monitors capital requirements for the Group as a whole. The Group and individual banking operations within the Bank are directly supervised by their respective local regulators.

The Group regulatory capital is analysed into following tiers:

- Common Equity Tier 1 (CET1), which includes fully paid up capital, statutory reserve, general reserve, retained earnings, exchange translation reserve and investment fair value reserve. Regulatory adjustments under Basel III, which includes deductions of deferred tax assets, investments in banking and financial entities and other threshold deductions;
- Tier 1 capital, includes CET1, with additional items that consist of Tier 1 capital instruments and certain non-controlling interests in subsidiaries; and
- Tier 2 capital, which includes collective impairment allowance and qualifying subordinated liabilities, if any.

The Bank was recognized as Domestic Systemically Important Bank (D-SIB) during the year ended 31 December 2018 and is accordingly required to keep a D-SIB buffer of 0.5% in addition to the CCB of 2.5%.

As per the Central Bank regulation for Basel III, the minimum capital requirement as at 31 December 2020 is 13.5% inclusive of capital conservation buffer of 2.5% and D-SIB buffer of 0.5%. However, effective from 15 March 2020 until 31 December 2021, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% and to use 100% of their D-SIB buffer without supervisory consequences, as part of the measures adopted by the CBUAE to help banks deal with the COVID-19 crisis. Further, CBUAE has issued guidance on Accounting Provisions and Capital Requirements - Transitional Arrangement dated 22 April 2020. The Prudential Filter allows banks to add back increases in IFRS9 ECL provision, stage 1 and 2, from 31 December 2019 to the regulatory capital and transition over 5 years.

The Group assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The Group is following the standardised approach for credit, market and operational risk, as permitted by the U.A.E. Central Bank and as per Pillar 1 of Basel III.

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.

No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the management.

The Bank is computing and reporting Basel III ratios in accordance with guidelines of the Central Bank of U.A.E.

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

48 Capital management (continued)

48.2 Regulatory capital (continued)

Capital Adequacy Ratio (CAR) under Basel III in accordance with regulations of the Central Bank of the U.A.E. is as follows:

	2020 AED'000	2019 AED'000
Common Equity Tier 1 (CET1)		
Share capital	**7,240,744**	6,589,585
Other reserves	**13,784,668**	10,860,963
Retained earnings	**8,414,214**	7,602,471
Cumulative deferred exchange losses	**(1,176,707)**	(1,094,745)
Investment fair value reserve	**(1,102,451)**	(1,174,698)
Prudential filters transitional adjustment	**27,340**	-
Intangible assets	**(219,205)**	-
Deferred tax assets	**(40,442)**	(36,224)
Total CET 1 Capital	**26,928,161**	22,747,352
Additional Tier 1 Capital		
Tier 1 Sukuk	**11,937,250**	6,427,750
Total Additional Tier 1 Capital	**11,937,250**	6,427,750
Total Tier 1 Capital	**38,865,411**	29,175,102
Tier 2 Capital		
Collective impairment allowance	**2,561,671**	2,155,925
Total Tier 2 Capital	**2,561,671**	2,155,925
Total capital base	**41,427,082**	31,331,027
Risk weighted assets		
Credit risk	**204,933,644**	172,474,010
Market risk	**2,582,249**	2,158,934
Operational risk	**16,564,437**	14,922,142
Total risk weighted assets	**224,080,330**	189,555,086
Capital Ratios		
Capital adequacy ratio	**18.5%**	16.5%
Tier 1 Capital ratio	**17.3%**	15.4%
Common Equity Tier 1 ratio	**12.0%**	12.0%

The capital adequacy ratio for the year 2020 has been calculated after considering the impact of the proposed dividend as required by Capital Supply Standard and the related guidance issued by Central Bank of the UAE.

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

49 Targeted economic support scheme (TESS)

In order to effectively address economic repercussions and consequences of novel corona virus (COVID 19), the Central Bank of UAE announced a comprehensive TESS program. As part of the Program, the Central Bank provided all banks with Zero Cost Facility (ZCF). ZCF is collateralised liquidity facility to pass on the benefits to their clients. The program included provision of temporary relief to the customers from the payment of instalments on outstanding facilities for all affected private sector and retail banking customers.

As at 31 December 2020, the Group has a facility of AED 5,890 million available to it and has availed facilities amounting to AED 3,200 million which have been fully utilised to provide payment relief to the impacted customers. Refer note 19.

49.1 Approved deferral amounts and outstanding balances

The table below is an analysis of the composition of instalment deferred by corporate and consumer banking.

	Total instalments deferred AED'000	Exposure related to approved deferrals AED'000	Outstanding deferrals at reporting date AED'000	Number of customers
31 December 2020				
Corporate banking	**8,225,441**	**31,130,906**	**3,612,759**	**230**
Consumer banking	**532,633**	**5,287,319**	**14,281**	**53,814**
Total	**8,758,074**	**36,418,225**	**3,627,040**	**54,044**

49.2 Analysis of TESS grouping under CBUAE Joint Guidance

In accordance with the requirements of the Joint Guidance issued by the Central Bank of the UAE dated 15 April 2020 (updated on 11 November 2020) the Bank has divided its customers who have benefitted from payment deferrals into two groups as follows:

Group 1: Customers that are not expected to face substantial changes in their creditworthiness, beyond liquidity issues and are temporarily and mildly impacted by the COVID-19 crisis. For these customers, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers will remain in their current IFRS 9 stage, at least for the duration of the crisis, or their distress, whichever is shorter.

Group 2: Customers that are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals. For these customers, there is sufficient deterioration in credit risk to trigger IFRS 9 stage migration. The Bank continues to monitor the creditworthiness of these customers, particularly indications of potential inability to pay any of their obligations as and when they become due.

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

49 Targeted economic support scheme (TESS) (continued)

49.2 Analysis of TESS grouping under CBUAE Joint Guidance (continued)

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

	Group 1 AED'000	Group 2 AED'000	Total AED'000
31 December 2020			
Corporate banking			
Exposure	25,509,940	5,620,966	31,130,906
Expected credit losses	(265,849)	(145,181)	(411,030)
Net outstanding exposure	25,244,091	5,475,785	30,719,876

31 December 2020	Group 1 AED'000	Group 2 AED'000	Total AED'000
Consumer banking			
Exposure	4,281,594	1,005,725	5,287,319
Expected credit losses	(68,623)	(96,123)	(164,746)
Net outstanding exposure	4,212,971	909,602	5,122,573
Total			
Exposure	29,791,534	6,626,691	36,418,225
Expected credit losses	(334,472)	(241,304)	(575,776)
Net outstanding exposure	29,457,062	6,385,387	35,842,449

49.3 Movement in Exposure at Default (EAD)

Below is an analysis of total changes in EAD since 31 December 2019 for customers benefiting from payment deferrals:

	Corporate banking AED'000	Consumer banking AED'000	Total AED'000
31 December 2020			
EAD as at 1 January 2020	30,970,819	5,740,373	36,711,192
Increase due to new financing	75,743	650,694	726,437
Other movements	84,344	(1,103,748)	(1,019,404)
Exposure at default as at 31 December 2020	31,130,906	5,287,319	36,418,225

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

49 Targeted economic support scheme (TESS) (continued)

49.4 Stage Migration

Below is an analysis of stage migration since 31 December 2019 of the customers benefiting from payment deferrals:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Corporate banking				
EAD as at 1 January 2020	29,860,499	1,110,321	-	30,970,820
Transferred from Stage 1 to others	(5,247,269)	5,247,269	-	-
Transferred from Stage 2 to others	-	(43,007)	43,007	-
Other movements	(468,829)	628,915	-	160,086
EAD as at 31 December 2020	24,144,401	6,943,498	43,007	31,130,906

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Consumer banking				
EAD as at 1 January 2020	5,318,690	418,711	2,971	5,740,372
Transferred from Stage 1 to others	(1,109,924)	1,021,686	88,238	-
Transferred from Stage 2 to others	-	(7,318)	7,318	-
Other movements	(172,288)	(280,765)	-	(453,053)
EAD as at 31 December 2020	4,036,478	1,152,314	98,527	5,287,319

49.5 Change in ECL allowance by industry sector for corporate banking customers

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

	AED'000
ECL Allowance as at 1 January 2020	346,148
Real Estate & contracting	48,274
Trade	2,947
Financial Institutions	1,548
Services & others	12,522
Manufacturing	(409)
ECL as at 31 December 2020	411,030

49.6 Change in ECL allowance by products for consumer banking customers

Below is an analysis of change in ECL allowance by product since 31 December 2019 for Consumer banking customers benefiting from payment deferrals:

	AED'000
ECL Allowance as at 1 January 2020	79,450
Personal finance	77,025
Home finance	(4,662)
Auto finance	12,982
Islamic credit cards	(49)
ECL as at 31 December 2020	164,746

The Bank is maintaining COVID-19 overlay of AED 297 million. The management believes that, whilst various customer and business sectors have shown modest recoveries during the period June till December 2020, lagging credit effects will arise once TESS period is completed. Accordingly, the Bank maintains COVID overlay without any further allocation to sector and customers as at 31 December 2020.

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

50 Business combination - Acquisition of Noor Bank

50.1 Acquisition of Noor Bank

During January 2020, the Bank acquired 99.999% shares of Noor Bank P.J.S.C. ("Noor Bank" or "the Entity"), an entity engaged in Islamic Sharia compliant banking services in the UAE. The Bank acquired shares of Noor Bank from its major shareholders thereby acquiring a controlling interest. The acquisition has been completed through a share swap transaction at an agreed swap ratio of 1 DIB share to 5.49 shares of Noor bank by issuing 651,159,198 new shares of the Bank.

During the period ended 31 December 2020, the Bank acquired the remaining shares of Noor Bank from the minority shareholders, thereby making it a fully owned subsidiary.

50.2 Purchase consideration and identifiable net assets acquired

The acquisition has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair value on the acquisition date. The fair value of assets and liabilities have been determined by an external expert.

The purchase consideration (also referred to as "purchase price") of the acquisition have been allocated to the assets acquired assets and liabilities using their preliminary fair values at the acquisition date. The computation of the purchase consideration and its allocation to the net assets of the entity based on their respective fair values as of acquisition date and the resulting bargain purchase is presented below. Gain on bargain purchase based on provisional purchase price allocation, represents the difference between purchase consideration and fair value of identifiable net assets.

The allocation of the purchase price may be modified within a period of twelve months from the date of business combination, as more information is obtained about the fair value of assets acquired and liabilities assumed, including alignment in business model, if needed. The measurement period has been completed and no further adjustments have been identified.

The fair value of identifiable assets and liabilities of Noor Bank as at the acquisition date was as follows:

Assets acquired and liabilities assumed	
Assets	**AED' 000**
Cash and balances with central banks	**5,771,887**
Due from banks and financial institutions	**3,868,255**
Islamic financing and investing assets	**30,686,184**
Investments in Islamic sukuk and equity instruments	**4,328,624**
Other investments	**390,074**
Investment properties	**979,168**
Receivables and other assets	**1,145,841**
Property and equipment	**188,329**
Intangible assets	**287,000**
Total assets (a)	**47,645,362**
Liabilities	
Customers' deposits	**35,287,630**
Due to banks and financial institutions	**529,555**
Sukuk issued	**3,760,150**
Payables and other liabilities	**1,641,963**
Tier 1 sukuk	**1,836,500**
Total liabilities (b)	**43,055,798**
Fair value of net identifiable assets acquired (c) = (a) – (b)	**4,589,564**
Share of net identifiable assets acquired (d)	**4,589,518**
Consideration for the acquisition (e)	**3,574,864**
Negative goodwill on acquisition (d) – (e)	**1,014,654**

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

50 Business combination - Acquisition of Noor Bank (continued)

50.2 Purchase consideration and identifiable net assets acquired (continued)

The consolidated statement of profit or loss includes revenue of AED 1,418 million and net profit of AED 316.7 million from Noor Bank.

Effective 01 November 2020, the Bank took over all assets and assumed all liabilities of Noor bank. Accordingly, Noor bank discontinued its operations effective 01 November 2020 ("the integration date"). No further banking operations are conducted since then. Any potential claims arising in future will be honored by the Parent company.

Subsequent to the integration, Noor bank has started the process of transferring the legal title of various assets to the Parent company. The transfer process has been completed for all assets and liabilities except for nostro accounts and investment in equity. The transfer process for the remaining assets is at different stages of approvals with the relevant authorities as at 31 December 2020 and is expected to be completed shortly. Whilst legal ownership of assets being transferred is with Noor bank, the beneficial ownership of these assets rests with the Parent company.

51 Profit rate benchmark reforms

On August 27, 2020, the IASB issued Profit Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the "amendments"). The amendments introduce a practical expedient to account for a change in the basis for determining the contractual cash flows of financial instruments that are impacted by profit rate benchmark reform ("IBOR reform"). Under the practical expedient, the Bank will not derecognize or adjust the carrying amount of financial instruments for modifications required by IBOR reform, but will instead update the effective profit rate to reflect the change in the profit rate benchmark. The practical expedient will be applied when the modification is required as a direct consequence of IBOR reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. The impact of the replacement of interbank offered rates ('IBORs') with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as Libor, extending past 2021 when it is likely that these will cease being published.

Management has commenced a project to ensure the Group's transition to new rate regimes after 2021 by considering changes in its products, services, systems and reporting. The project is significant in terms of scale and complexity and will impact all facets of its operations from customer contracts and dealings to banks risk management processes and earnings. The Group continues to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

52 Comparative information

Certain comparative amounts in consolidated statement of profit or loss and notes to the consolidated financial statement have been adjusted to conform to the current presentation.

53 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 16 February 2021.

بنك دبي الإسلامي

Dubai Islamic Bank

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