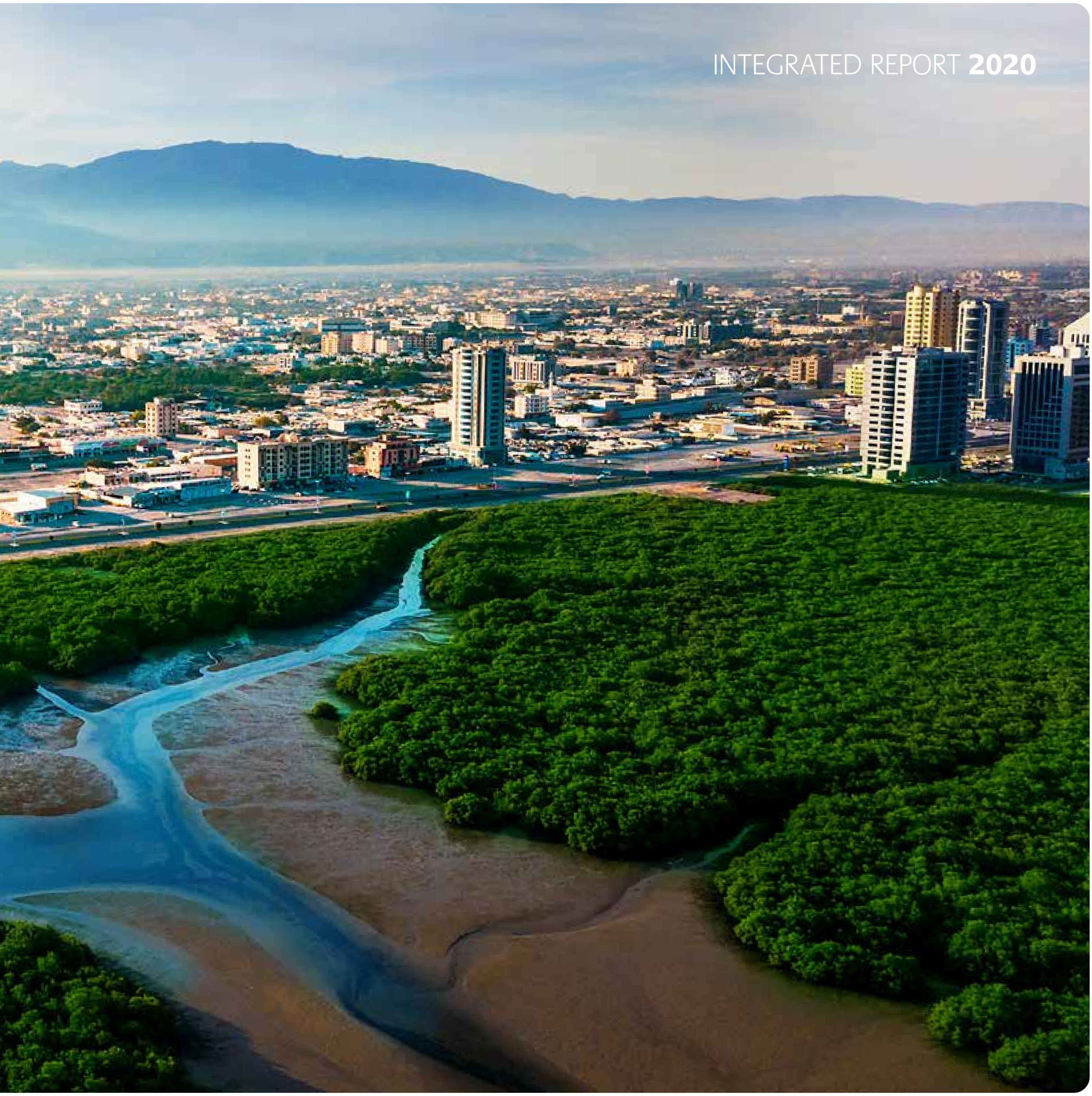
SHOWING **RESILIENCE**
BUILDING **SUSTAINABILITY**



His Highness Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates

His Highness Sheikh Saud Bin Saqr Al Qasimi
Member of the Supreme Council
Ruler of Ras Al Khaimah

His Highness Sheikh Mohammed Bin Saud Bin Saqr Al Qasimi
Crown Prince of Ras Al Khaimah

RAKBANK **at a Glance**

Full Year Results (AED million)	**FY'20**	**FY'19**	**FY'18**	**FY'17**
Net Interest Income	2,525.6	2,802.1	2,768.7	2,723.2
Non-Interest Income	1,038.4	1,176.8	1,058.3	1,086.6
Total Income	**3,564.0**	**3,978.9**	**3,827.0**	**3,809.8**
Operating Expenditures	(1,395.3)	(1,570.4)	(1,488.3)	(1,446.4)
Operating Profit Before Provisions for Impairment	2,168.7	2,408.5	2,338.7	2,363.4
Provisions for Impairment	(1,663.3)	(1,313.2)	(1,421.1)	(1,552.9)
Net Profit	**505.4**	**1,095.3**	**917.5**	**810.5**

Balance Sheet Highlights (AED billion)	**FY'20**	**FY'19**	**FY'18**	**FY'17**
Total Assets	52.8	57.1	52.7	48.5
Gross Loans and Advances	32.2	36.3	34.8	33.2
Deposits	36.9	36.8	34.1	32.2

Digital Transformation	**FY'20**	**FY'19**	**FY'18**	**FY'17**
Number of Digital Transactions	7,499,599	6,202,560	4,775,486	3,561,599
Logins Made by Customers	32,309,338	29,891,658	23,939,907	17,735,388

Awards and Recognition

- **Best Service Performance Outlet – Services Sector** for 2020 by the Dubai Service Excellence Scheme
- **The Number 1 Top Investment House in the Middle East & North Africa** by The Asset Benchmark Research
- **Outstanding Management** by the Honorary Middle East Gold Stevie® Awards 2020
- **Best in Lead Generation/Direct Response and Conversion** by the MMA MENA Smarties
- **Best Product/ Service Launch** by the MMA MENA Smarties
- **Best Promotion of the Year** by the MMA MENA Smarties
- **Best Location Based Targeting** by the MMA MENA Smarties
- **Best Use of Programmatic** by the MMA MENA Smarties
- **Industry Award for the Advertiser of the Year** by the MMA MENA Smarties
- **Industry Award for the Best in Show** by the MMA MENA Smarties

Year **in Review**

Initiatives and Highlights

- Implemented the UAE Pass registration, a National Digital Identity and Digital Signature solution for the UAE, across all branches, enabling customers to complete their registration efficiently and securely
- Entered a multi-year agreement with Emirates Skywards to announce the launch of the RAKBANK Emirates Skywards World Elite MasterCard
- Announced further plans to provide financial relief to individuals, SMEs and corporates impacted by COVID-19, in line with the Central Bank's Targeted Economic Support Scheme (TESS)
- Partnered with BDO Unibank to enhance the Bank's RAKMoneyTransfer (RMT) footprint in the Philippines
- Expanded RAKMoneyTransfer (RMT) services by partnering with Bank Asia to facilitate near-instant transfers to Bank Asia accounts and transfers within 24 hours to any other bank account in Bangladesh
- RAKislamic partnered with Thumbay University Hospital to sponsor COVID-19 tests and medical screenings for blue collar workers based in Dubai and Ras Al Khaimah
- MetLife signed a 10-year strategic preferred partnership with RAKBANK to provide comprehensive life insurance solutions
- Dubai Economy, along with Emirates NBD, HSBC, RAKBANK, ADCB and CBD formed a consortium for sharing of verified KYC (Know Your Customer) data between banks and licensing authorities in the UAE through the 'KYC Blockchain Consortium'
- Launched SwatchPAY!, a contactless payment solution in exclusive partnership with RAKBANK in the UAE
- Partnered with the Ministry of Finance to become one of the partnering banks of the new eDirham payment gateway
- Hosted the second edition of the SME Conclave virtually to create a supportive ecosystem for SMEs during the pandemic
- Anomali Threat Intelligence Product Suite chosen to detect threats across RAKBANK's banking infrastructure

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About our **Integrated Report**

This report is RAKBANK's first integrated report and is prepared to provide our stakeholders with a concise and transparent assessment of our approach to do good and create sustainable value, and serve as a reference baseline to RAKBANK to highlight the correlation between diligent sustainability business practices and economic performance and strive towards long-term responsibility and profitability.

Scope and Reporting

Reporting period

This report provides material information relating to our strategy and business model, operating context, material risks, stakeholder interests, performance, prospects and governance, covering the year 1 January 2020 to 31 December 2020.

Operating businesses

The report covers the Bank's primary activities, business verticals, and key support areas. Our business verticals comprise of Business Banking, Personal Banking, Wholesale Banking, Financial Institutions Group and Treasury that also includes Islamic Banking solutions and Insurance which is serviced by RAKINSURANCE.

Financial and non-financial reporting

The report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes associated with the Bank's key stakeholders, which have an impact on its ability to create sustainable value. Financial information has been prepared on an International Financial Reporting Standards (IFRS) basis, unless otherwise specified. RAKBANK's annual financial statements cover the Bank's activities, as well as all of its subsidiaries.

The Consolidated Financial Statements as of and for the year ended 31 December 2020 were prepared in accordance with IFRS and are in compliance with the provisions of the UAE Central Bank and the Bank's Articles of Association.

Targets and progress

The report covers the strategic progress made during 2020, and provides insight into the Bank's financial and non-financial targets. Additionally, it includes our materiality matrix that encompasses RAKBANK's framework and key stakeholder groups as a long-term focus for the organisation through which relevant ESG considerations are adapted according to the evolution of both internal business needs and the external environment.

Targeted readers

This report is primarily intended to address the information requirements of long-term investors (our equity shareholders, bondholders and prospective investors). We also present information relevant to the way we create value for other key stakeholders, including our staff, clients, regulators and society.

Risk and ESG reporting

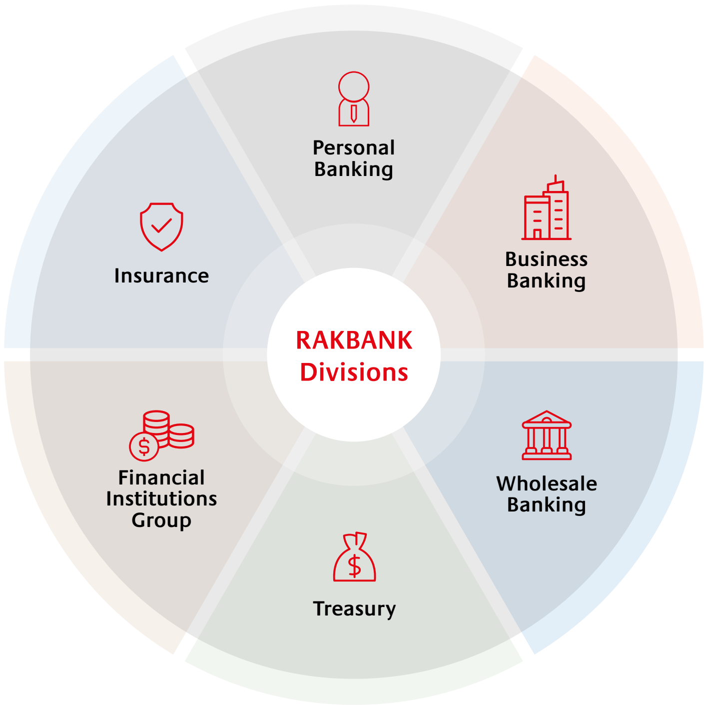
We have integrated our governance and risk management approaches throughout this report. The report also presents Environmental, Social and Governance (ESG) information and a sustainability framework developed by RAKBANK that takes its accordance from the Global Reporting Initiative (GRI), United Nations Sustainable Development Goals (UN SDGs), ADX ESG guidelines and UAE Vision 2030.

RAKBANK **Overview**

Our Story, **Our History**

Founded in 1976, RAKBANK is a public joint stock company and one of the oldest and most dynamic banks in the UAE. The Bank provides a range of Personal and Business Banking services throughout its 27 branches and over 200 ATMs as well as a portfolio of electronic banking solutions, which include Digital and Phone Banking. It also offers Sharia-compliant personal and business banking services via its Islamic Banking unit, RAKislamic. The Government of Ras Al Khaimah directly and indirectly owns 52.78% of RAKBANK's capital. RAKBANK shares are publicly traded on the Abu Dhabi Securities Exchange (ADX).`

RAKBANK is a member of the UAE Banking Federation (UBF), and as such, abides by the UBF stipulated, Customer Charter for all member banks. The Bank concurs with the Customer Charter to promote trust and best practices across the financial services industry, providing customers with clear guidelines about the standard of service they can expect from their banks.



Fully-fledged financial service institution, offering Conventional and Islamic banking services, with diversified presence across RAKBANK's divisions

RAKBANK has experienced significant change in recent years. In 2001, the Bank changed its focus from Corporate Banking to Personal and Business Banking. RAKBANK implemented departmental verticals with well-placed experts to specialise in – and branch out into – new fields, whilst maintaining an overlap in functions to ensure we retain and share institutional knowledge and creativity.

At the same time, RAKBANK is focusing on moving a significant number of functions to digital platforms to support its customers and improve internal processes. These changes will be complemented by an increased focus on sustainability to reduce carbon emissions, developed for internal operations and stakeholders. This is RAKBANK's first Integrated Annual Report, incorporating our sustainability objectives and demonstrating how RAKBANK creates value at each level of operation.

This integrated report serves as a reference baseline to RAKBANK to highlight the correlation between diligent sustainability business practices and economic performance and strive toward long-term responsibility and profitability.

Vision, Mission, Values **and Personality**

Vision

RAKBANK's Vision is to offer 'Simply Better' banking solutions for all customers across the UAE

Mission

RAKBANK's mission is to become a leading customer-focused bank in the UAE, offering convenient access to innovative and competitive financial products across multiple channels to individuals and businesses.

Values

- Integrity - RAKBANK knows that trust is fundamental and to be trusted, it must remain competent and honest.
- Transparency - The Bank discloses all product Terms and Conditions with the use of simple language on its website and at various points of sale.
- Collaboration - RAKBANK builds diverse teams to generate better ideas and act as responsible partners with all stakeholders and regulators to serve the wider interests of society.
- Accountability - RAKBANK recognises that ultimately it is accountable to its shareholders, and so focuses unrelentingly on maximising long-term shareholder and asset value.

Personality

- Action - RAKBANK believes in getting things done and considers efficient decision making to be paramount.
- Clarity - The Bank aims to provide information to its customers that is clear, simple, and regularly updated through the Bank's website and other communication channels.
- Agility - RAKBANK likes to think of itself as 'Simply Different'. It is driven by the changing and dynamic needs of its valued customers.
- Innovation - The Bank is firmly committed to investing in smarter banking solutions and increasingly using technology to make its range of services more accessible to more customers, wherever they are.

Chairman's **Statement**

Dear Shareholders,
On behalf of the Board of Directors, I am pleased to present the first Annual Integrated Report and audited Financial Statements for RAKBANK and its subsidiaries for the year ended 31 December 2020. This integrated report displays how we are setting new standards in acknowledging all forms of value, including financial, people, nature and committing to operational efficiency, product and service innovation that aims at emission reduction for RAKBANKs greater long-term profitability and resilience to become Future Ready.

The theme of this report: 'Showing Resilience, Building Sustainability' acknowledges the changing times we are living in. The COVID-19 crisis caught most people and businesses across the world unexpectedly, and this is the Bank's first Integrated Report to demonstrate our approach to managing risk and change in uncertain times and build greater resilience for RAKBANK to become Future Fit.

It is impossible to accurately predict the eventual economic and social consequences of the pandemic. In the short-term, the financial sector will face market volatility, against a backdrop of global political, environmental and economic uncertainty. It is therefore imperative that businesses and government work together to help customers, employees and communities through difficult times.

As ever, RAKBANK stands alongside the UAE government and the international community. We applaud the UAE Central Bank's launch of the Targeted Economic Support Scheme (TESS) in March to address the liquidity issues faced by the market. This foresight provided valuable assistance to the financial system and has paved the way for recovery.

In these uncertain times, we recognise the importance of creating a supportive ecosystem in which SMEs can thrive. Equipping them with the necessary information, tools and solutions to operate efficiently, is critical. As such, the virtual hosting of our much-anticipated SME Business Conclave in September was a resounding success.

Standing on solid ground

Our results for 2020 reflect our resilient efforts throughout the year. Customer deposits grew by AED 118 million to AED 36.9 billion compared to 2019. This growth came mainly from an increase of AED 5.1 billion in CASA offset by a decrease of AED 5.0 billion in Time Deposits which was a deliberate move by management to reduce our reliance on larger more volatile deposits. Additionally, the Bank's income from investments recorded significant revenue growth as compared to the previous year.

> When the global pandemic struck at the beginning of 2020, The Bank activated its Business Continuity Plan and focused on maintaining business-critical activities and the collective wellbeing of our workforce, customers and all stakeholders.

Overall, we came into this period in a very strong position so the Bank has been able to continue to operate very effectively without interruption, however, the Bank was definitely impacted.

Total Assets declined by 7.6% to AED 52.8 billion compared to 2019, and Gross Loans and Advances closed at AED 32.2 billion, down by 11.2% over the previous year. The Return on Average Assets ratio closed the year at 0.9% compared to 2.0% for the previous year and Return on Average Equity was 6.5%, compared to 14.9% in 2019. The total impairment provision for the year stood at AED 1.7 billion compared to AED 1.3 billion in 2019. The increase in provisions for credit losses was largely a result of an increase in precautionary provisions due to adverse macro-economic conditions. As economic conditions continue to improve, we believe we are poised to maximise opportunities in the post pandemic world.

Simply Better banking

With an expected gradual recovery in 2021, we continue to focus on reinforcing our leadership position in Business Banking and Personal Banking. We have strengthened relationships with our SME clients, building more innovative and competitive products that meet their specific needs. Our strategy to diversify our exposure from relatively high-yield and high-risk assets to a broader, more balanced asset base will continue. This will improve the stability and reliability of our revenues, notwithstanding the ongoing economic volatility.

Ahead of that, we will expand our Wholesale, Treasury and Financial Institutions businesses to further diversify our revenue base. In doing so, we will capture key Corporate Business and drive the growth of our 'Simply Better' banking solutions for all our customers.

A sustainable example

RAKBANK's culture is built on transparency, accountability and service excellence – and our approach to sustainability management mirrors these principles.

> Aligned with our Mission, Vision and Values, our growth ambitions are based around trust, resource efficiency, responsible business practices and environmental impact reduction.

These in turn will create enduring value for our stakeholders, while reducing risks and protecting their interests and becoming Future-Ready.

Ensuring we have the best people to create banking innovations, deliver an unmatched customer experience and effectively manage our business is also essential for our sustainable growth. We therefore work hard to fulfil all our employees' potential though skills enrichment, embedded in a collaborative and supportive workplace culture.

> "Our results for 2020 reflect our resilient efforts throughout the year. Customer deposits grew by AED 118 million to AED 36.9 billion compared to 2019."

The Annual Integrated Report takes an in-depth look at RAKBANK's workforce, and the culture we are proud to have created for a diverse and talented employee base. The Bank emphasises the importance of gender diversity and this is reflected in the composition of our staff. As of December 2020, the Group has around 61% male employees and 39% female employees, well above both the national and regional sector average in both 2019 and 2020. The UAE is changing as rapidly as it is growing – and we are wholeheartedly committed to being a positive part of this change. Our many social and environmental initiatives offer meaningful support to our communities and help preserve our natural resources for future generations.

Our priorities are aligned with the UAE National Vision 2021 and the Abu Dhabi Economic Vision 2030, alongside the UN's Sustainable Development Goals (UNSDG) and Global Reporting Initiative (GRI) reporting standards, among other relevant guidelines. Operating a sustainable, efficient business benefits all our stakeholders, and will establish RAKBANK's position as a force for good in the years ahead.

With thanks to our stakeholders

On behalf of the Board of Directors, I extend my thanks to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi, and His Highness Sheikh Saud Bin Saqr Al Qasimi, Ruler of Ras Al Khaimah and Member of the Supreme Council.

My appreciation extends to the Central Bank of the UAE for its steadfast support for the national economy and the banking sector. I would also like to thank our shareholders, employees, customers and management for their commitment and loyalty to RAKBANK. Their continued motivation and support will help us deliver a resilient, sustainable bank of the future.

H.E. Mohamed Omran Alshamsi
Chairman

CEO's Statement

Showing resilience, building sustainability

Our Annual Integrated Report highlights a year of growth and achievement across RAKBANK. It also reflects on a period that commanded immense resilience in a uniquely challenging operating environment. The fact that we have delivered such a strong performance is a credit to the commitment of our employees, our clarity of purpose as a Bank and our strong fundamentals.

Steady performance

In 2020, RAKBANK's net profit amounted to AED 505.4 million, a decline of 53.9% as compared to the previous year. The decrease of AED 589.9 million in Net Profit was due to the decrease in Net Interest Income and non-interest income, an increase in provisions for expected credit losses offset by a decrease in Operating Expenses.

AED
505.4
million – Net profit

Operating Expenses decreased by AED 175.1 million, down by 11.1% compared to the previous year. This is mainly due to a decrease of AED 110.0 million in staff costs, AED 18.5 million in occupancy costs, AED 16.4 million in marketing expenses and AED 30.2 million in other costs as a result of various cost optimisation measures taken. Furthermore, Gross Loans and Advances stood at AED 32.2 billion while the Customer Deposits closed at AED 36.9 billion as of 31 December 2020 respectively. Total Operating Profit before impairment losses decreased by AED 239.8 million from 2019.

Operating expenses improved by
11.1%

Meanwhile, CASA displayed an increase of AED 5.1 billion (22.3%).

Increase in CASA of AED
5.1
billion (22.3%)

The Group's Net Interest Income and Net Income from Islamic Financing decreased by a total of AED 276.5 million. Non-Interest Income decreased by AED 138.4 million to AED 1.0 billion. This was mainly due to a decrease of AED 139.9 million in Net Fees and Commission Income and AED 51.8 million in Forex and Derivative Income compared to 2019 that was partially offset by an increase in investment Income of AED 40.0 million as well as an increase in Gross Insurance Underwriting Profit by AED 22.0 million. The Total Capital Adequacy Ratio as per Basel III at the year-end was 18.6% at year-end, compared with 16.8% at the end of 2019.

Building resilience

The efforts of recent years to diversify our balance sheet and revenue streams delivered strong results in the first couple of months of 2020. Throughout the year, our Treasury business enjoyed sustained growth and a steady increase in operating profits; our trade business also proved its resilience. Additionally, our fee business in Investments and Bancassurance recorded significant revenue growth over the previous year.

When the global pandemic took hold in March, the Bank activated its Business Continuity Plan. We focused on maintaining our business-critical activities and the collective wellbeing of our workforce and stakeholders. In a truly herculean team effort, RAKBANK's employees worked tirelessly to establish remote working capabilities for large numbers of personnel. I am enormously proud of the fact that our operations continued without interruption through this unprecedented time.

As the pandemic unfolded, many of our SME customers were severely affected – and numerous personal banking clients faced salary cuts or adversity. The UAE Central Bank's Targeted Economic Support Scheme (TESS) – subsequently extended to June 2021 – facilitated the provision of support to many SMEs, helping them benefit from relief measures through deferrals on repayments and loan restructurings.

Throughout our 3-year strategy, we have worked diligently to develop and promote digital banking capabilities and optimise costs. The pandemic served to accelerate our ongoing plan to reduce the number of physical branches and we reduced branch numbers from 36 to 27 in 2020, in line with the Bank's digital transformation strategy. We also made significant headway in developing digital platforms for fund management, insurance and payment solutions.

Building a sustainable future

At a national level, 2020 was declared as the year of preparation for the next 50 years. 'Towards the next 50' is the UAE's agenda for growth, prosperity and unity – and includes sustainability goals for a greener future. The COVID-19 pandemic, disruptions in the regional and global economy, as well as perennial – but no less critical – issues such as climate change all sharpened our focus on RAKBANK's own sustainability vision and strategy.

To a large extent, our sustainable growth is predicated on offering 'Simply Better' customer service. We are committed to ongoing investment in the overall customer experience, enhancing quality and simplifying our financial products. As our lending portfolios grow, we will devise innovative, value-added products for our growing customer base. We will also engage more actively with our stakeholders through open communication channels – including the publication of sustainability data. RAKBANK has positioned itself as a bellwether, both in the country and the wider banking sector through modernising and restructuring. By switching our focus to business continuity underpinned by sustainable foundations, we will continue developing long-term relationships with customers, employees and society to maximise asset and shareholder value while reducing RAKBANK's carbon footprint.

> "By switching our focus to business continuity underpinned by sustainable foundations, we will continue developing long-term relationships with customers, employees and society to maximise asset and shareholder value while reducing RAKBANK's carbon footprint."

Looking ahead

The current economic and climate trends demand close attention to – and management of – all aspects of our operations. When it comes to ESG issues, stakeholders expect organisations like ours to offer clarity, transparency and direction. I believe this inaugural Annual Integrated Report puts down a marker for the UAE banking sector.

Looking ahead, we aim to better understand the correlation between sustainability business practices and financial performance, and improve the ways in which we service our ESG commitments, and disclose our performance against them. This in turn will provide evidence of our plans, practices and performance, aligned with our corporate values and business strategy.

RAKBANK's firm foundations, agility in adversity and commitment to its customers served us well in 2020. The year ahead will inevitably bring fresh challenges, but I am confident we are more than equal to them.

Peter England
Chief Executive Officer

Showing Resilience, **Building Sustainability**

Our efforts to develop a sustainability programme for a bank of the future are highlighted in our Integrated Annual Report. This is a proud moment for RAKBANK as we lead the way in ESG reporting in the UAE banking sector. The sustainability programme intends to promote key areas of sustainable business practices to lead through crisis and to build resilience and preparedness.

As a prominent bank in the UAE, we are keen to establish and disclose our environmental, social and governance commitments. We recognise our role and responsibility in addressing sustainability challenges and helping shape change. Sustainability covers a broad spectrum of environmental and social issues. Climate change, natural resource depletion, financial inclusion and human rights are all key ESG matters that RAKBANK is proactively addressing and communicating to its stakeholders.

As a result of successful modernisation, digitalisation and restructuring in recent years, RAKBANK is recognised as a key banking institution within the UAE. We continue to incorporate Financial, Social and Environmental aspects when reporting to become future ready as well as maximising asset and shareholder value, deepening our bond with all stakeholders, and maintaining a high level of transparency.

In developing our sustainability strategy, we have positioned ourselves for business continuity despite challenging circumstances, including COVID-19, disruptions in the regional and global economy and climate change. While much uncertainty remains around the regional and global economic environment, our resilience enables us to adapt quickly and thrive in a post-COVID world.

We are building sustainable and resilient operations on top of an efficient business strategy that has cemented our position as a leading SME and Personal Banking institution. We aim to increase value through efficient and sustainable growth towards regenerative development, as well as by reducing costs of capital for sound sustainability practices. We aim to reduce the risks for both SMEs and the Bank and optimise efficiency in our processes. The Bank continually strives to achieve this by incorporating sustainability considerations into decision making processes and building solid ESG practices to improve operational performance. RAKBANK frequently reviews its resources to find the best approach to adapt to the demands of the constantly changing environment.

RAKBANK continues its focus on the core operations of Personal and Business Banking, which supports our customer base, including all sizes of SMEs. At the same time, we work to diversify our portfolio and to reduce risk exposure especially imposed by the unfolding climate crisis. Underlining this strategy is an endeavour to ensure efficient and sustainable practices.

Business Model

The RAKBANK approach

- Thoughtful and risk-based decision making
- Customer centricity
- Innovative products and services tailored to meet customer needs
- Focus on quality and efficiency
- Established processes to continually ensure compliance with all regulatory requirements

Our key differentiators...

- Strong foothold in the SME segment
- Diversification across business verticals, products and services
- Exceptional customer service
- Our people are of the highest calibre, with relevant skillsets
- Operational efficiency

...leveraged across our business verticals...

- Personal Banking
- Business Banking
- Wholesale Banking
- Insurance
- Financial Institutions Group
- Treasury Banking

...for our customers...

- Individuals
- SMEs
- Larger corporates, Commercial companies, Government entities and Public entities
- Individuals, SMEs and Corporates
- Financial institutions and Trade customers
- Banks and financial institutions, including the UAE Central Bank

...across Omni Channels...

- 24/7 Digital Banking
- Phone Banking
- 27 Branches
- 205 ATMs and 120 CDMs

...to create Economic, Social and Environmental value

Economic value

- Total Income in the past 4 years: AED 15.18 billion
- Total Assets growth in the past 4 years: 24.1% to AED 52.8 billion as of December 2020

Social value

- Annual average number of employee volunteering hours for the past 4 years: 891 hours
- Total value of investment in local community for the past 4 years: AED 3.86 billion

Environmental value

- The average paper recycled amounts: 97,000 kg's since 2018
- GHG emissions of Carbon Dioxide (CO2e) approximately -21% since 2018

Risk Management, Governance & Compliance

RAKBANK is proactively addressing and communicating key ESG matters to its stakeholders

Our Stakeholders

There are many ESG issues for a company to consider within its operations. RAKBANK focuses on the issues that matter most to its stakeholders in accordance with its business operations. The Bank places immense importance on delivering short, medium and long-term value to its stakeholders, which comprise of 8 key groups.

Stakeholders	Importance to RAKBANK	Needs and Expectations	RAKBANK's Methods of Engagement
Customers More than AED 36 billion customer deposits.	RAKBANK's customer relationships directly impact, and are a measure of, its continued success. RAKBANK seeks to offer 'Simply Better' banking solutions for all our customers across the UAE. We aim to be a leading customer-focused bank in the UAE, offering convenient access to innovative and competitive financial products across multiple channels to individuals and businesses.	Friendly, timely and personalised customer service. Clear, various and responsive communication channels. Competitive rates and fees. Simple and secure banking. Accessibility. Innovative products and services.	Social media channels, including Twitter, Instagram and Facebook. RAKBANK Mobile App. RAKBANK Live Chat. Service Excellence Unit: customer service. Customer surveys. Branches and Contact Centre. UAE's first contactless cash withdrawal facility, available on more than 200 enabled ATMs. Robust privacy and information security.
Employees Our workforce comprises more than 3,400 employees.	Highly engaged and motivated employees help us win such acclaim. We are therefore committed to pushing the boundaries for engagement with our employees at every level of the organisation. We are committed to provide our employees with opportunities for their career progression and enhancement, as well as ensuring their wellbeing.	Career advancement and skill development. Attractive benefits/compensation. Recognition and rewards. Healthy work environment. Empowerment and equal opportunity. Open communication channels with management.	Learning and development team. Partnerships and collaborations with training institutes. Training sessions and workshops. RAKacademy.
Shareholders and Investors Shareholder base: Government of Ras Al Khaimah directly and indirectly owns 52.78% of RAKBANK's capital.	In the long run, RAKBANK's growth depends on its ability to attract investment and capturing opportunities. We recognise that ultimately, we are accountable to our shareholders and we focus unrelentingly on maximising long-term shareholder and asset value.	Strong balance sheet and healthy cash flow. Transparency, accountability and disclosure. Strong market positioning. Reliable corporate governance. Dynamic risk management by accounting for liabilities.	Open and transparent channels of communication with shareholders. RAKBANK Annual Report. RAKBANK Directors' Report to Shareholders. Annual General Meetings. Shareholder presentations on a quarterly basis. Dedicated Investor Relations section of the website with analytical tools. Participation in all major investor conferences. Earnings release calls. Corporate access granted throughout the year.
Environment	An integral pillar to our sustainability commitments includes the preservation of natural resources. We have well-established guidelines across branches and offices for environmental stewardship.	Preserve natural resources. Environmental stewardship. Include environmental criteria when screening suppliers. Take into consideration environmental criteria in lending and investing. Addressing environmental risks and opportunities, including climate change. Partnerships on common environmental issues.	Recycling initiatives. Elimination of single use plastic at the headquarters. Conservation programmes.
Local Community	We believe that our long-term success as a national bank lies in growing people's best interest and their trust in us by increasing our responsibility towards the community. At RAKBANK, we are committed to pay forward to the community that supports us.	Employment opportunities. Advancing social development. Enriching local human resources. Financial literacy and inclusion. Partnerships on common social and environmental issues.	Partnerships and cooperations. Donations and sponsorships. Empowering people with disabilities: INDIMAJ initiative. ThinkMoney.
Government and Regulators UAE Central Bank, Securities and Commodities Authority (SCA), Financial Services Regulatory Authority (FSRA), RAK DED.	Regulatory compliance continues to be an important area of focus for RAKBANK. We have established processes to continually ensure compliance with all regulatory requirements applicable to the business. RAKBANK maintains a zero-tolerance approach with regards to any regulatory breach.	Compliance with legal and regulatory requirements through reliable corporate governance. Alignment to national strategies and visions. Protecting the consumer. Influence awareness about the correlation between solid sustainability practices and financial performance with regulators.	Internal Audit and Control. External Audit. Compliance Unit. Risk Committee. Investor Relations. Company Secretary. RAKBANK Annual Report.
Suppliers	RAKBANK relies on healthy supplier relationships to achieve operational excellence. We are always working on improving this relationship with the objective of maximising efficiency and effectiveness. We are committed to ethical, fair, transparent and sustainable dealings with our suppliers.	Timely payments. Fair and transparent bidding procedures. New opportunities for engagement and interaction.	Supplier Portal. Procurement department.

Being Positioned for **Value Creation**

Value Chain and **Business Strategy**

RAKBANK's business strategy aims to increase value through effective and efficient growth. This is achieved through maximising value for our customers on a sustainable basis whilst ensuring continuous improvement in our processes, enhancing products and services as well as instilling discipline and cost efficiency. The Bank continually achieves this through frequent review of our resources, seeking out the best approaches to adapt to the demands of the modern environment and surrounding circumstances.

With the onset of the COVID-19 pandemic, RAKBANK along with many organisations faced unforeseen challenges in 2020. The global economic slowdown and the domestic lockdown from March to April significantly reduced sales opportunities. This led to considerable contraction in the inflow of new business, in terms of assets across segments, which affected top line revenue of interest and fee income. Asset quality pressures were experienced across segments, with impacts on businesses, and especially in travel, transport, F&B and service sectors.

The macro-economic circumstances of 2020 also influenced the implementation of our strategy. The interest rate environment affected margins and cost of borrowing. Merger and Acquisition activity among domestic banks in the UAE also had an impact. Furthermore, COVID-19 related travel restrictions hindered trade activities and tourism, while domestic measures similarly led to a reduced movement of customers. The pandemic also caused job losses and changes in the demographics of the UAE population.

As such, RAKBANK shifted its priorities to deal with these circumstances by adapting the 3-Year Strategic Plan and the 2020 Budget accordingly. The Bank refocused on cost optimising, protecting existing customers, and bolstering support for customers affected by the pandemic with the UAE Central Bank's Targeted Economic Support Scheme (TESS) programme.

The immediate focus for the second and third quarters shifted towards mitigating the effects of the pandemic on the continuity of our business operations. First and foremost, we prioritised the health and safety of our employees, families, customers and stakeholders. The collective wellbeing of our people remained of the utmost importance, without which we would not be able to proceed with our activities. This was primarily achieved through rapidly enhancing our Business Continuity Plan (BCP) to cater to the pandemic induced requirements. This included Bank wide Work-From-Home (WFH) policies, physical distancing protocols within all our premises, and ensuring that key personnel related to the Bank's operations were able to function remotely.

We also focused on liquidity, by recalibrating our funding mechanisms to ensure we are able to continue in fulfilling requirements of our existing clients. RAKBANK is well placed in this area, and we take pride in the continued support of our shareholders, the Emirate of Ras Al Khaimah and the Federal Government. Nonetheless, to ensure the safety of our business, we emphasise the protection of existing UAE-based clients while deprioritising the onboarding of new relationships or increasing credit lines.

The Bank was focused on broadening the deposit base while remotely managing customer relationships. We helped our existing clients by providing the best solutions to help them during the crisis. This included leveraging aid packages issued to target customer segments and maximising the support provided from the UAE Central Bank.

As the UAE economy gradually re-opened, with the government systematically easing restrictions on movement and business activities, the Bank has resumed its sales functions for new business. This commenced around the third quarter for Personal Banking and in the fourth quarter for the rest of the Bank, post a thorough credit and risk assessment of targeted industries for a gradual resumption of sales.

In light of the transformative impact of the pandemic on not just our business operations but also the way of life for all our staff, customers and the wider society, we recognised the need to adapt our business strategy. Based on all economic indicators, complete economic recovery is not expected in 2021. It is however likely that there will be a gradual recovery, allowing for further resumption of business activities whilst the pandemic has given rise to new digitally driven sectors. Therefore, even though external conditions of 2020 led to a pause in the final year of our 3-Year Strategy Plan, the resumption of business activities allowed us to resume the Strategy Plan by retaining the segment focus whilst adapting our operating model:

As such, the Bank will resume its focus on Business Banking and Personal Banking growth as the primary revenue verticals. In 2021 and 2022, the Bank will continue to diversify exposure from relatively high-yield and high-risk assets to a more balanced and diversified asset base across multiple areas of our operating model. The most critical changes are related to digital transformation which has been beneficial in shifting operations during the pandemic and has facilitated our ability to adapt. This included rapidly enhancing our end-to-end digital services across multiple business segments, easing the interaction of customers with the Bank and creating new digital first solutions across product lines. This is further supported by improvements in various areas of governance and risk management, to ensure that the Bank undertakes prudent measures in servicing existing customers and acquiring new business.

For 2021, the Bank will initiate the development of a new 5-Year Strategic Plan that will encapsulate the strategic direction of our immediate future and further accelerate the transformation of our business.

RAKBANK'S STRATEGIC PLAN

PURPOSE	Support aspiring professionals and SME business owners to realise their potential			
STRATEGIC PILLARS	Position as personal advisor to mass and mass-affluent customer	Go-to-partner for small and medium businesses	Grow Wholesale Banking and Non-Interest Income	Reinforce Treasury Proposition
OBJECTIVES	Build mass-affluent customer base. Deepen share of wallet of Mass. Capture liability from mass-affluent and affluent	Defend market leading position through building data analytics excellence and expand share of SMEs	Grow fee-income, drive targeted diversification, build CASA and act as feeder to core strategic pillars	Drive cross-sell to existing clients and increase trading activity to generate additional revenue streams
	Leverage partnership with Fintechs/ business partners to launch innovative, first-to-market solutions			

Positional Pillar

THE BANK'S STRATEGY IS DRIVEN BY 6 KEY LEVERS:

1 Our **product suite**
aims to serve every level of customer: from mass retail customers to the largest corporates – where possible become our customer's main bank.

2 Our **people** are of the
highest calibre, with the relevant skills to deliver the required services. They should be guided by a performance-driven culture, which will enhance their productivity.

3 Our **data analytics**
supports revenue growth and cost optimisation across the Bank. Data analytics should enable better risk assessment and credit loss management as developing where appropriate risk based pricing.

4 Our **voice** aims to be
personalised – to enhance our appeal to specific target segments and underpin the strength of our brand.

5 Our **digital delivery channels**
provides exceptional customer journeys. They should also leverage partnerships with best-practice providers to enable first-to-market solutions.

6 Our **risk management**
capabilities enables sustainable growth, particularly through new channels.

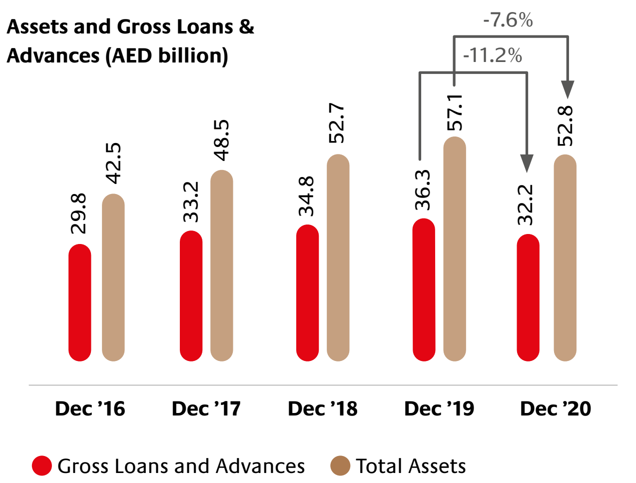
Operations **Review**

This review covers RAKBANK's performance in 2020 and gives a summary of our results. It also provides an overview of each principal business unit's objectives and achievements for the year.

Group Performance

For the year ended 31 December 2020, RAKBANK recorded AED 505.4 million in Consolidated Net Profit, a decrease of 53.9% over 2019. The Bank's Total Operating Income was AED 3.6 billion, a decrease of 10.4% over the previous year. Operating Expenses decreased by 11.1% and the Cost to Income Ratio was 39.2%, compared to 39.5% in 2019.

Assets and Gross Loans & Advances (AED billion)



Total Assets

Consolidated Operating Profit before Provisions for Credit Loss declined by 10.0% to AED 2.2 billion. Gross Loans and Advances decreased by AED 4.1 billion, with a decrease of AED 2.0 billion in Personal Banking Loans, AED 1.3 billion decrease in Business Banking loans and AED 748.9 million decrease in Wholesale Banking loans. Deposits for the year were AED 36.9 billion versus AED 36.8 billion in 2019. Total Assets amounted to AED 52.8 billion, compared to AED 57.1 billion in 2019, a decrease of 7.6%.

Growing with Intention

Strengthening the Business: Financial and Economic Performance

RAKBANK's sustainability focus is to achieve continual, stable financial growth and attract investment by continuing to diversify its sources of income, maintaining low costs and high operating efficiency. The Bank believes this must be done whilst ensuring adequate capital reserves to absorb losses, continue operations, and meet obligations in the event of adverse operating conditions. To do this, RAKBANK offers innovative products, services, and tools that generate added value for the Bank and its customers, while driving a more diversified financial market that addresses collective challenges and provides opportunities for a more inclusive economy.

This will be done whilst implementing expertise in the core departments and maintaining a flow of ideas across functions; underpinned by digital change to support speed, efficiency and customer service.

2020 was a year of resilient performance by RAKBANK despite the challenging economic conditions that resulted from the unforeseen pandemic. RAKBANK is pleased to announce that its Direct Economic Value Generated increased by 7% in 2018 and again by 7% in 2019, however, due to the current health crisis of 2020 the Direct Economic Value Generated dropped by 15%.

Financial Performance: Snapshot

Economic Performance (AED '000)	2020	2019	2018
Direct economic value generated	**4,095,332**	**4,834,609**	**4,514,153**
Revenues	4,095,332	4,834,609	4,514,153
Economic value distributed	**3,589,955**	**3,739,347**	**3,596,632**
Other operating costs (including donations and sponsorships)	(558,815)	(623,890)	(552,219)
Employee compensation	(830,367)	(934,337)	(927,185)
Payments to providers of capital	(531,304)	(855,695)	(687,166)
Payments to government	(6,166)	(12,207)	(8,916)
Provisions	(1,663,302)	(1,313,217)	(1,421,146)
Global net profits	**505,378**	**1,095,262**	**917,520**
Total operating income (revenue)	**3,564,029**	**3,978,915**	**3,826,986**
Dividends paid to/ Proposed to shareholders	251,437	502,873	502,873
Shareholders' Equity	**7,844,958**	**7,841,557**	**7,126,805**
Return on (average) equity (%)	**6.5%**	**14.9%**	**13.5%**

Contribution of RAKBANK Net Profit by Business Segment	2020 (AED '000)	% contribution to net profit	2019 (AED '000)	% contribution to net profit	2018 (AED '000)	% contribution to net profit
Personal Banking	(15,247)	-3%	163,403	15%	258,872	28%
Business Banking	101,852	20%	645,688	59%	474,931	52%
Wholesale Banking	68,252	14%	117,738	11%	139,605	15%
Treasury	622,889	123%	380,540	35%	194,151	21%
Insurance	14,625	3%	2,385	0%	25,023	3%
Unallocated	(280,077)	-55%	(211,665)	-20%	(170,393)	-19%
Consolidation adjustment	(6,916)	-2%	(2,827)	0%	(4,669)	0%
Total	**505,378**		**1,095,262**		**917,520**	

Treasury

RAKBANK's Treasury Division, which uniquely lends directly to customers, continues to facilitate exciting developments to improve its offering and adapt to prevailing market conditions. For example, RAKBANK has been a fully-fledged bullion bank since 2016 and the sales department within the treasury is now able to cover all areas of the gold perspective. Further, the 2018 market slowdown drove treasury to review its investment strategy. It now covers trading in equity, fixed income, structured deposits and multiple variants of investment products across geographies and tenures.

In 2020, Treasury further rose to the challenge and recorded another year of sustained growth in its business. The year began on a strong note, building on the strategy and products developed over the past few years. The onset of the pandemic put pressure on liquidity and asset valuations, forcing an adjustment in the business model to insulate from short-term volatility and stress on liquidity. Our investment in technology in recent years has served us well as it enabled the team to transition seamlessly to working from home without impacting service to customers.

Treasury operating profits increased 64% YoY from AED 381 million in 2019 to AED 623 million in 2020. Returns on the investment portfolio were enhanced due to active churning of short-term plays and moving to long-term investments in a foreseeably low interest rate scenario. As a result, bond trading income grew 100% YoY and the division's NII grew 146%. RAKBANK's success in the investments arena was recognised in the most prestigious awards in the Asian G3 bond market, the Asset Awards. It ranked No. 1 in the Top Investment House category in the Middle East and North Africa region.

The significant decrease in interest rates during the year resulted in a reduction of bank-wide cost of borrowing. Overall returns from Foreign Exchange were lower YoY, mainly due to reduced customer business activities and a cautious approach to the Bank's trading activities. This was offset by a surge of 36% YoY in derivative revenues arising from customers hedging their long-term interest rate exposures at historically low levels.

In line with the Bank's overall digitalisation strategy, Treasury implemented Phase 1 of a state-of-the-art system, which will allow it to work with an end-to-end solution, including pricing, booking, settlement, post-trade valuation and analytics. In 2021, in addition to implementing Phase 2 of the system, which will handle complex products and strategies, the division will launch an online customised digital platform for customers to avail and execute live and competitive Forex rates.

RAKBANK continued its RAKGOLD initiative as the region's first Bullion Bank, serving the entire value chain in the precious metal sector. The RFID technology-based inventory financing product supported and shielded jewellers against record high gold prices, the lockdown and the global pandemic. The retail product, which enables customers to purchase as little as 1 gm of gold online at the click of a button, witnessed a rush to buy and hold the precious metal, resulting in retail gold balances increasing 400% YoY.

Financial Institutions Group (FIG)

Originally part of Wholesale Banking, FIG was established as a separate business cluster in early 2018. During the past 2 years, the department has seen strong growth across its portfolio. The growth across the FIG portfolio is based on its 3-year strategy, which entails diversifying the business to expand its geographic presence, expand into different client groups and focus on driving risk diversification.

After a strong finish in 2019, FIG and International experienced a robust growth of circa 5% at the start of 2020, in both assets and net profit. Our trade business, with key partner banks in Africa, Bangladesh and Turkey, continued to demonstrate resilience during 2020.

During a busy first quarter, FIG continued to focus on key geographies and gained traction on new markets and products. FIG met with delegates from the top 5 Nepalese Banks in January, and had virtual meetings with eminent Cambodian banks to explore various business opportunities. Further, we closed a large trade transaction with a top Brazilian bank.

The early months of the COVID-19 crisis forced a suspension of risk appetite and liquidity for several geographies, particularly in the months of March, April and May. In many markets, transaction volumes were much lower. Through our efforts, we were able to maintain market presence in key regions following a systematic risk evaluation and by ensuring that the portfolio continued to perform. In May, we decided to slowly return to the market, albeit with lower volumes, which subsequently started to pick up. The FIG and International balance sheet decreased substantially during those 3 months, but this was balanced out with significant transactions and higher volumes at the end of Q3 and Q4.

Notable initiatives of 2020 include a Murabaha Trade Finance transaction for an Islamic Bank. We also joined the Asian Development Bank (ADB) Finance programme, under which there will be credit cover from ADB for underlying transactions. A similar offering is underway with ICIEC, the insurance arm of the Islamic Development Bank.

The 2021 outlook for our FIG and International business remains cautious, as much of the lag effect of the pandemic could be seen in various areas until Q2. Nonetheless, we expect a return to growth and increased profitability in 2021.

While challenges in margin compression loom in key geographies such as Bangladesh and Egypt, we will counteract this by continuing to focus our efforts and widening our trade business both for FI and our SME business. Growing our business is a key priority for fee growth in 2021. Our overall book has performed very well with no NPLs. The focus will be to sustain this and ensure credit stability in the portfolio while exploring new opportunities in Asia and Africa.

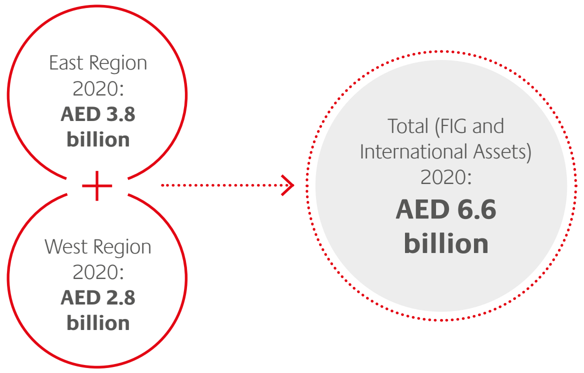
To ensure continued success of the FIG business going forward, the focus will be driven through continued execution of the strategy with emphasis on the further expansion and diversification of geographies, including the establishment of a Representative Office in Bangladesh.

As such, strong growth seen in active customers and the balance sheet is attributed to the geographical diversification which supports a broader range of clients in more markets, leading to a diversified balance sheet and risk profile of the business. Activities with key client relationships have been expanded, executing a number of Risk Participation Agreements with key Partner Banks, allowing for a greater reciprocal flow of business. In addition to this and based on our improved relationship capability and growing market profile, RAKBANK has been invited to participate in several primary and secondary syndicated loan transactions. The enhanced capability has substantially developed RAKBANK's profile within various markets and with key counterparties.

Further, Non-Banking Financial Institutions (NBFI) is an important business for FIG. A new Trade Finance strategy is under formulation for 2021, which is expected to result in growing the trade finance business of the Bank.

The Asia, MENA and Africa regions are key markets for RAKBANK's international business. During 2021, we intend to maintain and selectively grow in these markets and will simultaneously explore new opportunities in Nepal, Cambodia and Israel, in keeping with our diversification strategy and minimising concentration risk in our international exposures.

By geographically segmenting the FIG portfolios into 2 specific coverage portfolios of East and West, RAKBANK has been able to apply greater focus and access to key clients, and allowed greater coverage and responsiveness to clients' needs.



Moving forward, to ensure continued success of the FIG business, the focus will be driven through continued execution of the strategy with emphasis on the following areas:

- Focus on establishing and driving strategic alliances for key geographies with key partner banks.
- Continue to attract and retain key skills and talent to drive the specialist and client-centric approach.

Digital Transformation and Innovation

To manage the continued growth, RAKBANK is modernising across its operations. Digitalisation is a key component of making its processes efficient and secure. It is also essential for providing customers with the best possible banking experience. Organisations and consumers require support in managing their money, investments, and financial affairs, which are becoming progressively more complex activities in the new economy and changing world. Digitalisation has changed the financial industry and transformed the way customers interact with the Bank, and we are working hard to ensure the organisation is at the forefront of the technological development.

Moreover, throughout 2020 RAKBANK strived to provide innovative banking solutions to customers especially during the lockdown period of the pandemic. The Bank further strengthened its capabilities by implementing a bank-wide Innovation programme. The Bank's goal is to enhance customer experience, drive top-line and optimise resource requirement by adopting a truly digital-first approach. RAKBANK will continue and expand its innovation journey in 2021 as tangible results from its Innovation efforts have proven to be effective.

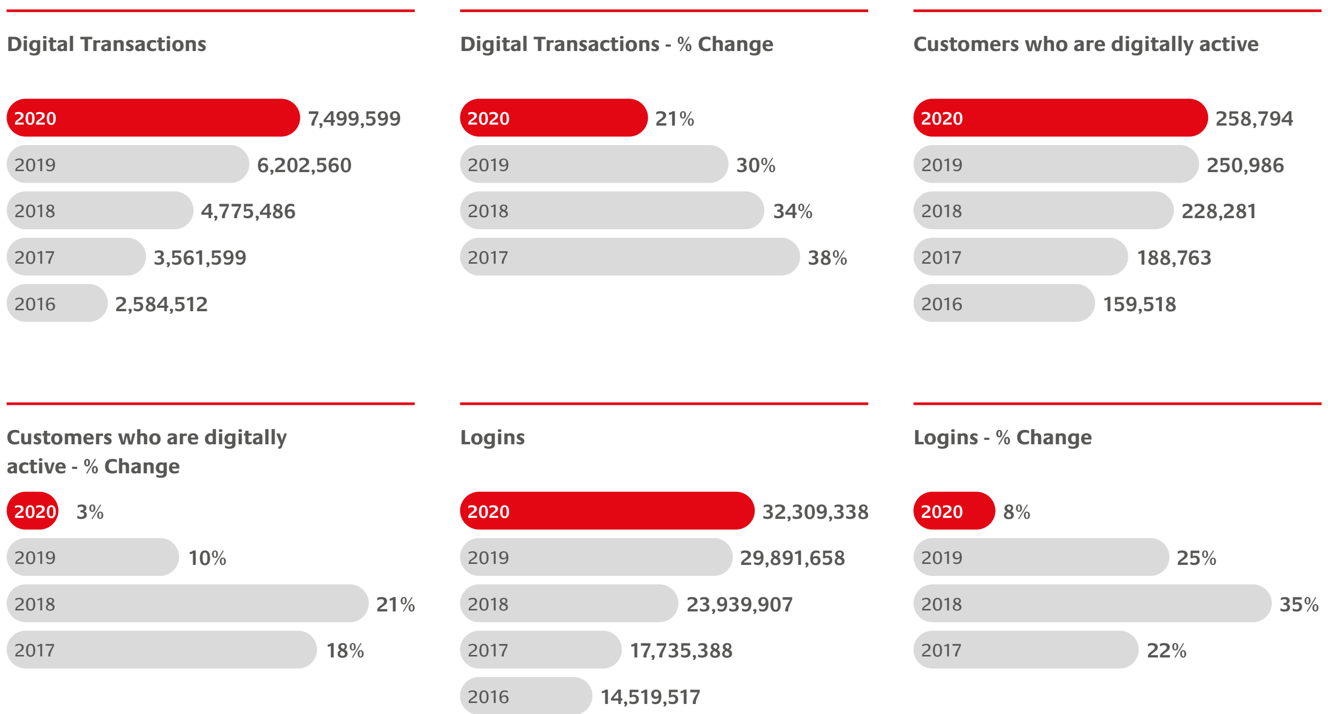
Digitalisation strategies are being reviewed across all departments. The foundation of this is moving to paperless operations. RAKBANK's most notable success of 2020 revolved around the digital access card that the Bank extended to Business customers, their employees as well as third parties. This offered Business Banking customers the ability to instantly apply for a non-transactional card through which their accountants, employees as well as third parties were able to access the digital banking app to monitor business activity, track invoices, and more.

Additionally, an innovative solution was launched in light of the restrictions set by the pandemic. This involved the launch of a digital onboarding service of Business accounts allowing them to apply for an account online in just a few simple steps. Business Banking customers receive their account number and details within minutes of applying. Lastly, RAKBANK revamped its Personal Banking app to suit retail customers' everyday banking needs and requirements.

Similarly, the Bank partnered with a Fintech solution provider called Versify Tech Solutions to offer a one-stop-cloud solution integrated within the Digital Banking app named Accountable that directly supports SMEs with their accounting, VAT, payments, WPS processing needs, and more. So far, a lot of the Bank's Business Banking, customers have already signed up for Accountable and the number of registered customers is continuously growing.

RAKBANK has selected a digitalisation system that has been implemented this past year to improve both the internal operations and the customer experience.

Digital Transformation *



* FY'16 is considered the base year in the above charts

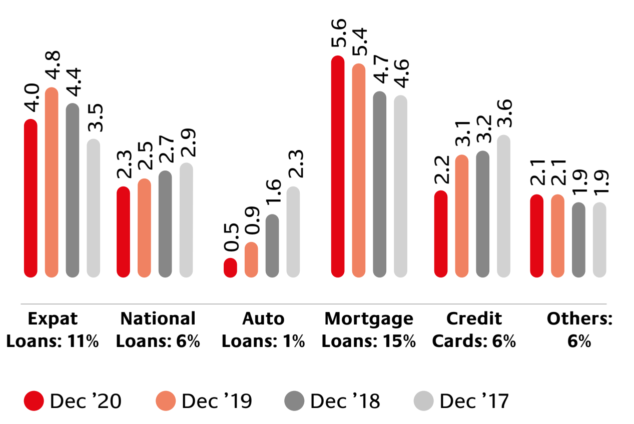
Personal Banking

As a leader in Personal banking in the UAE, RAKBANK prioritises the care and wellbeing of its clients as it conducts its business. The Bank invests in providing excellent service and products to its Personal Banking customers, and the range of offerings are constantly updated and perfected to meet customer and market needs. As clients continue to be impacted by the COVID-19 crisis, in terms of job losses and salary reductions, RAKBANK has stepped in to ensure support is made readily available. We proactively worked to contact and find solutions for our loan customers and activated hot lines to facilitate open lines of communication. We have also ensured that the Central Bank TESS programme was extended to all eligible customers.

While the Personal Banking performance was significantly impacted by the COVID-19 crisis with a reduction in assets, whilst the fee business, including Investments and Bancassurance, performed very well. Furthermore, we have accelerated our digital transformation planning and execution, and continued our strategy to cost optimise with the planned closure of some branches and a reduction of staff. We enhanced our Fintech strategy and broadened our school payments app, Skiply, which is increasing the reach into the mass affluent and affluent segments. Additionally, the mortgage market has been very active and we have launched a number of campaigns to increase our market share in that space.

One of RAKBANK's innovative unique Personal Banking liabilities products is the RAKbooster Savings Account, which offers attractive returns on average balances and encourages customers to save for long periods by offering quarterly and annual bonuses for non-withdrawals. This product was nominated for the International Business Excellence Awards 2019.

Total Customer Assets – Personal Banking (AED billion)



The Bank also entered into a multi-year agreement with Emirates Skywards, the award-winning loyalty programme of Emirates airline, by announcing the launch of its most power packed RAKBANK Emirates Skywards World Elite Mastercard, available in both Conventional and Sharia-compliant Islamic variants.

Moreover, RAKBANK entered into an exclusive partnership with SwatchPAY! – a contactless payment solution. SwatchPAY! uses the latest NFC technology embedded underneath the watch dial. To make payments, customers simply need to get the watch on their wrist close to the contactless payment terminal at the checkout counter. What's more the SwatchPAY! watch doesn't require batteries or charging, unlike smartphones.

Overall, the value of the Personal Banking loan portfolio has remained quite steady in the face of increasingly challenging market conditions, decreasing by 10.7% in 2020 to AED 16.72 billion from AED 18.72 billion in 2019. Furthermore, there were 480,156 Personal Banking customers in 2020, a decrease of over 5.05% compared to 2019.

Personal Banking customers	2020	2019	2018	2017
Total number of Personal Banking customers	480,156	505,695	499,800	517,564
Total value of Personal Banking loan portfolio (AED billion)	16.7	18.7	18.5	18.8

RAKBANK's terms and conditions are clear and bilingual, available for customers to read and agree. Our Service and Price guides are regularly and promptly updated on our website and also in our branches. Personal Banking has the great customer satisfaction score, of around 90% in 2020.

In 2021, as we seek to bring back our traditional sales channels to pre-COVID levels, we will also continue to develop our digital capabilities to contribute to our sales and reduce customer acquisition costs. We will also develop our data mining as an opportunity to gain new business.

Business Banking

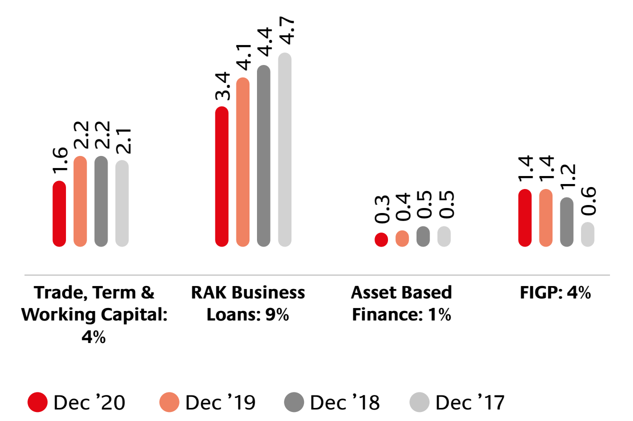
As a UAE market leader dedicated to providing best-in-class services and solutions to SMEs, we continue to offer new innovative products to our customers. Our newly launched Web Apply platform for business account opening witnessed heavy traffic owing to the convenient user journey. Digital onboarding has helped us sustain customer volumes during the COVID-19 pandemic.

We have also enhanced our digital banking platform to improve customer experience. We listen carefully to our customers' needs and feedback to devise solutions that are both sustainable for the Bank and convenient for them. We have launched Digital Access card for customers' accountants, so that they can have round the clock access to Bank statements. We have also improved our offering on cash management and trade services, which has made good progress this year, also driven by social distancing practices.

With the onset of the COVID-19 pandemic, many SMEs started to witness a temporary or complete shutdown of operations. This resulted in reduced levels of banking activity and challenges on the repayment of bank dues or charges. The Central Bank of the UAE (CBUAE) has greatly helped to mitigate this through Zero Cost Funding via the Targeted Economic Support Scheme (TESS), which was used to support our customers. Many of our borrowers have taken advantage of this scheme, while new lending was selectively offered to customers who were less impacted by the pandemic. Throughout the course of the year, priority was to support the existing customer base, offer proactive remediation to impacted borrowers and do selective lending to sectors, resilient to the pandemic. We are working on digital lending solutions to offer micro finance and supply chain assistance to our clients.

RAKBANK has always paid special attention to its SME customers, which are viewed as the cornerstone of sustainable development in the region. SMEs are at the core of the Bank's strategy and this is evident as there has been a steady increase in its SME customer base with 76,639 customers in 2020, a 2% decrease since 2019 (drop due to compliance closures) and a 3% increase since 2018.

Total Customer Assets Business Banking (AED billion)



SMEs are the backbone of the UAE economy, and with Expo 2020 scheduled for 2021, we are working to ensure we have all the solutions and tools in place to cater to their needs. The Bank is actively reaching out and supporting SMEs, including new entrepreneurs and micro SMEs, by offering various deals, content and partnership through our revamped Digital Market place, SMEsouk.

In our efforts to support startups, we created a lucrative value proposition, RAKstarter, in the form of a one-stop solution with a Zero balance account and integrated accounting software. This solution links directly to customers' bank accounts, assists in VAT payments and also offers them basic insurance.

The value of the SME loan portfolio currently stands at AED 6.86 billion and the SME customer deposits is AED 17.26 billion for 2020 up from AED 14 billion in 2019.

Additionally, the pandemic resulted in a shift of business operations for SMEs with a focus on the technological advances. From 2019 to 2020, the Bank has witnessed an increase of 5% of the digital banking active users and a total Digital transactions volume increase of 23%.

RAKBANK's key Digital channel developments include:

- Initiating Digital access cards for accountants and authorised persons for each Business Banking customer's banking requirements
- Enhancement of the Wages Protection System (WPS) facility that allows for bulk uploads functionality and multiple payments done in a few simple clicks
- Partnering with the Ministry of Finance's third generation of eDirham, a cashless payment platform that empowers users to make transactions easily as it is a seamless, convenient and a secure medium that focuses on immersing digital transactions across the country for the government sector.

Wholesale Banking

The COVID-19 pandemic had a significant impact on the macro environment in the UAE, including supply and demand shock, a fall in oil prices, and a major effect on real estate, hospitality, retail, travel and entertainment.

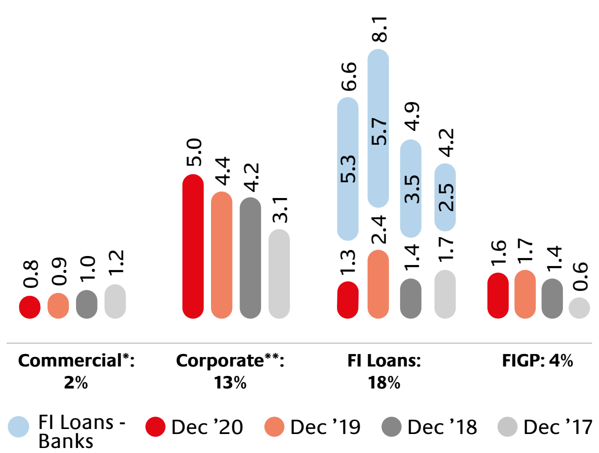
The crisis has also led to a loss of new business opportunities, an increase in potential provisioning amidst an uncertain economic environment, with the Wholesale department transforming its strategy this last year. The change in the economic environment shifted our focus towards managing the existing portfolio, assessing stress situations and taking pre-emptive actions thereof, ensuring liquidity flow and assisting clients in their need for deferments or other relief.

The focus has been to extend and enhance the Wholesale Banking services domestically, specifically Government Related Entities (GRE) as well as government segments. As the Bank actively started moving into this area, the department began to offer financing solutions to utility firms, data hubs, power and water facilities and other GRE commercial ventures that proved critical to the UAE's economic development, especially during the pandemic.

RAKBANK's Wholesale Banking business offers a full spectrum of asset and liability products, trade finance, treasury and online banking solutions. These are offered to our clients across all verticals such as Multi-National Companies (MNCs), GREs, Diversified Corporates and Trading Service & Manufacturing segments. In 2021, we will target balance sheet growth across all verticals, fee generation through structured deal offerings, as well as launching a syndication desk, and supporting customers through deferments and relief measures. We will focus on onboarding high quality and structured transactions in the MNC, GRE and Diversified Corporate segments. The Wholesale Banking Group is an integral part of RAKBANK's overall growth strategy and onboarding large clients is an opportunity through which the Bank can cross sell other products.

New opportunities have emerged in the form of loan refinance, syndications and club deals which will be an opportunity to generate fee income, increase share of wallet and broaden the client base. There will be lending opportunities in the GRE segment with the emergence of Public-Private Partnerships (PPP) financing structures, and in MNC banking through acquisition of high quality assets. The stressed economic environment will also drive Mergers and Acquisitions (M&A) activity as a result of consolidation or fire sale of assets, which will require financing. There will be opportunity in onboarding larger diversified

Total customers assets - Wholesale Banking (AED billion)



* Commercial includes Asset Based Finance, Gold Loans, and Factoring
** Includes MNC Segment Loans

corporates which will look for additional financing for such acquisitions. The asset business will be funded by acquisition of liabilities across all verticals, especially the Federal Government entities which hold large pools of liquidity.

The unique developments that RAKBANK has been able to cultivate through its Wholesale Banking division are due to the cultural changes that occurred throughout the year, underpinned by the business strategy that allowed for operations to move out of their comfort zones and to invest in new spaces and diversify.

Islamic Banking

In the first 2 months of 2020, with the continued implementation to the Bank's overall diversification strategy, RAKislamic experienced growth in all customer segments, including Retail, Business, Wholesale, Treasury and FI. This reaffirms the division's market-leading position in SME product offerings as well as deposit investments like Fawrun.

When the COVID-19 crisis hit, the focus shifted towards managing the impact of the pandemic on customers and overall business by ensuring minimum disruption and maximising efficiency while transitioning to remote working.

Our customers' financial wellbeing became our top priority. RAKislamic focused on helping our customers in every possible way, including finance instalments relief for up to 3 months through deferrals without additional costs. Throughout the remainder of the year, we ensured only quality assets were booked. We continued to find alternative sources of liabilities while maintaining tight control of our bottom-line approach of cost optimisation and minimising provisions.

The Higher Sharia Authority introduced various new regulations in 2020 in its efforts to standardise the Islamic financial ecosystem in the UAE. Establishing a Sharia Governance Framework for RAKislamic and Islamic windows, including drafts for review such as risk and liquidity management, was a major workstream for RAKislamic during the year.

This resulted in further strengthening our position in the market, raising awareness about Islamic products by frontline staff and heightening the customers' understanding of the advantages of Islamic Banking.

COVID-19's disruption to the Islamic Banking business gave us an opportunity to reflect, rethink and re-strategise about the way we should do business in the future. We will endeavour to increase our product offerings and services by delivering new and innovative products through our digital platform, further strengthening our customer segments. We will increase customer-centric focus through a simplified Islamic documentation process, implementation of AAOFI benchmarking, and HSA governance framework and guidelines. Further, we will enhance Islamic training for all frontline staff and increase engagement with business partners to explore innovative digital and customer-centric requirements, which can be fulfilled through the Islamic domain and ultimately attract new customer segments.

Insurance

Some notable initiatives delivered in 2020 include the 10-year strategic preferred partnership between RAKBANK and MetLife to provide comprehensive life insurance solutions to the Bank's customers across the UAE. The partnership also offers our customers access to 'M Power', MetLife's digital platform, that provides cost efficiency, convenience and accessibility to insurance needs.

Furthermore, in line with UAE Insurance Authority's Decision 49 of 2019 which came into effect on 16 October 2020, the Bank introduced new customer value propositions under its Group Credit Protection programme with RAKINSURANCE to provide financial protection to their borrowers and credit card holders in an event such as a death or disability. The Group credit protection programme is backed by Munich Re, one of the world's leading reinsurers. In 2020, RAKBANK continued to strengthen its insurance distribution (known as Bancassurance) with a total written premium of over AED 158 million and 63,000 customer relationships.

RAKBANK owns a controlling stake of 79.23% in RAKINSURANCE, which it acquired in 2015. This year, RAKBANK has taken further steps to ensure the delivery of related products in the development, packaging and marketing of both health and general insurance products. Not only do these contribute to the Group's overall profits but also bring additional value to the Bank's offering and value proposition to its Personal, Business and Corporate customers. It is a tangible example of the diversification strategy adopted by the Bank as a whole.

Additionally, during this year RAKINSURANCE opened a new branch located in the heart of Sharjah that is easily accessible with extended business hours. This branch houses dedicated insurance advisers that are trained to provide expert advice on all insurance needs. RAKINSURANCE branches are spread across the UAE in prime locations and cater to over 740,000 customers with protection that spans medical, motor and life insurance. Additionally, the Company also provides servicing to more than 43,000 of its Corporate and Retail clients.

Sustainability at RAKBANK

Our Sustainability **Management Approach**

Financial markets have seen a significant uptake of sustainability in recent years due to substantial evidence that institutions who implement sustainable practices outperform the market across key sectors. RAKBANK believes long-term growth and financial sustainability ultimately requires a thorough implementation of strategic sustainability into its core business values and relies on applied focus in all key areas across its operations.

The Bank understands that long-term success as a national bank lies in asset protection via risk reduction and risk management by addressing urgently pressing challenges. RAKBANK considers the climate crisis and focuses on customer behaviour to further its sustainability agenda. One of the Bank's key initiatives is to earn customers' business and trust by offering products and services at preferred rates that reduce the collective carbon footprint. RAKBANK delivers on its commitment towards the community by engaging customers and direct choices toward products and services that enable regenerative development in the UAE. The Bank is also aware that strategies and commitments require meaningful, transparent and proactive assessment and development of its operations, products and services.

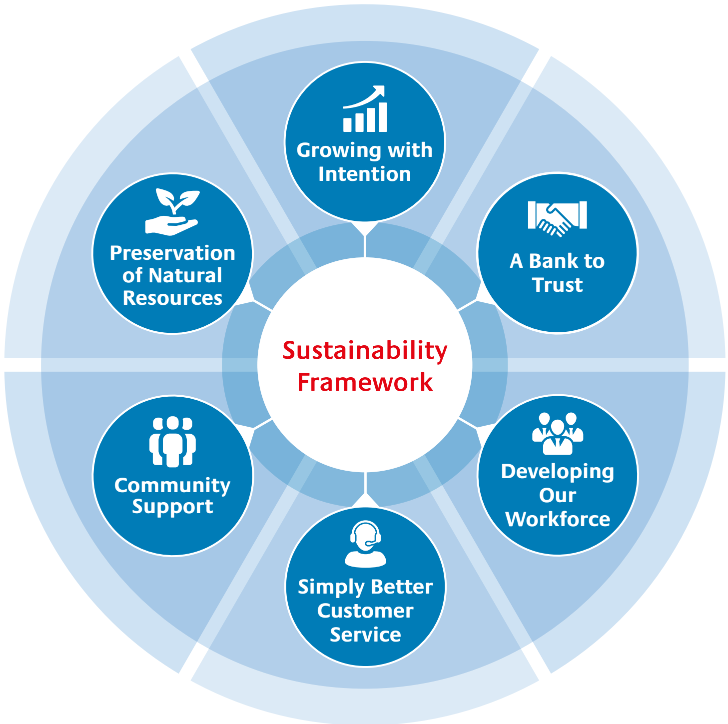
It is the intention to improve on Environmental, Social and Governance (ESG) practices throughout its operations. These ESG principles lay the foundations of RAKBANK's sustainability vision. In developing our first ever Integrated Annual Report, we have taken an important, intentional step in furthering our sustainability strategy. RAKBANK intends to weave strategic sustainability into its core business values to improve how the Bank manages and communicates performance and progress around the issues it deems material in its operations.

RAKBANK is excited to improve its ESG disclosures by publishing this report to demonstrate the correlation of solid ESG performance and financial performance in the UAE and increase transparency on how it measures, manages and reports ESG issues. The report presents the most relevant KPIs to the business, to highlight priority areas to create value for all stakeholders, both present and future, in short, medium and long-term. The report serves as a reference baseline for the Bank to continuously improve on ESG performance linked to increased financial performance.

In this report and future publications, non-financial reporting standards are embraced including GRI and SASB, in line with ADX ESG reporting guidelines. These standards guide how material issues are identified and how they will be managed going forward.

Sustainability Framework

To ensure RAKBANK focuses on issues that can lead to meaningful impacts both within the sector and the Company, 6 key areas that are RAKBANK's core values have been identified as a framework, within which strategic sustainability can be applied. For RAKBANK, sustainability means growing with intention, being a bank to trust, developing our workforce, providing simply better customer service, engaging in community support, and ensuring preservation of natural resources. These target areas are presented as framework pillars to structure RAKBANK's sustainability journey and this report:



Contributing to National and International **Sustainability Goals**

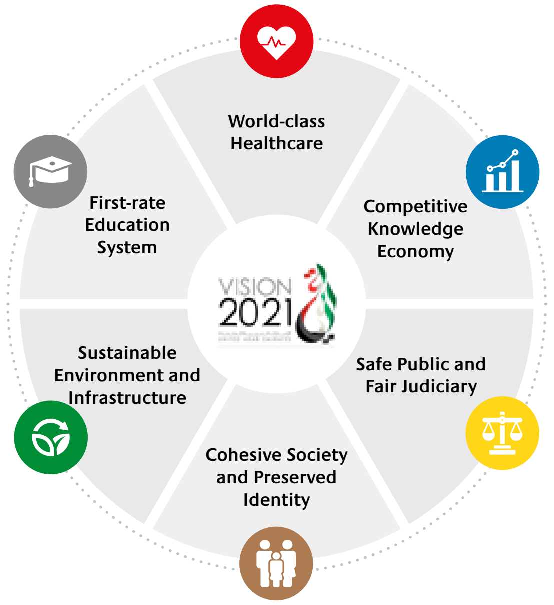
To ensure targeted focus is integrated and applied to topics material to the banking sector, relevant stakeholders and the business, RAKBANK consulted a number of national, international and sector-specific guidelines. This process ensures that the report discloses key data that is of relevance to its audience and will enable the Bank to build on its sustainable successes year on year.

At a regional level, RAKBANK aligns itself with core values of the UAE National Vision 2021 and the Abu Dhabi Economic Vision 2030, alongside the ADX ESG guidelines. At the international scale, the Bank aligns its vision and operations with the United Nations Sustainable Development Goals (UNSDGs). The organisation also uses the Global Reporting Initiative Standards (GRI) to guide the development and presentation of the material topics and final report.

Whether positive or negative, every sector has different impacts on the society in which it operates. For this reason, RAKBANK also incorporates sector-specific guidance into its sustainability approach. The Bank has aligned its focus with sector specific guidance from the Sustainability Accounting Standards Board (SASB) developed for the financial sector. The World Federation of Exchanges (WFE) ESG Metrics and the United Nations Principles for Responsible Banking were also consulted. A thorough stakeholder analysis was conducted to ensure the final material topics are appropriate to RAKBANK activities.

International Visions

National Visions



Sector Visions

Our Commitments

- Moving from substantially paper-based to virtually paper-less. While this process was already underway and had immediate returns when used to underpin the quick turnaround of operating functions due to the developments of COVID-19 at the start of 2020.
- Developing a CSR policy in 2020 is in line with SCA requirements, to be unveiled in 2021.
- RAKBANK aligns itself with the UAE regulations regarding human rights as well as child and forced labour and is committed to developing a Human Rights Policy and a Child and Forced Labour Policy in 2020 that is to be published in 2021.
- Incorporating a Supplier Code of Conduct within its existing Procurement Policy that will be published in 2021 for new vendors of the Bank to adhere to.
- Aligning with ISO 45001:2018 (Global Health and Safety standards) that specifies requirements for an occupational health and safety (OH&S) management system by incorporating these guidelines within the HR Policy on Health and Wellbeing that is to be published in 2021.
- Committing to diversity and inclusiveness at the Board-level and across the organisation.

Our **Materiality**

RAKBANK's framework and key stakeholder groups are a long-term focus for the organisation, but relevant ESG considerations can change according to the evolution of both internal business needs and the external environment. For this reason, a materiality assessment is conducted. This allows for a review of relevant material issues and ranks them according to the framework and stakeholder needs.

The materiality assessment includes analysis of emerging local and global ESG trends. It reviews sector issues and developments and refers to several sustainability guidelines. The stakeholder groups and their needs and expectations are reviewed and - though a quantitative assessment - identify the most appropriate issues to focus on.

In 2020, this assessment presented 15 material issues. These were ranked into 3 categories:

Highly Material > Material > Important:

Rank	Highly Material	Rank	Material	Rank	Important
1	Governance, Transparency and Accountability	6	Customer Relationships	11	Supporting Local Communities
2	Business Ethics and Compliance	7	Diversity, Inclusion and Talent Attraction	12	Managing Environmental Impacts
3	Financial and Economic Performance	8	Employee Engagement and Wellbeing	13	Nationalisation
4	Data Privacy and Security	9	Digital Transformation	14	Financial Literacy and Inclusion
5	Risk Management	10	Responsible Lending and Investing	15	Responsible Procurement

RAKBANK's Materiality Matrix

The materiality matrix shown here depicts the quantified alignment of issues in relation to their significance of impact on RAKBANK, and the influence of these issues on stakeholder assessments and decisions. These material topics were then aligned to RAKBANK's Sustainability Framework pillars, guiding its sustainability strategy, and the layout of this report.

● Highly Material ● Material ● Important

Framework Pillar	Aligning Material Topics
Growing with Intention	• Financial and Economic Performance • Digital Transformation
A Bank to Trust	• Governance, Transparency and Accountability • Business Ethics and Compliance • Risk Management • Responsible Lending and Investing • Responsible Procurement
Developing our Workforce	• Diversity, Inclusion and Talent Attraction • Employee Engagement and Wellbeing • Nationalisation
Simply Better Customer Service	• Data Privacy and Security • Customer Relationships
Community Support	• Supporting Local Communities • Financial Literacy and Inclusion
Preservation of Natural Resources	• Managing Environmental Impacts

Developing **Our Workforce**

Diversity, Inclusion and Talent Attraction

RAKBANK's workforce is at the frontline of its success and an integral part of its operations. To build RAKBANK into a sustainable institution for the future, the Group[1] is working to build an exceptional workforce through attracting, developing, and retaining the most talented individuals, and inspiring its people to achieve their full potential and deliver against the strategic objectives, whilst committing to increasing the Emiratisation rate.

The ESG section of the Annual Integrated Report takes an in-depth look at RAKBANK's workforce, and the culture and is proud to have created a diverse and talented employee base. The Group works to attract talent, and to cultivate that talent to serve both the valued employees and the business itself for a strong, sustainable future.

A key focus of workforce development is creating a supportive working culture to encourage creative work and maintain high levels of talent retention. For example, RAKBANK is proud to offer a culture that is very supportive of women, ranging from higher than sector-average gender diversity to flexible shifts where possible to help employees manage a healthy work-life balance. To support this healthy work culture, the internal HR policy explicitly prohibits discrimination in the workplace, both for employees and customers. The policy explains the protection that employees are entitled to and complies with legal requirements whilst upholding RAKBANK values. It explicitly forbids the discrimination – directly or indirectly - and harassment of employees on the basis of gender, age, race, skin colour, ethnic or national origin, marital status, disability or religion.

The total headcount at the Group was 3,417 employees as of 31 December 2020, of which approximately 61% were male staff and 39% female.

Several new people development programmes - including the Management Associate programme, Individual Development Plan and TATWEER - have been rolled-out over recent years. The emphasis of the training programmes has shifted from investing in jobs to investing in careers. Some of the Group's new KPIs include transforming development frameworks around recognition, engagement, systems, talent and Emiratisation. RAKBANK is also driving a higher level of cross-functional training and movement of employees within the Group, which has resulted in a transfer of resources from business functions into the talent space. This serves to reinforce the ability of HR to better understand the resource needs of the business units and contribute additional value-added support.

UAE Nationals Successfully Complete TATWEER Level One

RAKBANK launched the TATWEER programme to develop Emirati national talent. Using a rigorous and practical learning journey, the TATWEER programme expects to affect the careers of over 500 Emiratis. Starting from 6 March 2019 and for 2 days, 109 colleagues received certificates for completing the first level of the programme.

Developing Emirati capability is one of the highest learning and development priorities of RAKBANK. Through TATWEER, the Bank has gathered hard data on individual and collective development needs. This has helped RAKBANK propose strategic, customised programmes aligned to key business objectives.

[1] The 'Group' includes RAKBANK and its subsidiaries.

Workforce: SNAPSHOT

Workforce Overview	2020	2019	2018
Total workforce (excluding trainees, students)	3,417	4,109*	4,374
Full-time employees	3,395	4,085	4,335
Part-time employees	22	24	39
Senior management employees	24	27	27
Middle management employees	1,162	1,317	1,313
Non-management employees (staff)	2,231	2,765	3,034
Trainees and sponsored students (includes only local sponsored students)	25	42	68
Number of nationalities	>48	>50	>50

* The overall employee headcount in the Group dropped by around 16.48% from 2019 to 2020.

Workforce by Age and Gender	2020	2019	2018
Employees age 18-30	658	1,015	1,253
Employees age 31-50	2,663	2,994	3,019
Employees age 51+	96	100	102
Male employees	2,073	2,604	2,762
Female employees	1,344	1,505	1,612
Female employees in middle management	386	425	371
Female employees in senior management*	2	3	1

*Senior management is defined as per the Central Bank metrics.

In 2019, the ratio of male median total compensation to female median total compensation was almost 1:1. RAKBANK has a standard pay structure irrespective of gender. As of December 2020, the Group has around 61% male employees and 39% female employees, sitting above both the national and regional sector average in 2019 and 2020.

RAKBANK continues to offer exciting growth opportunities for all its staff, and this is especially notable for its female employees. In 2020, RAKBANK saw a 5% points increase in the number of female employees at middle management level as a percentage of total employees at the middle management level, from 28% in 2018 to 33% in 2020.

New Hires and Turnover (RAKBANK)	2020	2019	2018
Total New employee hires:	280	705	644
Total new employees by age:			
Age 18-30	126	317	350
Age 31-50	149	384	289
Age 51+	5	4	5
Total employees by gender:			
Male	150	457	393
Female	130	248	251
Employee turnover (voluntary and involuntary):	957	981	1,083
Age 18-30	258	332	335
Age 31-50	668	628	726
Age 51+	31	21	22
Male	663	625	714
Female	294	356	369
Senior management	4	2	1
Middle management	222	253	236
Non-management employees	731	726	846
Employee turnover (voluntary and involuntary) (%) (Total employees separated during the year/average annual headcount)	28%	24%	25%
Employee turnover (voluntary)	368	650	719
Age 18-30	130	245	239
Age 31-50	231	402	475
Age 51+	7	3	5
Male	221	398	421
Female	147	252	298
Senior management	1	1	-
Middle management	67	178	169
Non-management employees	300	471	550
Employee turnover (voluntary) (%) (Total voluntary separations during the year/average annual headcount)	10%	15%	16%
Employee turnover (voluntary) (%) (Total voluntary separations during the year/Total separations during the year)	38%	66%	66%

Training and Development

RAKBANK's workforce is encouraged and supported to grow and develop. The Bank provides a range of training and career development opportunities to encourage and support the growth and development of its workforce, the staff were also encouraged to attend virtual workshops and courses during the pandemic. The below tables display a breakdown of RAKBANKs Training and Development.

Training and Development (RAKBANK)	2020	2019	2018
Total training delivered (hours)	42,592	85,092	67,359
Senior management employees	84	124	148
Middle management employees	23,508	38,922	21,812
Non-management employees	19,000	46,046	45,399
Male employees	18,354	41,241	34,403
Female employees	24,238	43,851	32,956
Average training per employee (hours)	11.9	24.3	15.3
Senior management employees (Total training hours delivered to senior management employees in a year/Average annual senior management headcount)	4.5	6.1	8.5
Middle management employees (Total training hours delivered to middle management employees in a year/Average annual middle management headcount)	19.3	31.4	16.4
Non-management employees (Total training hours delivered to non-management employees in a year/Average annual non-management headcount)	8.1	17.4	14.8
Male employees (Total training hours delivered to male employees in a year/Average annual male employee headcount)	8.2	16.3	12.2
Female employees (Total training hours delivered to female employees in a year/ Average annual female employee headcount)	18.1	30.5	20.6

Employee Engagement and Wellbeing

A happy workforce is a sustainable workforce, which is why RAKBANK is focusing part of its sustainability strategy on employee engagement and wellbeing. The bedrock of this is the anti-discrimination approach outlined in the Group's HR policy. It is supported by opportunities for learning and development, and it is strengthened by providing a safe and fulfilling work environment.

It is RAKBANK's ambition to provide an engaging workspace to retain staff, helping employees to create value as much for themselves as for RAKBANK and its stakeholders. RAKBANK conducts an employee engagement survey through an external, confidential online portal. Upon survey completion, engagement results are communicated to all employees and the respective business units develop action plans based on the results. At the end of the survey cycle, HR conducts employee focus group sessions across the Group.

Employee Engagement and Wellbeing (RAKBANK)	2020	2019	2018
Employee engagement (%)	NA*	63%	60%
Employee absentee rate	0.58%	1.28%	1.30%

*Due to the circumstances related to COVID-19, Employee Engagement Survey was not conducted in 2020

Employee wellbeing is reflected both in the workplace and in everyday life. In 2018 – and continuing throughout 2019 and 2020 – RAKBANK implemented a comprehensive employee wellbeing initiative called 'AFIA', meaning wellness in Arabic. The initiative was designed to promote and support the optimal wellbeing of its employees by offering several wellbeing programmes and activities throughout the year. These programmes include free general health check-ups such as dental and optical screenings, skin and hair analysis and fitness sessions. In addition, employees receive health awareness sessions around mental wellbeing, breast cancer awareness, and work-place ergonomics. Nonetheless, due to the situation that resulted from COVID-19 with most of the Bank's staff 'working from home' during this year, virtual health sessions, talks and exercise workshops were arranged for all employees to which the Bank received an astounding and positive response. Recordings of the mentioned sessions and workshops were also made readily available to all staff via the Bank's internal portal to access whenever they needed.

Furthermore, RAKBANK provides group life and medical insurance cover to all employees and includes comprehensive network coverage and services such as dental and optical in certain cases, which exceeds the Ministry of Labour's requirements. This insurance cover is extended to dependents. Annual revisions are made to the policy based on member utilisation and requirements. For example, additional benefits such as homeopathy and reduction in co-pay from 10% to 0% on outpatient maternity services were added in 2019 based on employee requests. Furthermore, the Group included the flu vaccine and alternative medicine coverage was extended to all the staff members.

To support employees in their family life, RAKBANK is proud to maintain a high return to work rate for employees taking parental leave.

Parental Leave (RAKBANK)	2020	2019	2018
Number of female employees that took parental leave	89	112	100
Number of female employees who returned to work after parental leave ended (return to work)	83	104	96
Number of female employees returned from parental leave who were still employed 12 months after return to work (retention)	NA	84	72
Return to work rate (%)	93%	93%	96%
Retention rate (%)	NA	75%	72%

Nationalisation

In support of the National Vision to develop the local workforce, RAKBANK is working hard to improve the Emirati experience and to attract local talent.

In 2017, the Central Bank of the UAE (CBUAE) introduced a new Nationalisation Strategy for the banking sector. As part of the new strategy, the CBUAE advised an annual points-based Emiratisation target. This target is set at the beginning of the year and must be met by the end of the year.

RAKBANK ensures strict adherence to the nationalisation points system of the UAE to ensure local talent have equal opportunities to enter the workforce and, critically, are supported to develop in their roles. RAKBANK is proud to have exceeded its Emiratisation target of 938 points in 2018, and 1,133 for 2019.

In 2020, RAKBANK had 570 national employees, of which 90% were female and 10% were male. The number of female nationals as a percentage of overall nationals at middle management level increased from 72% in 2018 to 76% in 2020. While the overall percentage of UAE nationals at non-management level reduced from 78% in 2018 to 68% in 2020, the percentage of UAE nationals at middle management level increased from 22% in 2018 to 32% in 2020.

Nationalisation (RAKBANK)	2020	2019	2018
Total Emiratisation Points*	1,273.5 - Operational Emiratisation Points 228 – Retention Points	1,231	949
Total number of national employees **	570	559	526
Number of female national employees	511	500	471
Number of male national employees	59	59	55

* In 2020, the Bank was given 2 separate targets for Emiratisation – 'Operational Emiratisation Points Target' and 'Retention Target'. While the calculation basis of 'Operational target points' is the same as 2019, 'Retention target points' is achieved if the number of Emiratis working for the Bank as at 31 December 2020 is the same as 31 December 2019.

** National employees with family book.

The breakdown of the Group's workforce is clearly articulated in the table below:

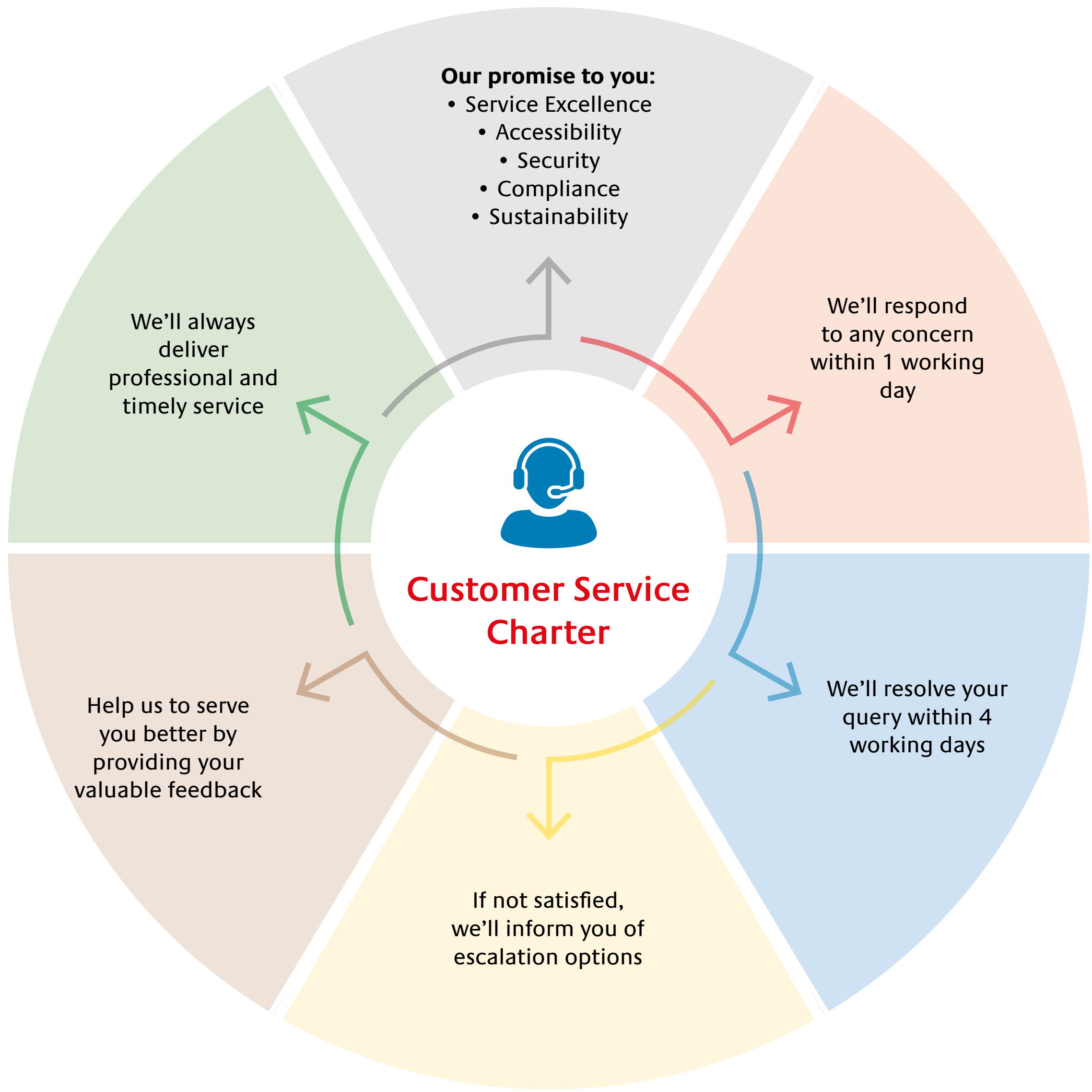
Type	2020	2019	2018
Emirati head count	583	571	537
Expat head count	2,834	3,538	3,837
Total head count	3,417	4,109	4,374
Percentage	17%	14%	12%

Simply Better **Customer Experience**

RAKBANK has centralised and defined its mission, vision, values and goals around the importance of providing a "Simply Better" customer experience across all of our multiple touchpoints. This is mainly because RAKBANK recognises that its customers are imperative stakeholders who form a core part of the Bank's journey towards Service Excellence.

The Bank achieved this by treating every customer engagement with utmost importance across all touch points as this, on its own, is essential to the future growth and continuity of our business, enhancing our products and service offerings in order to become the trusted financial institution of choice. RAKBANK works hard to go above and beyond the basic banking and regulatory requirements to ensure that its customers are satisfied and happy.

RAKBANK commits to always placing its customers' needs and requirements first by focusing on creating a long-lasting relationship and not just making a sale through an all-encompassing Customer Service Charter. The ultimate aim is to entice customers to continue banking with us, share their experiences, and repeat it.



Approach

The Service Excellence Unit (SEU) at RAKBANK initiates various methods in our 'excellence' journey throughout the year that focus on Customer Engagement activities in order to regularly receive their feedback. In addition, our Complaints Handling team continually strives to ensure that all customer concerns are resolved promptly and are not repeated. RAKBANK's Customer Service Charter defines our commitment and turnaround times to all our customers. This also leads the way to building a long-term relationship with our customers based on our Vision, Mission, and Core Values.

Under the umbrella of Service Excellence, the Business Reviews Team conducted forums between various units to review processes and areas of concern raised by departments to reach improvements/ resolution, with the objective of reducing Turn Around Times (TAT) and better service delivery. The SEU team ensures that we use the customer feedback received via various platforms and map it within the development and enhancements of products, services, and experiences with the objective of creating more value to customers.

During the first quarter of 2020, the world and financial system was impacted by the effects of the COVID-19 pandemic and so it was our responsibility as a bank to ensure that we immediately understood the challenges faced by our customers, and support them as partners throughout this challenging period. SEU worked closely with all businesses to set up several channels for customers to be able to continue accessing their banking needs from the comfort of their homes. We launched several initiatives including expanding our digital capabilities, increasing transaction limits for customers, accepting service requests via email, and setting up support teams from across divisions to contact customers and provide relief for individual and corporate customers who have been directly impacted financially by the pandemic. Automatic deferment programmes were put in place and proper communications across channels were aligned to ensure customers are regularly updated and queries are immediately answered.

In addition to the above, the Bank extended additional support to teams that include Contact Centre and Branches in order to set regular communications for customers in case of any queries or emergencies, increased the call and chat monitoring activities to ensure customers are heard and helped according to the standards of excellence. Additionally, the Bank ensured that customers who filled the QR Code surveys received a call within a 2 hour window to obtain instant feedback and support where necessary, and also created a dedicated team to handle all relief programmes concerning our Elite Customers. This resulted in SEU led initiatives such as customer surveys and Voice of Customer programmes (VOC) being temporarily put on hold as the priority was to provide COVID-related aid that was in line with regulator's requests.

The Complaints Management team was working proactively around the clock to ensure that customer concerns were addressed on priority, and even with the impact faced from working from home, the team was able to conclude over 55 initiatives to help ensure that issues identified are permanently resolved along with root/cause analysis to eliminate repetition. The overall TAT of complaints even dropped from 5.8 days in 2019 to 5.3 days in 2020, and to regularly provide the "Simply Better" experience that our customers grew to expect. The SEU team continued to conduct regular intervention sessions with stakeholders to help reduce complaints and errors, which successfully dropped complaints by 9% in the second half of 2020 compared to the first half, and reduced the errors by 33% for the same period.

With all the challenges faced this year, the Bank was still able to successfully adapt through process reviews and continuous feedback from our service stakeholders throughout the year, combined with effective collaboration, team efforts and contributions from multiple stakeholders from across the board. The list of successful initiatives related to customer experience includes the following:

- Automation of Vouchers / Pre-Receipt was launched across the Branches network as an effort to introduce an easy and highly customer friendly interactive method of conducting Teller transactions which reduced the time customers spent completing receipts, eliminated the usage of paper, and was a big step towards our 'Go-Green' approach.
- The Bank's branches and Inbound Call Centre teams were successfully certified again in 2020 as per the ISO Annual Surveillance Audits thus ensuring adherence to the ISO 9001: 2015 Quality Management system. This year, the Bank included the offshore Contact Centre as well – Kochi – for the ISO certification, and the auditors were amazed by the hard work, positivity and great efforts placed by both the Branches and Contact Centres in managing the controls during the pandemic along with the operations.
- The Bank also participated in the 2019 edition of Dubai Service Excellence Scheme through which the Bank was recognised as a winner for DSES, Best Service Performance Outlet Award 2020 - RAKBANK- Al Hamra - Sector. This is an unprecedented award achieved by RAKBANK and a testament of the teams' hard work and dedication to achieve excellence across all the Bank's channels.

The SEU team strived to identify areas of improvements within processes and systems based on customer feedback and internal forums held within units. A total of 142 initiatives were concluded during 2020 by the SEU team with the support of all stakeholders, including data clean-up exercises, consolidation of Service Request Forms including the Corporate FATCA and CRS form, reducing the number of customer forms and signatures, and also creating a customer reference guide for completion of the FATCA –CRS entity forms hosted on the Bank's website to assist customers in easily completing the documentation required.

In 2021, the Bank's goals are to establish a consolidated Customer Experience Score for every employee, increase our VOC programmes across all our front line teams, and connect our non-financial KPIs with competitive Reward and Recognition programmes. This will be achieved by introducing the Central Bank of the UAE's new Consumer Protection Framework that will be implemented in 2021. The SEU team will work on ensuring that the ownership and accountability of driving service excellence is embedded within every staff member of RAKBANK, resulting in initiatives that ensure employees become more aware of their service performances and focus on delivering positive interactions when servicing customers.

Every year, RAKBANK achieves higher customer satisfaction rates and sets performance targets that encourage further improvements. SEU established a Complaints Management Committee during the last quarter of 2020 with the ultimate aim of working alongside the Senior Management in areas that can help implement an "Error Free" environment during 2021, whilst aiming to keep its commitment to resolve customer complaints within 4 working days. Customer issues are to be ranked based on complexity and requirements. The approach in 2021 will focus on utilising existing systems to automate and expand more of our VOC programmes to support real time feedback and resolutions.

Customer Satisfaction Scores in %	2020	2019	2018	2017
Business Banking Score	87%	85%	85%	81%
Personal Banking Score	88%	85%	88%	82%
Overall Customer Satisfaction Score*	85.20%	85.20%	85.70%	83.90%

* The overall Customer Satisfaction Score is based on completed surveys that were conducted across all channels

Accessibility

Customers can always reach RAKBANK quickly and easily through its wide branch and ATM networks.

Alternatively, customers can connect with the Bank 24/7 via the Contact Centre, Digital Banking, website and social media channels.

Service Excellence

RAKBANK strives to deliver personal, timely and error-free service every time a customer visits any of its branches or interacts with its business teams and Contact Center agents through phone or web chat solutions.

RAKBANK aims to respond to any query or concern raised through its digital channels or Contact Center within 1 working day. Customers have RAKBANK's assurance that all complaints will be investigated fairly by an independent unit within the Bank.

Because feedback is vital to help RAKBANK continually improve its services and quality management system, it consistently conducts customer satisfaction programmes to get their opinion on its products, processes and communications, so that it can deliver the services that they need.

Simply Better

Simply Better Community Support

RAKBANK has always been a bank that is SME oriented. It aims to be the go-to bank for SMEs of all sizes and offers an evolving product base to support their unique requirements.

Small to medium sized business owners that faced hardship this past year were encouraged to contact the Bank and discuss options for financial relief that could be available for them. This included reducing RAKBANK's SME Prime lending rate and offering payment relief to customers availing business loans or asset backed loans for a period of up to 6 months for businesses that were impacted by COVID-19 without any additional fees incurred or penalty interest charged.

This resulted in relief funds being made available to our Business Banking customers that needed it during these difficult times, in line with the Central Bank of the UAE's COVID-19 Targeted Economic Support Scheme. Additionally, the Bank offered a discount scheme on overdue charges as well to customers.

Among our diverse product base is RAKstarter, Quick Apply and SMEsouk, products which aim to support SMEs from day one to help them achieve their ambitions.

RAKstarter

The RAKstarter Account is a Zero balance business account for entrepreneurs and start-ups. The product is for young SMEs and was launched in mid-2019. It is available for both Conventional and Islamic Banking.

RAKstarter main features:

- Accounts available in AED, US Dollars, Euros and Pound Sterling (GBP) currencies.
- Attractive interest rates
- No ledger/ fall back fee
- Access to an array of business financing products including cloud based accounting package, business insurance and other banking benefits that are specifically targeted to entrepreneurs
- Unlimited cheque book facility
- Attractive Foreign Exchange and Trade Finance rates
- Competitive interest rate on Fixed Deposits
- Dedicated Relationship Manager
- 24-hour Phone Banking services

Quick Apply

RAKBANK launched a dedicated Digital onboarding platform 'Quick Apply' for Business accounts in the first quarter of 2020.

Quick Apply's main features:

- Offers instant access to Business accounts for every business stage
- Available in both Conventional and Islamic variants
- Start-ups and entrepreneurs can access Zero balance account, free remittances and preferential forex rates, free accounting package & business insurance
- Growing Businesses are able to receive access to low balance account, preferential transaction fees, and a dedicated Relationship Manager
- Established businesses can access the following services via Quick Apply: Select free services; Host of lifestyle benefits; Priority servicing; and a dedicated Relationship Manager

RAKBANK Launches Digital Community Platform for SMEs - ‘SMEsouk’

Back in 2019, RAKBANK made a commitment to support small and medium enterprises (SME) through its digital community platform, SMEsouk. A major focus of the platform is supporting SMEs by connecting them with industries and value-added services, such as licensing, accounting, and insurance. This comes as part of RAKBANK’s recognition of the importance of creating a flourishing ecosystem and environment for SMEs. SMEsouk is a unique digital medium that links SMEs with a list of innovative solutions that help their businesses thrive.

As the leading SME bank in the country, the Bank places their needs and requirements at the core of its strategy. Every year, the Bank hosts a SMEsouk Business Conclave to further reinforce the objectives of continuously offering a wide range of services and solutions that help small businesses reach their full potential, especially during these trying times.

Throughout 2020, the SMEsouk platform launched several innovative banking solutions such as Quick Apply, Simplify Commerce, Cloud based Accounting platform connected to banking platform, and added 44 new merchants to its exhaustive list of existing merchants. Additionally, the platform continuously provides valuable information via Blogs, Webinars, Events, as well as a Digital Video library.

RAKBANK’s role is to assist SMEs during this health crisis by providing the right solutions and information that help them run their operations efficiently and sustainably.

Community Driven Products and an Islamic Window

RAKBANK is keen to offer a diverse product portfolio to support its wide customer base. In addition to SME offerings, the Bank has a range of offers to suit a number of different needs and preferences. In addition, it aims to improve financial literacy for customers through knowledge sharing and reducing cash vulnerability wherever possible.

RAKIslamic

- RAKIslamic has been designed to customise RAKBANK’s services and products to fit Islamic Sharia principles wherever feasible on a financial, personal or business basis.
- This service is structured in accordance with the Central Bank of the UAE’s regulations, and supervised by an independent Fatwa and Sharia Supervisory Board (FSSB).

RAKMoneyTransfer

- RAKMoneyTransfer is a service offering instant remittances within 60 seconds to multiple countries through different corridors.
- The service is partnered with Ripple and is a form of blockchain to enable money transfers with partner banks in the stipulated areas. It aims to improve access to banking services and reduce cash vulnerability.

C3 Edenred Card

- In addition to RAKMoneyTransfer, the C3 Edenred card offers users flexibility with their finances. It is designed to support financial inclusion of the unbanked section of society.
- This product allows workers to subscribe to the service with a bank card, then transfer their money to where they need, such as India or Bangladesh.

Financial Literacy and Inclusion

In the journey to provide Simply Better customer service, RAKBANK offers more than just products. The Bank has developed a suite of offerings that support customers in many different ways, irrespective of their economic standing and experience.

RAKBANK signed an agreement around 3 years ago with C3, a Prepaid Card service provider that is part of the Edenred Group - world leader in prepaid corporate services, in order to provide immediate salary transfers to blue-collared workers on the C3 prepaid payroll card, now known as the Edenred card. This enables RAKBANK to offer payroll solutions for both banked and unbanked employees and companies, thus promoting financial inclusion and opening up new market space for the Bank. The Edenred card is more than just a product offering, it is a core value of RAKBANK to extend banking services across the country and reduce cash vulnerability to all sections of society.

The main objective of the Edenred card is to extend partnerships to blue-collared labourers, people who typically do not have access to banking due to paperwork or price barriers. RAKBANK is implementing its salary cards across the UAE. This product allows workers to subscribe to the service with a bank card, then transfer their money to where they want, such as India or Bangladesh. This means that those who were previously unbanked can now use ATMs and/or transfer money to relatives without having to handle or physically move cash. There are minimal charges applied which are lower than typical exchanges, whilst offering the security of a reputable bank to manage precious personal finances.

Edenred rolled out an initiative to support blue-collared workers when remitting money abroad through special and unique offers whereby every 4 successful remittances that were completed via RAKBANK’s RMT programme and were more than or equal to AED 501 in value, they received the fifth successful RMT free of charge. In just the second month of rolling out this initiative, approximately 170 cardholders took advantage of it.

Furthermore, RAKBANK signed a Performance Based Agreement, also referred to as a PBA, with the United Nations Capital Development Fund (UNCDF) for the execution of a unique project that supports the digital remittance needs of the blue-collared workforce in the UAE through a UNCDF grant. The PBA is in line with the Bank’s CSR pillar of financial inclusion as it further strengthens and accelerates the Bank’s digital remittance solution offerings to countries such as India, Philippines, Pakistan, Sri Lanka, Nepal and Bangladesh, among others.

Community **Support**

Community development is a significant concern of sustainable development across all sectors. RAKBANK supports the prosperity of the communities where it operates by investing in initiatives aimed at enhancing people's wellbeing, by engaging responsibly with local suppliers, and promoting financial literacy to enable customers to make informed financial decisions.

Financial literacy is an essential part of ensuring community members can access the banking products that they require in a safe and meaningful way. Engaging and educating all members of society is a focus for RAKBANK as part of its community support commitments.

In addition to the products and services mentioned, the Bank has developed several accessible platforms to promote financial literacy, such as:

ThinkMoney:
an advice platform addressing productive saving and spending habits, to help customers set financial goals and access professional tips on how to manage finances. ThinkMoney takes the often-complex financial terminology used by banks and financial institutions and presents it in an accessible and detailed glossary. With an aim to fully equip people with basic money management skills, 'ThinkMoney' also helps generate a detailed understanding of the financial planning process.

Economic Outlook:
periodical investment intelligence publications to update clients on current Investment market conditions, asset class performance and investment outlook.

UAE & U:
a blog for customers serving as a knowledge sharing platform.

Financial Inclusion Highlights – C3 Edenred Card

Financial Inclusion products and services	2020	2019	2018	2017
Total number of Active C3 Edenred cardholders	1,424,724	1,132,700	862,328	191,259
Total salary loaded C3 Edenred cardholders (AED billion)	15.70	13.94	6.27	0.63

Roadshows on Financial Literacy and Services

RAKBANK is committed to improving Financial Literacy across the different tranches of society. As such, the Bank conducts Financial Literacy Roadshows which facilitate engagement with labour camps and offer financial engagement lectures.

Moreover, the Bank performs service roadshows and training across all branches with the support of senior management across various departments, to emphasise the importance of supporting customers and offering a better customer experience.

Customer Service: Audits

Finally, to ensure RAKBANK's commitments are delivered on the ground, audits are conducted to check that all staff in customer facing roles meet the required levels of service standards when interacting with customers.

Supporting Local Communities

As it maintains its growth in the market year after year, RAKBANK has managed to create a place for itself within the UAE banking industry. It remains focused on its Corporate Social Responsibility (CSR) commitments, which are an essential element in the growth of RAKBANK and its development.

Taking a comprehensive approach towards its social responsibilities, RAKBANK is involved in a plethora of different programmes and initiatives. The Bank runs a gamut of activities from charity, sporting events, environmental and sustainability initiatives, awareness campaigns, Emiratisation programmes, and provides a conducive ecosystem to help SMEs thrive and empowers people with disabilities, among other efforts.

RAKBANK realises its commitments to Emirati society should extend beyond providing quality banking services and should fulfil its role as a supporting pillar to the collective efforts to make the UAE and the world a better place for tomorrow.

INDIMAJ Empowering People with Disabilities by Offering Extensive Work Experience Programmes

RAKBANK focused a part of its corporate social responsibility strategy on the efforts of the Federal National Council (FNC) in December 2015. This came in an effort to support people with disabilities across the UAE society, and included the access to opportunities in the workforce, with the main goal of supporting their independence.

The RAKBANK-INDIMAJ programme, which translates to integration in English, began with an aim to empower people with disabilities by leveraging wide-ranging experiences in education and career opportunities. The objective of the RAKBANK-INDIMAJ programme is to help students succeed in a working environment by creating unique experiences and providing appropriate tools to build confidence and grow competencies. The outcome was a comprehensive learning plan, which assisted the students' development and helped them flourish during their tenure with RAKBANK, exceeding expectations.

RAKBANK Employees' Walk for Education

On 14 February 2020, before COVID-19 and its shocking aftermath, over 160 employees of RAKBANK along with their families joined Dubai Cares' annual Walk for Education, a 3 kilometre walk in solidarity with the millions of children in developing countries around the world who walk an average of 3 kilometres to receive their education.

This initiative is an opportunity for everyone to join hands in support of a great cause. More than 15,000 people from all occupations and lifestyles responded by coming to the Dubai Creek Park. RAKBANK celebrated its firm commitment to community support and expressed its delight by collaborating with Dubai Cares. Initiatives like these are in line with RAKBANK's social responsibility objectives, enabling the Bank to give back to the community.

The 11th edition of the Walk for Education experienced a significant increase in its participants, mainly from corporate and educational institutions in the UAE.

COVID-19 and its Implications on RAKBANK's Employee Volunteering Programmes

Each year, the Bank supports several initiatives hosted by Dubai Cares, Goumbook, UAE Banks Federation, and more. This unfortunately came to a halt due to the onset of the novel coronavirus (COVID-19). Nonetheless, we prioritised the health and wellbeing of our employees while adhering to the government's directive on social distancing. We continued our pursuits as the virus affected the less fortunate like labourers.

In line with the strategies of the UAE Government and the World Health Organisation on flattening the curve of COVID-19, RAKislamic, the Islamic Banking window of RAKBANK, played an active role in containing the spread of the virus by partnering with Thumbay University Hospital, in an initiative to sponsor PCR tests and medical screenings of blue collared workers based in Dubai and Ras Al Khaimah.

The initiative prioritised blue-collared workers who were showing evident symptoms of the virus and the COVID-19 test results were delivered within 24 hours of the swab test. Labourers in Ras Al Khaimah visited the Thumbay University Hospital, Al Jerf in Ajman, while the ones in Dubai visited the OPD Complex, Thumbay Hospital in Dubai.

RAKBANK Employees Volunteer to Conserve Ghaf Trees

Before the COVID-19 wave of 2020, 30 of the Bank's employees from various departments volunteered in the 'Give a Ghaf' initiative, in cooperation with Goumbook. The volunteers planted 180 Ghaf seeds in an effort to help protect one of UAE's most valuable trees, which is considered to be one of the main symbols of the living desert. Ghaf *(Prosopis cineraria)* is a species of flowering tree in the pea family. It is native to arid portions of Western Asia and the Indian Subcontinent, including the UAE.

There is a decline in Ghaf trees in the UAE, and Goumbook is leading the Ghaf conservation efforts by giving an opportunity to UAE residents to plant a wild Ghaf and preserve its aesthetic, cultural and ecological significance. This falls in line with RAKBANK's efforts to contribute toward conserving the environment. An indigenous species in the region and to the UAE, the Ghaf tree is a drought-tolerant, evergreen and sturdy tree, capable of handling the harsh UAE desert conditions.

Preservation of **Natural Resources**

Managing Environmental Impacts

Climate change is both the driving force behind - and biggest challenge to – sustainability across all sectors of industry and society. The Group takes seriously the need to support national and international efforts to preserve natural resources in the areas that it has influence. Step one is to focus on assessing and disclosing its resource use so that the Group can continue to reduce its impact in meaningful, measured ways.

Through the significant structural and process changes over the past 3 years, there have been significant changes in resource use. For example, thanks to digitisation the Group is seeing a year on year drop in paper usage, and it is recycling the majority of all paper used. In 2020 the Group recycled approximately 95% of its consumed paper.

Materials Consumption and Waste	2020	2019	2018
Total paper consumption (kg)	82,374.50	160,220.50	228,808.00
Total paper recycled (kg)	78,792	80,944	131,293

* Consumption data does not include pre-printed forms and applications; hence 2018 recycling data is higher than the consumption data

Resource Use: Snapshot

Resource	Unit/Calculation	2020	2019	2018
Electricity	kWh	24,603,710	27,557,256	27,547,663
Indirect energy use	GJ	88,573	99,206	99,172
Energy usage (Scope 2)	GJ	88,573	99,206	99,172
Energy intensity	GJ/employee	25.92	24.14	22.67
GHG emissions (Scope 2)	CO2e (tonnes)	19,456.43	27,064.33	24,714.72
Emission intensity	CO2e (tonnes)/ employee	5.69	6.59	5.65
Generator fuel consumption (Diesel)	Litre	-	9,835	-
Vehicle fuel consumption (Gasoline)	Litre	150,524	317,034	257,330
Total workforce	Number	3,417	4,109	4,374
Total space across all the Group's facilities (branches, offices, etc.)	little 3	150,336	154,351	154,916

Water Consumption	Unit/Calculation	2020	2019	2018
Total water consumption	Litre	55,664,894	61,508,158	61,383,752
Water consumption intensity	Litre/employee	16,290.57	14,969.13	14,033.78

A Bank to Trust
(Governance)

Our Commitment to **Good Governance**

Governance is a cornerstone of sustainable business in the finance sector, and RAKBANK is always working to be a bank to trust. We conduct our business with transparency, accountability and integrity by maintaining the highest standards of corporate governance, and lead in instituting preventative measures to eliminate any form of bribery, corruption, and financial crime including money laundering, terrorism financing, and fraud.

A number of regulations were introduced in 2019 and 2020 relating to all aspects of Corporate Governance with the most relevant being the Corporate Governance Circular No. 83/2019 issued by the Central Bank of the United Arab Emirates (CBUAE), and the decision of the Chairman of the Board of Directors of the Securities Commission and Commodities (SCA) No. (03/R.M) of 2020 concerning the Approval of the Joint Stock Companies Governance Guide. The amendment of the Companies Law offers guidance on matters related to Corporate Governance.

RAKBANK aspires to attain the highest standards of ethical conduct, complete transparency and maintain full compliance with the laws, rules and regulations that govern the Bank's businesses. The Bank's Corporate Governance overall framework provides an overview of the Corporate Governance structures, principles, policies and practices of RAKBANK, which helps meet its responsibilities to stakeholders and protect the business. The framework is overseen by the RAKBANK Board of Directors and its provisions are in alignment with the applicable governance expectations of the Bank's regulators: the UAE Central Bank and the UAE Securities and Commodities Authority.

In 2020, the Bank assessed its Corporate Governance framework in line with the new regulatory requirement and best practices to introduce a series of initiatives. In addition, an independent External Board Assessment was conducted.

Furthermore, the Board Nomination and Remuneration Committee articulated the basis of the Bank's Director Development Programme for its Board of Directors, offering RAKBANK Board and the Group Boards access to training and a number of webinars in the areas of the latest trends in Corporate Governance, the future of boards, ESG, brief on AML/CFT/economic sanctions, financial crimes and the related obligations of the Board and Senior Management as well as a brief on Risk and Subsidiary Governance. Likewise, a review of the Board Governance structure resulted in changes to its Board committees, responsibilities and Management Committees reporting lines.

The Board of Directors of RAKBANK have set a number of key policies for the Bank, which include:

- Policy on Related Party Transactions which is designed to ensure that transactions with Related Parties are conducted on principles of transparency and integrity at arm's length, safeguarding the Bank and the Group's resources from being misappropriated or misapplied. The Policy also aims to prevent persons and their relatives from benefiting from such transactions or having access to the process of granting and managing Related Party Transactions.
- Share Dealing Policy which is designed to help directors, officers and employees comply with insider trading laws and to prevent even the appearance of improper insider trading.
- Board Selection and Appointment Policy which incorporates Gender Diversity.
- Whistleblowing Policy - is designed as a control to help safeguard the integrity of RAKBANK's financial reporting, its business dealings and to support adherence to the Code of Conduct.
- Code of Conduct and Ethics – The Bank has adopted a Code of Conduct and other internal policies and guidelines, consistent with the Bank's purpose and values, and to comply with the laws, rules and regulations that govern the Bank's business operations.
- Board Code of Conduct.

The Board of RAKBANK is responsible for providing adequate oversight of the Group, while respecting the legal independence of its subsidiaries. The Board seeks to ensure that the Bank's internal control framework takes into account the material risks to which the Group and its subsidiaries are exposed to and is planning to work closely with its subsidiaries in 2021 on establishing an enabling subsidiary governance structure.

Part of its commitment to good governance is the Management's commitment to transparency and communication with the Bank's shareholders and stakeholders. The dedicated Investor Relations function aims to support the shareholders and offers investors, analysts, and other stakeholders access to Management.

This is the first year that RAKBANK embarked on an Integrated Annual Report. Integrated disclosures indicate the relations between various operational and functional units of a given company, combined with the resources they use or affect. The main purpose of RAKBANK's integrated disclosure is to demonstrate a comprehensive image of the operational, financial, social and sustainable activities of the Bank. As disclosures are company-specific, the present Integrated Annual Report focuses on RAKBANK's business model and key activities therein. The Board has supervised the publishing of this report, ensuring the combination of several branches of reports (financial, governance, sustainability, etc.) to highlight RAKBANK's ability to create and maintain value across the business.

Board of Directors

The Board of Directors' primary responsibility is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies, including its customers, employees, suppliers and local communities. In all actions taken by the Board, the Directors are expected to exercise their business judgement in what they reasonably believe to be in the best interests of the Bank and to comply with relevant laws, regulations, rules and best banking practices. In discharging that obligation, directors may rely on the Bank's senior executives, external advisors and auditors.

The Board Responsibilities cover the following areas in terms of Corporate Culture, Governance, and Stakeholders rights, Sharia Governance, Risk, Credit, and Internal Controls, Strategy, Financial, Transparency and Disclosure, Management Oversight, and Nomination and Remuneration.

RAKBANK's Selection and Appointment Policy sets the basis for a clear, fair and rigorous process for identifying and selecting all the candidates for the Board of Directors of the Bank.

Board of Directors

The Board of Directors is composed of 7 members:

Name	**H.E. Mohamed Omran Alshamsi**
Category	Chairman – Independent, Non-Executive
Experience and qualifications	H.E. Mohamed Omran Alshamsi has 35 years of experience with Etisalat, retiring as Chief Executive Officer and Chairman in 2012. He is currently Chairman of the Board of Directors for Ras Al Khaimah Properties Company, Chairman of the Board of Trustees for the American University in Ras Al Khaimah, and Chairman of the Board of Trustees of RAK Medical and Health Science University.
Period spent as a Board member from the date of first election	Starting from 2015
Membership and positions at any other joint- stock companies	• Chairman of the Board of Directors for Ras Al Khaimah Properties Company
Main Positions at any other important regulatory, government or commercial entity	• Chairman of the Board of Trustees for the American University in Ras Al Khaimah • Chairman of the Board of Trustees of RAK Medical and Health Science University.

Name	**H.H. Shaikha Amneh AlQasimi**
Category	Board Member - Independent, Non-Executive
Experience and qualifications	As Chairman of the Investment and Development Office (IDO), the strategic investment arm of the Emirate of Ras Al Khaimah in the United Arab Emirates (UAE), H.H. Shaikha Amneh AlQasimi is responsible for optimising the investments of the Emirate. She also serves on the boards of several of the IDO's portfolio companies. Prior to her role as Chairman of the IDO, Shaikha Amneh was a member of Goldman Sachs' Investment Strategy Group in New York, where she focused on identifying tactical asset allocation opportunities in emerging market currencies and equities. Shaikha Amneh earned an MBA from the Stanford Graduate School of Business and a Bachelor of Science degree in Business Administration from the American University of Sharjah.
Period spent as a Board member from the date of first election	Starting from 2018
Membership and positions at any other joint- stock companies	• Nil
Main Positions at any other important regulatory, government or commercial entity.	• Chairman of the Investment and Development Office (IDO)

Name	**H.E. Engineer Sheikh Salem Al Qasimi**
Category	Board Member – Non-Independent, Non-Executive
Experience and qualifications	H.E. Engineer Sheikh Salem Al Qasimi is a member of the Executive Council of the Government of Ras Al Khaimah. He is also Chairman of the RAK Department of Civil Aviation, a member of the General Civil Aviation Authority, founder and Chairman of the UAE Fencing Federation, Member of the UAE Olympic Committee, and Chairman of the Arab Fencing Council, and Chairman of Ras Al Khaimah National Travel Agency (RANTA).
Period spent as a Board member from the date of first election	Starting from 2000
Membership and positions at any other joint- stock companies	• Nil
Main Positions at any other important regulatory, government or commercial entity.	• Chairman of the RAK Department of Civil Aviation • Member of the Executive Council of the Government of Ras Al Khaimah • Member of the General Civil Aviation Authority • Founder and Chairman of the UAE Fencing Federation • Member of the UAE Olympic Committee • Chairman of the Arab Fencing Council • Chairman of Ras Al Khaimah National Travel Agency (RANTA)

Name	Mr. Ahmed Essa Al Naeem
Category	Board Member – Independent, Non-Executive
Experience and qualifications	Mr. Ahmed Essa Al Naeem has over 39 years of experience with the Ras Al Khaimah government. He is the former Chairman of Ras Al Khaimah's Electricity and Water Authority, General Manager of RAK National Oil Company, and RAK Gas. He is also a former member of the Ras Al Khaimah Municipal Council and the Ras Al Khaimah Chamber of Commerce and Industry and Agriculture and has held additional posts in a number of ministries. Mr. Al Naeem is currently Chairman of RAK Trade Centre, Al Naeem Mall, Al Naeem City Centre, and Khalifa Mall. Additionally, he is Vice Chairman of RAK Insurance and Director of Majan Printing.
Period spent as a Board member from the date of first election	Starting from 2009
Membership and positions at any other joint- stock companies	• Vice-Chairman of RAK Insurance PSC
Main Positions at any other important regulatory, government or commercial entity.	• Chairman of RAK Trade Centre, Al Naeem Mall, Al Naeem City Centre, and Khalifa Mall • Director of Majan Printing

Name	Mr. Salem Ali Al Sharhan
Category	Board Member - Independent, Non-Executive
Experience and qualifications	Mr. Salem Ali Al Sharhan worked in Emirates Telecommunication Corporation (ETISALAT) for 23 years until May 2011 as Group Chief Financial Officer, during this time he represented the company in many of international telecom companies Boards. At present, Mr. Al Sharhan is the Chairman of RAK Insurance Board, Board member of Dubai International Financial Centre (DIFC), Member of the Board of Trustees of American University of Ras Al Khaimah as well as Member of Board of Trustees of Ras Al Khaimah Medical & Health Science University. Mr. Al Sharhan holds a BSc in Accounting and Business Administration from United Arab Emirates University, UAE
Period spent as a Board member from the date of first election	Starting from 2012
Membership and positions at any other joint- stock companies	• Chairman of RAK Insurance PSC
Main Positions at any other important regulatory, government or commercial entity.	• Board member of Dubai International Financial Centre (DIFC) • Member of the Board of Trustees of American University of Ras Al Khaimah • Member of Board of Trustees of Ras Al Khaimah Medical & Health Science University.

Name	Mr. Rajan Khetarpal
Category	Board Member – Independent, Non-Executive
Experience and qualifications	Mr. Khetarpal has 36 years of banking experience with Indian and UAE Banks. His key competencies are in the areas of Corporate and Commercial Banking, Project Finance, Debt Capital Markets, Risk Management and General Management. Mr. Khetarpal was Deputy General Manager and Head Global Debt Capital Markets in Emirates NBD and later the bank's General Manager of Risk. Mr. Khetarpal was also the Chief Integration Officer and CEO Designate for Emirates NBD Egypt.
Period spent as a Board member from the date of first election	Starting from 2015
Membership and positions at any other joint- stock companies	• Nil
Main Positions at any other important regulatory, government or commercial entity.	• Nil

Name	Mr. Kantic Dasgupta
Category	Board Member – Independent, Non-Executive
Experience and qualifications	Mr. Kantic Dasgupta is a highly qualified risk management professional with extensive banking experience across all aspects of Risk Management including Credit, Market and Operational Risk. Before joining RAKBANK as a Board member, Mr. Dasgupta spent around two and a half years as Adviser and Consultant on Risk to Abu Dhabi Islamic Bank, a role that included the oversight of strategic issues and where he was the Chairman of the Governance and Risk Policy Committee. Mr. Dasgupta came to the UAE in 2007 following his appointment as CRO for Mashreq Bank. Prior to that, he spent a long and successful career with Citibank spanning multiple geographies and a variety of senior roles in Risk Management.
Period spent as a Board member from the date of first election	Starting from 2017
Membership and positions at any other joint- stock companies	• Nil
Main Positions at any other important regulatory, government or commercial entity.	• Nil

Executive **Management**

From L-R:

Venkat Raghavan
Chief Compliance Officer

Lina Yahya
Associate Director of Service Excellence

Frederic de Melker
Managing Director of Personal Banking

Rahul Oberoi
Managing Director of Wholesale Banking

Saleh Ali Saleh
Director of RAK Business

Zeina Sammakieh
Company Secretary

Jean Pierre Le Roux
Managing Director of Financial Institutions Group and International

Geoff Stecyk
Chief Operating Officer

Deepak Majithia
Chief Financial Officer

From L-R:

Ahmed Yousef
Chief Human Resources Officer

Nicola Thompson
Chief Internal Auditor

Mahadevan Radhakanthan
Chief Credit Officer

K.S. Ramakrishnan
Chief Risk Officer

Peter England
Chief Executive Officer

Ghalia Bushnaq
General Counsel

Abdul Karim Juma
Director of Islamic Banking

Dhiraj Kunwar
Managing Director of Business Banking

Vikas Suri
Managing Director of Treasury

*Geoff Stecyk led the Bank as Chief Operating Officer until December of 2020

Governance, Transparency **and Accountability**

Board Gender Diversity

The Board acknowledges the benefits of diversity, particularly gender diversity, on the performance of the Board and the Bank. A key component of the Board agenda is advancing a framework for inclusion and promoting gender diversity at the Board's level.

The Board of Directors of the National Bank of Ras Al-Khaimah PSC includes, among its members, H.H. Shaikha Amneh AlQasimi, who is an Independent, Non-Executive Board Member, therefore, the Bank's female Board representation is 14%.

2020 Board Meetings

Number of Board meetings held during the 2020 fiscal year along with their convention dates.

Ser.	Date of meeting	Number of attendees	Names of absent members
1	29 January	7	Nil
2	17 March	7	Nil
3	30 April	7	Nil
4	2 June	7	Nil
5	23 July	7	Nil
6	27 October	7	Nil
7	16 December	7	Nil

On 5 February 2020 the Board of Directors held a meeting by circulation.

Board Members Remuneration

The total remunerations paid to the Board Members for 2019 was AED 5,040,000 (inclusive of VAT), compared to the proposed total of AED 4,200,000 (inclusive of VAT) remunerations to be paid to the Board Members for 2020, which will be presented at the Annual General Assembly meeting for approval.

RAKBANK Board Members did not receive additional allowances, salaries or fees other than the allowances for attending the Committees meetings.

Board Committees

The Board has established the minimum permanent committees responsible for Audit, Risk, Nomination and Compensation as stipulated in the Applicable Laws and Regulations. In addition, the Board has established the Board Credit Committee and Board Strategy Committee. The Board may establish any specialised committee to monitor or study or implement any matters as it deems suitable.

Board Audit Committee

The Board has established a Board Audit Committee to assist the Board in the oversight, monitoring and review of the following:

- The quality and integrity of financial statements and financial reporting
- The effectiveness of governance, risk management and internal control systems
- Compliance with laws and regulations
- Compliance with the Group Code of Conduct
- The Group Internal Audit (GIA) function
- The statutory audit process and External Auditors

Ser.	Name		Committee name	Meetings Nos.
1	H.E. Sheikh Salem Al Qasimi	Chairman	Board Audit Committee	7/7
2	H.H. Shaikha Amneh AlQasimi	Member	Board Audit Committee	7/7
3	Mr. Salem Ali Al Sharhan	Member	Board Audit Committee	7/7

Board Risk Committee

The Board has established a Board Risk Committee to assist the Board in fulfilling its responsibility with respect to the oversight of the Bank's risk management and compliance framework specifically relating to the Bank's overall risk appetite, and management of specific risk areas which includes Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Interest Rate Risk, IT Risk, Business Continuity Risk and Compliance, including the significant risk management policies used in managing these risks.

Ser.	Name		Committee name	Meetings Nos.
1	H.E. Sheikh Salem Al Qasimi	Chairman	Board Risk Committee	4/4
2	H.H. Shaikha Amneh AlQasimi	Member	Board Risk Committee	4/4
3	Mr. Kantic Dasgupta	Member	Board Risk Committee	4/4

Board Nomination and Remuneration Committee

The Board has established a Board Nomination and Remuneration Committee to assist the Board in areas of board composition; nomination and remuneration of board members and senior management; establishing and managing the induction and ongoing director development programmes; assessment of the Board, its committees, and directors; succession planning for Board Members and Senior Management, Board governance framework and policies; and HR policies.

Ser.	Name		Committee name	Meetings Nos.
1	H.E. Mohamed Omran Alshamsi	Chairman	Board Nomination and Remuneration Committee	2/2
2	H.E. Sheikh Salem Al Qasimi	Member	Board Nomination and Remuneration Committee	2/2
3	Mr. Ahmed Essa Al Naeem	Member	Board Nomination and Remuneration Committee	2/2

Board Strategy Committee

The Board Strategy Committee has been established by the Board of Directors to assist the Board and give guidance to the CEO and Senior Management in managing the affairs of the Bank in areas of the Bank's overall strategy, operational and financial performance monitoring, and budgeting.

Ser.	Name		Committee name	Meetings Nos.
1	H.H. Shaikha Amneh AlQasimi	Chairman	Board Strategy Committee	8/8
2	Mr. Salem Ali Al Sharhan	Member	Board Strategy Committee	8/8
3	Mr. Rajan Khetarpal	Member	Board Strategy Committee	8/8

Board Credit Committee

The Board Credit Committee has been established by the Board to assist the Board of Directors to primarily manage credit risks for all segments of the Bank (Personal Banking, Business Banking, Wholesale Banking, FI, Trade Finance and Treasury related asset portfolios), review, approve or recommend individual or group credits within the authorities delegated by the Board.

Ser.	Name		Committee name	Meetings Nos.
1	Mr. Salem Ali Al Sharhan	Chairman	Board Credit Committee	42/43
2	Mr. Rajan Khetarpal	Member	Board Credit Committee	43/43
3	Mr. Kantic Dasgupta	Member	Board Credit Committee	43/43

Internal Controls

The Board acknowledges its responsibility for the Bank's Internal Controls System, review of its work mechanisms and ensures operation effectiveness. All of the Bank's Risk Management Policies; including the Internal Controls, Enterprise Risk, ICAAP and the Bank's overall Risk Appetite statement is approved by the Board Risk Committee covering the Risk and Control governance within the Bank, in addition to the regular Board Risk Committee pack and a quarterly Board Risk Committee pack.

According to the SCA Corporate Governance regulations article 76 & 77 (Integrated Reporting) and Corporate Governance CBUAE regulation 2019/83, the declaration for Internal Controls comes along with the Risk Framework, Internal Audit and Compliance statements. RAKBANK structures the Internal Controls function as part of the Risk Management Framework and Policies and there is no separate Internal Control reporting to a Board level committee, but the complete Internal Controls assessment is included in the Risk Management's regular reporting and the Bank's Risk Appetite Statement to the Board Risk Committee. There is a quarterly Risk report submitted to a Board level committee, which includes the Internal Control framework and its effectiveness.

Furthermore, no Major Problems have been detected for 2020 by the Internal Control Department. The Bank aligns itself with reporting standards of any issues with that of the Central Bank of the UAE and the SCA, including compliance. Lastly, no major violation to be reconciled back with any major reporting done to the CBUAE or SCA, also including the compliance function.

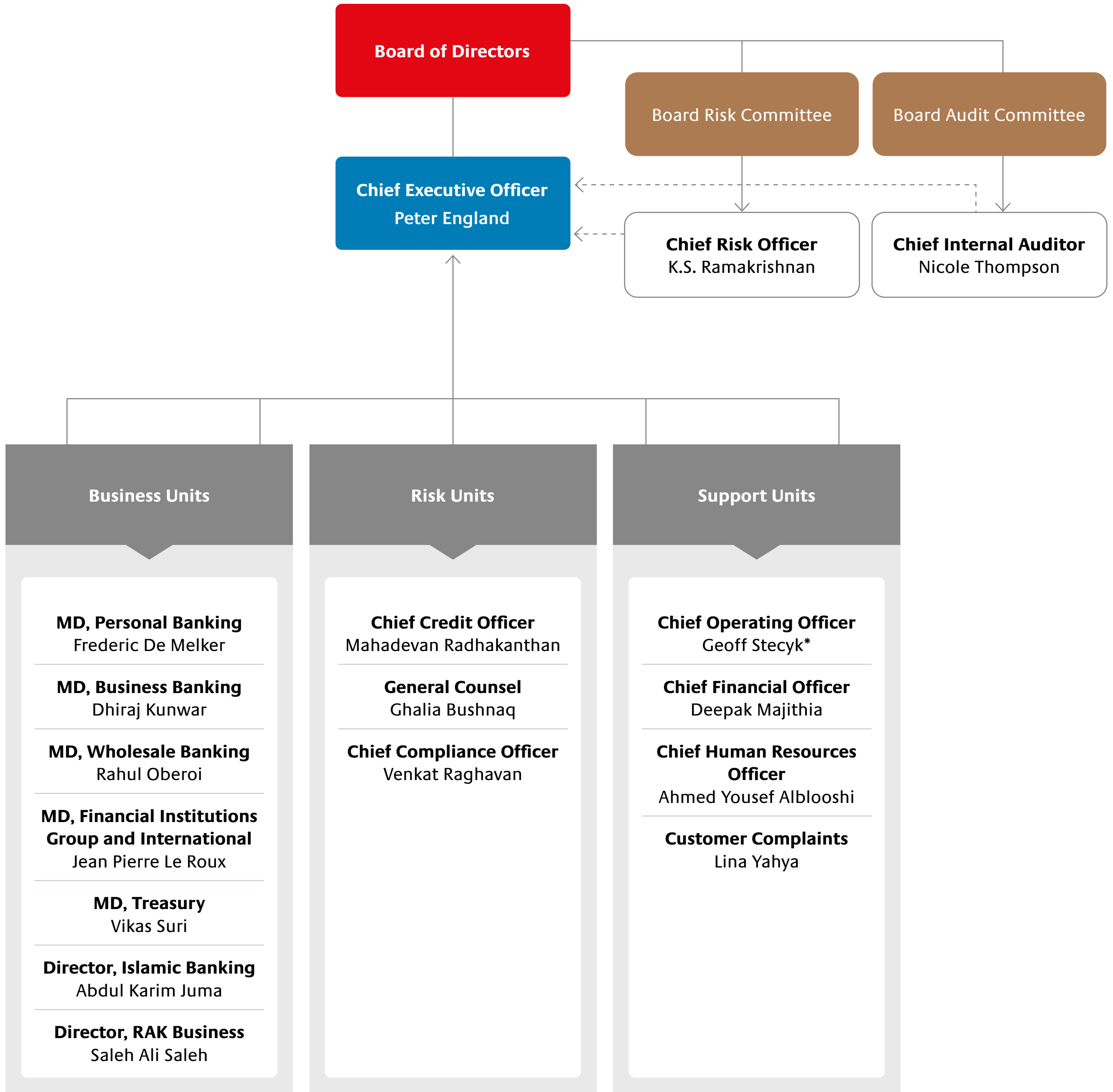
Executive Management

There is a clear demarcation of roles and responsibilities between the Board and Senior Management that fosters an environment of transparency, confidence and mutual trust in which the Board is able to constructively challenge and provide guidance to Management.

The Senior Management operates within the organisational structure and holds clearly defined delegated authorities as determined by the Board.

The Executive Management team supports the Chief Executive Officer (CEO) in the preparation of strategies, budget, policies and procedures, and handling of significant or fundamental operative matters as well as ensuring effective internal communications. The CEO operates in accordance with the authority delegated to him by the Board of Directors through a Power of Attorney. The CEO, with support from the Executive Management team, is responsible for the day-to-day management of the business, in line with the annual Strategy Plan approved by the Board of Directors.

The following illustrates the complete organisational structure of the Bank.



*Geoff Stecyk led the Bank as Chief Operating Officer until December 2020

External Audit

The External Auditor is appointed annually at the Annual General Assembly. The Audit Committee is responsible for recommending to the Board the appointment, re-appointment, and rotation of the auditing firm and/or the principal partner in charge of the Bank's audit to the Board.

The principal reporting line of the External Auditor is to the Audit Committee. The Audit Committee meets with the External Auditors regularly to review and discuss with them the scope, quality, effectiveness and conclusions of their work. The Committee also considers the provision of non-audit services performed by the Auditors to ensure that they are objective and independent of the Bank.

The External Auditor attends and presents to the Board the results of the annual audit of the accounts. In addition, they also attend the General Assembly meeting and are available to answer questions.

The External Auditor submits an overview of the Company's Auditor Report to shareholders. The Bank's External Auditor for year 2020 is PricewaterhouseCoopers (PwC), one of the world's big 4 auditors. We appointed them in year FY 2019 replacing Deloitte and Touche (ME) who had completed 3 years auditing the Bank.

Statement of fees and costs for the audit or services provided by the External Auditor, according to the following schedule:

Name of the audit office and partner auditor	PwC (Ras Al Khaimah Branch), License no. 41548, Julphar Towers, Level 24, Office No. 2402, Ras Al Khaimah - United Arab Emirates Stuart Scoular is the Partner.
Number of years he served as the Company External Auditor	Reappointed From 1 January 2020 for 1 year Previously audited the Bank and its subsidiaries for FY 2019.
Total financial statement audit fees for FY2020 (AED)	AED 838,162.50 including VAT (Excluding out of pocket expense)
Fees and costs of other audit services other than auditing the financial statements for 2020 (AED), if any, and in case of absence of any other fees, this shall be expressly stated.	AED 22,172.73
Details and nature of the other services (if any). If there are no other services, this matter shall be stated expressly.	Agreed upon procedures related to unclaimed dividend report to Securities Commodities Authority of UAE.
Statement of other audit services that an external auditor other than the Company Accounts Auditor provided during 2019 (if any). In the absence of another external auditor, this matter is explicitly stated.	Auditor name: PwC Details of provided services: Agreed upon procedures related to unclaimed dividend report to Securities Commodities Authority of UAE.

Company's Auditor had NO reservations included in the interim or annual financial statements for 2020

Related Party Transactions

Statement of the details of transactions made with the related parties (stakeholders) during 2020, include the following:

	2020 (AED '000)
Transactions during the period	
Interest income	9,574
Interest expense	34,094
Commission income	621
Directors' and key management personnel's remuneration, attendance and other expenses	32,229

Balances

	2020 (AED '000)
Loans and advances	
Shareholders and their related companies	300,999
Directors and their related companies	35,961
Key management personnel	3,001
Total	**339,961**
Deposits	
Shareholders and their related companies	2,107,864
Directors and their related companies	10,327
Key management personnel	18,503
Total	**2,136,694**
Irrevocable commitments and contingent liabilities and forward contracts	
Shareholders and their related companies	166,161
Directors and their related companies	40
Total	**166,201**
Insurance related receivables	
Due from policy holders	11,150
Due to policy holders	59

Community Investment Breakdown

Statement of the cash and in-kind contributions made by the Bank during 2020 in developing the local community and preserving the environment.

Community investment and volunteering	2020
Value of investment in local community (AED)	640,808
Number of beneficiaries of community activities	7
Total number of employee volunteering hours	750
Number of volunteers	280

Nature of initiative	Number of regular beneficiaries
Environmental/Social/ Economic	Dubai Chamber
Environmental	Beach Run
	Goumbook
Social	RAK Autism Centre
	Al Jalila Foundation
	Dubai Cares initiatives
	Dubai Centre for Special Needs
	Cycle Safe Dubai
	Dubai Economy – Emirati Women's Day
	RAK Fine Arts Festival
Economic	Australian Business Council
	British Business Council
	ACCA

Risk Framework

Business Ethics and Compliance

RAKBANK's stakeholders rightly demand a bank that adheres to decent ethics and compliance to ensure their assets are protected, and RAKBANK demands the same of itself. The Bank has established processes to ensure compliance at all times with regulatory requirements applicable to the business. The Bank adheres to the principles of the UAE Banks Federation Code of Conduct and relies on its internal Staff Code of Conduct to guide its ethics and compliance across the Bank.

RAKBANK also conducts various awareness programmes through online and classroom sessions to convey recent trends capturing immediate risks and ensuring Bank staff are aware of their responsibilities with respect to preventing and reporting of incidents related to fraud/corruption activities. In the Bank's HR policy, it is clearly stated that:

"The Bank is committed to achieving its business goals legitimately. Offering or accepting a bribe contravenes this commitment and is illegal. Employees must never offer, solicit or accept a bribe in any form for the purpose of obtaining or retaining business or to gain an improper advantage for the Bank."

RAKBANK also actively participates in UAE banking fraud forums and various initiatives by Dubai Police to ensure timely identification and elimination of new fraud activities in the market.

The Board Risk Committee endorses the Bank's overall risk management strategy and appetite, providing the necessary direction concerning risk management measures undertaken by the Bank.

Executive accountability for continuous assessment, monitoring and management of the risk environment and efficacy of risk management procedures sits with executive level committees (the Management Risk Committee and the Management Credit Committee). Various risk functions are centralised under an independent risk division headed by the Chief Risk Officer (CRO) who reports to the Board Risk Committee.

Internal Audit

The role of internal audit is to provide independent assurance to the Board and support the Board and Senior Management in promoting an effective governance process and the long-term strategies of the Bank. The Chief Internal Auditor (CIA) reports directly to the Board Audit Committee, which oversees the functioning of GIA. The Board Audit Committee, in addition, monitors the appropriateness and integrity of the published financial statements of the Bank and its subsidiaries, approves the terms of engagement of External Auditors, receives and reviews regulatory inspection reports from the UAE Central Bank and other such regulators.

On an annual basis, Group Internal Audit (GIA) conducts a comprehensive top-down risk assessment of RAKBANK's Internal Control environment. This assessment incorporates all aspects of the Bank's business activities, products, services, policies and processes, including those of its subsidiary entities. Risks arising from the Group's operations are considered in conjunction with emerging and behavioural risk parameters to form the basis of the annual audit plan, which systematically includes coverage of the Bank's Corporate Governance Framework, Conduct Risk and processes and controls supporting the Anti-Bribery policy, AML and CTF policy, Corporate Communications, the Employee Code of Conduct, procurement activities, the Bank's complaint management processes and the Whistleblowing Team.

Risk-based audits were performed on many of the above-mentioned processes as well as at a broad level across the Bank in aspects of governance, risk, and control, which contributes to enhanced stakeholder confidence and trust in the Bank.

GIA also supports RAKBANK's strategic initiatives and is an active proponent of the Bank's Emiratisation and employee development programmes. As the third line of defence, Group Internal Audit is an independent function, with responsibilities for oversight and assurance within the Bank, including assurance over CSR activities.

RAKBANK has fully adopted the principles and standards for Internal Audit as defined by the Institute of Internal Auditors (IIA) and adheres to the International Professional Practices Framework (IPPF) for the conduct of its internal audit services.

Data Privacy and Security

As information technology develops, so do the risks associated with using it. RAKBANK's core business focus is to safeguard customer assets, and personal data is an important component of these assets. As a highly material topic, RAKBANK ensures that data privacy and security is constantly assessed across the business and improved wherever and whenever possible.

RAKBANK has the necessary processes in place to ensure confidentiality and privacy of customer information in accordance with the established industry standards governing RAKBANK and all its employees. RAKBANK has aligned its security policy with industry standard ISO 27001 and guidelines published by NESA (National Electronic Security Authority). In addition, key applications that support the contact Centre and branches are subjected to risk assessments as per the approved risk management process. All identified risks are addressed in accordance with the risk management process.

RAKBANK strives to maintain its security parameters in accordance with industry benchmarks, and to assess these parameters regularly. It is constantly working on multiple initiatives to further enhance the Bank's security infrastructure to provide a robust and secure platform to the Bank's customers for conducting their banking activities.

Whistleblowing

RAKBANK places considerable value in ensuring business ethics and compliance and works to protect the Bank and promote organisational behaviour that RAKBANK and its stakeholders can be proud of. The Bank encourages anyone with reason to believe that a violation has occurred according to law, regulation, Code of Ethical Conduct, or any RAKBANK policy and procedure, to immediately report what they know or suspect, for immediate action.

To facilitate an ethical and transparent culture at RAKBANK, employees, customers and stakeholders are encouraged to raise their concerns through the Bank's various complaint management channels, depending on the person's preference. The Bank's Whistleblower reporting line is available through the Bank's internal and external websites, in order to facilitate direct communication and reporting of any inappropriate and/ or unethical behaviours.

GIA holds ethical responsibility in highest regard and provides continuous support to the Bank and its stakeholders in ensuring ethical business practices. All Whistleblower cases raised during 2019 have been attended to with utmost priority, each of which has been resolved with independence and fairness.

Whistleblowing Management	2020	2019	2018	2017
Number of enquiries, complaints, or issues received by the Whistleblower Team* through email, internal monitoring or reporting system	28	16	8	10
Total number of confirmed Whistleblowing cases	10	13	3	7

*Notifications on fraudulent activities include accusations of bribery and corruption, receipt of fraudulent customer/employee data and documentation. Cases reported to the WB team that could be evidenced were investigated with assistance from relevant teams (Fraud & HR) and disciplinary actions were initiated against such staff including termination. Staff complaints and grievance matters were addressed to resolution with Business and HR intervention. Cases that were not actioned by WB included operational gaps, service complaints and personal grievances, which were forwarded to respective teams (including E-Channels, SOC & HR) for analysis and appropriate resolution.

Islamic Banking governance

RAKislamic (the Islamic window of RAKBANK) offers a complete range of Sharia-compliant financial solutions to Personal, Business and Wholesale Banking customers. The Division is regulated by the Central Bank of the UAE and Higher Sharia Authority (HSA). Its activities are supervised by an independent Internal Sharia Supervision Committee (ISSC). The Bank in compliance to the new Standards has undertaken all measures to continually enhance governance of its Islamic business and to ensure complete Sharia compliance.

All Islamic asset and liability products are offered through the Islamic Banking platform. Sharia governance is carried out under the guidance of the 3 member ISSC, which meets periodically and provides guidance to the business. ISSC undertakes Sharia supervision of RAKIslamic business, activities, products, services, contracts, documents, and code of conduct. It ensures RAKIslamic compliance with the resolutions and standards issued by the HSA.

To ensure transparency and a clear distinction between Conventional and Islamic business, the Bank maintains separate sets of product-specific terms and conditions, legal documentation, application forms, and service and price guides. A separate tariff board is displayed at branches and Islamic features are embedded within all transactional documentation. RAKBANK's Treasury segment manages Islamic liquidity and asset liability funding distinctly for the Islamic Banking division.

RAKislamic is a proud member of the Islamic Banking Committee of the UAE Banks Federation, formed by the Central Bank of the UAE, which represents all Islamic banks and Islamic banking windows in the country.

The Sharia Annual report is available in Appendix 1

Risk Management

Approach

Since the early 2000's, the Bank has enjoyed serving the Personal and Small Business Banking segments, with a strong foothold in lending to these spaces. However, modernising means that RAKBANK's planned diversification strategy includes becoming a broad-based financial services institution to effectively mitigate risk. This means focusing on growth without damaging the business. RAKBANK's risk approach forms a crucial cornerstone of the Bank's intention to deliver value for stakeholders through the optimisation of risk and reward. Within this approach, RAKBANK relies on its robust tools and controls.

All banks are mandated to assess their risks through internal assessment and present this to the Central Bank of the UAE (CBUAE).

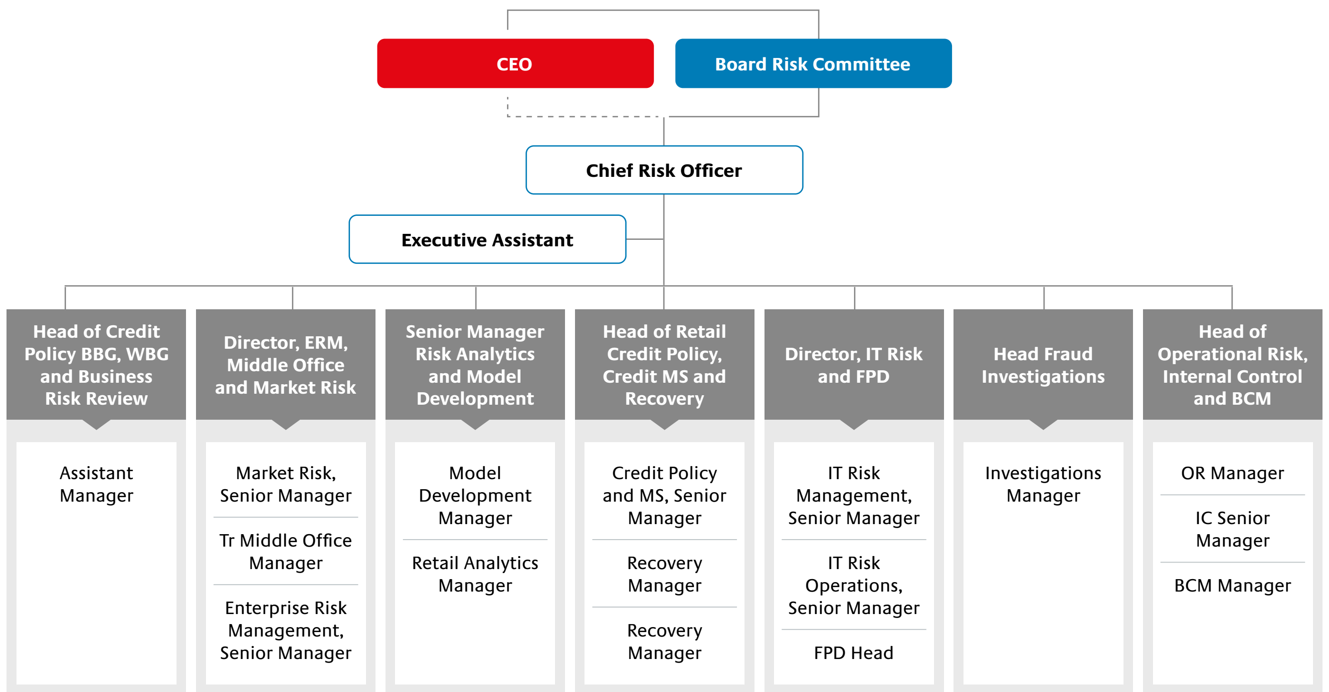
RAKBANK assesses credit, market, and interest rate risk against macro-economic scenarios during its stress test and Internal Capital Adequacy Assessment Process (ICAAP) exercise. During this process RAKBANK's asset portfolio is stressed against adverse macro-economic parameters using econometric statistical models. As part of its monthly monitoring RAKBANK monitors concentration of its exposure into various geographies and management is alerted in case of any breaches of the set thresholds. Results of this exercise are submitted to Central Bank of the UAE.

Risk Governance

An effective risk department is vital to achieving the Bank's strategic growth objectives in a sustainable manner. RAKBANK's risk management policies set out governance and structures, responsibilities and processes to monitor, manage and mitigate the risks that the Bank accepts and incurs in its activities. Further, the Risk Management function is independent of the risk-taking functions, in line with the guidelines of the Central Bank of the UAE. RAKBANK has adopted the international best practice of 3 lines of defence in shaping the Bank's Risk Governance structure. RAKBANK uses a consistent risk management framework at all levels of the organisation and across all risk types.

The 3 levels of Risk Management signify a clear division of responsibilities between the risk owners (the business, operations and support units), the control functions (Risk Management) and the Internal Audit function for safeguarding the Bank's assets and reputation against potential operational risks arising from day-to-day business activities. The 3 lines of defence aid the Bank to address all identified risks, design and implement the control activities, to ensure that risks taken by the Bank are in accordance with the Bank's approved risk appetite. Following is the Risk Management structure of the Bank:

Risk Management Organisation



Risk Culture

There is an inherent culture of managing risk within the Bank, and its responsibilities are documented in the Bank's values and principles, code of conduct, and related policies, as well as demonstrated through executive communications and behaviours. They are comprehensively covered in the employee training programmes, which include training courses for fraud prevention, cyber security, customer service, and others that look at the full range of risk.

Risk Management Highlights

Due to the diversification strategies, there has been year on year growth in the value of the loan portfolio. This growth is also attributed to the Bank's cross border exposure as it diversifies its product base and international exposures.

As presented below, RAKBANK has a diversified portfolio across various industries. This not only helps the Bank in serving its diversified portfolio of customers but also adds value in maintaining a low concentration risk. RAKBANK is compliant across all internal and regulatory parameters of risk diversification.

	On balance sheet items					
	Loans and advances	Investment securities	Due from other banks	Total funded	Off balance sheet Items	Total
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
31 December 2020						
Agriculture, fishing and related activities	5,827	-	-	5,827	53	5,880
Crude oil, gas, mining and quarrying	3,762	-	-	3,762	150,619	154,381
Manufacturing	1,460,725	512,766	-	1,973,491	55,607	2,029,098
Electricity and water	3,420	644,979	-	648,399	177,930	826,329
Construction and real estate	2,775,966	639,431	-	3,415,397	246,341	3,661,738
Trading	3,844,667	-	-	3,844,667	1,155,470	5,000,137
Transport, storage and communication	1,417,023	507,265	-	1,924,288	46,450	1,970,738
Financial institutions	817,527	2,587,604	6,598,209	10,003,340	1,229,420	11,232,760
Services	3,638,331	635,267	-	4,273,598	586,148	4,859,746
Government	303,116	2,429,695	-	2,732,811	113,657	2,846,468
Retail and consumer banking	17,930,548	-	-	7,930,548	1,066,178	18,996,726
Total exposures	**32,200,912**	**7,957,007**	**6,598,209**	**46,756,128**	**4,827,873**	**51,584,001**
Provision for credit loss	(2,159,442)	(22,045)	(35,818)	(2,217,305)	(10,852)	(2,228,157)
Net exposures	**30,041,470**	**7,934,962**	**6,562,391**	**44,538,823**	**4,817,021**	**49,355,844**

Risk management supports the Bank to enable usage of digital channels for microfinance and retail credit origination through a tablet-based system. It is developing Digitalisation 2.0, a comprehensive effort of the Bank to move towards the digitisation of most of its services. Risk management is enabling this by thorough assessment of the risk involved in the process and providing constructive mitigation approaches to these risks.

Moreover, the Risk department endorses RAKBANK's strategy to participate as an active partner in the region's first and biggest FinTech accelerator and hub, and supported and assessed the Bank's initiatives on Seamless Payments - SMEsouk - a digital customer solution that increases efficiency and access whilst reducing the use of paper for various aspects such as payments and account opening.

Looking Forward

The department is formalising processes for new products, services and initiatives launched by RAKBANK and to ensure that risks are identified, and controls/mitigations are agreed and documented. It is also formalising changes to existing processes related to changes in products and services.

Across the Bank, the department is also working to approve 'System Access' related requests after ensuring that the access is in line with the 'Roles and Responsibilities' of the staff. It is also currently reviewing the implementation of automating customer risk assessments to support lower debt burdens on customers, which would also result in lower default rates.

Financial Crime

Fraud

RAKBANK knows that financial crime including money laundering, terrorism financing and fraud present unacceptable risk both to the Bank and all its shareholders. The risks of fraud are increasing everyday with contributing factors like globalisation, competitive markets, rapid advancement in technology, and periods of economic difficulty. The Bank's Management and Board recognise that proactive fraud risk management is an integral part of RAKBANK's overall risk management strategy. As such, RAKBANK has set up focused units to address, prevent, detect and respond to all aspects of fraud. In 2017, RAKBANK implemented an industry-leading fraud risk management solution to augment its fraud prevention and detection capabilities. The Bank has established a Fraud Risk Management Framework that demonstrates the expectations of the Board of Directors and senior management and their commitment to high integrity and ethical values. It has adopted a Fraud Risk Management Framework (FRMF) with an objective to implement an effective Fraud Risk Management (FRM) policy and processes across the Bank. This initiative is the Bank's approach to managing fraud risk in a timely and efficient manner by setting up systems and procedures to identify and actively mitigate fraud risks. The Bank has adopted a 3 pronged approach to Fraud Risk Management under the new framework:

- Fraud Prevention
- Fraud Detection
- Fraud Response

Underpinning these approaches includes a mandatory eLearning module on fraud awareness for all staff.

Fraudulent Transaction Activity	2020	2019	2018
Amount of fraudulent transaction activity in AED millions (total value of account holder transactions disputed by account holders due to fraud)	1.42	1.26	0.78
Percentage of activity from card-not-present fraud	97%	90%	67%

The Bank has dedicated teams that monitor and respond to both digital and non-digital fraud. This is achieved through a combination of industry leading fraud detection and prevention solutions coupled with continuous customer awareness through email and SMS. The solutions adopt both rule engines and behaviour anomaly detection algorithms to identify and prevent while instantly responding to any fraud attempts. RAKBANK has tied up with a global brand monitoring service that identifies and remediates any Phishing, Vishing, and SMShing attempts directed at our customers.

Furthermore, the Bank has a BitSight security rating, from a scale of 250-900, that is above global financial industry standard. BitSight Security Ratings are a data-driven and dynamic measurement of an organisation's cybersecurity performance that is both material and validated. These daily ratings are derived from objective and verifiable information.

Compliance

The compliance function is an independent line of defence function. In line with the Central Bank of UAE's regulations and standards on Compliance, the Chief Compliance Officer reports directly to the CEO and has unrestricted access to the Board Risk Committee.

Regulatory, Anti-money laundering and sanctions compliance

In addition, Compliance continues to be an important area of focus for the Bank's Board and Management. An independent Compliance function oversees the compliance risk management framework and procedures across the Bank. The Compliance function is also responsible for actively mitigating Anti Money Laundering (AML) and sanctions risks, apart from reviewing the regulatory landscape and issuance of internal policies. The Bank maintains a zero-tolerance approach with regard to any compliance breach, whether regulatory, sanctions or AML and the same has been demonstrated in their respective policies. The function is staffed by qualified professionals, with workshops conducted at periodic intervals to maintain and enhance compliance discipline across the Bank. RAKBANK has made significant investments in surveillance technology and successfully implemented customer and name screening modules.

The function works closely with the CRO to set the Compliance Risk appetite and presents the Compliance Risk updates at every Board Risk Committee. The Chief Compliance Officer is also the registered Money Laundering Reporting Officer of the Bank with the regulators and drives the Anti Money Laundering and Counter Terrorism and Sanctions practice of the Bank.

Responsible Procurement

RAKBANK believes that ethical business extends beyond its own operations and is impacted by its suppliers. For this reason, responsible procurement must be addressed throughout the supply chain, as it is affected by both who is chosen to engage in business and from where, and how those parties manage their own impacts. Irresponsible procurement produces unnecessary risk for the business, which RAKBANK takes seriously and is addressed in the Bank's procurement process and guidelines.

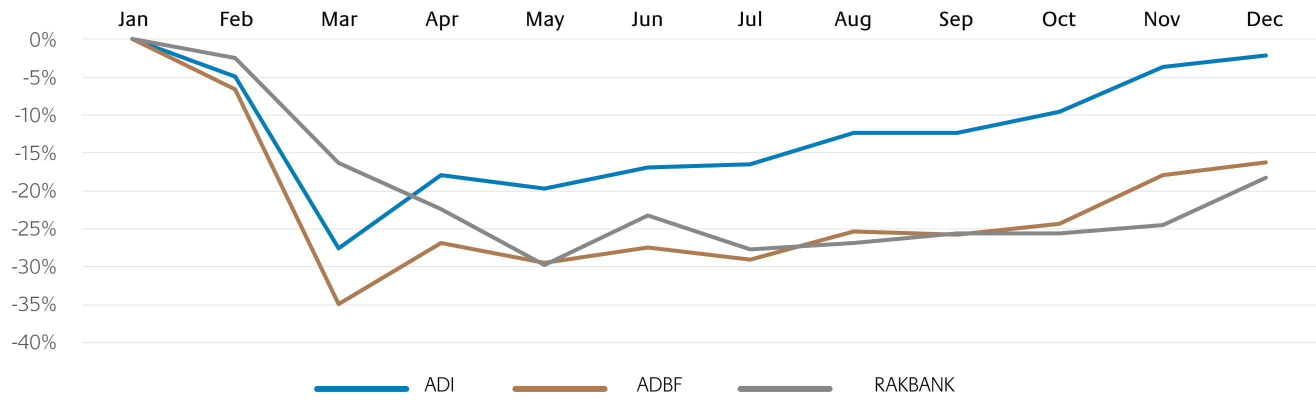
Currently, large scale tenders above AED 0.5 million are reviewed by the executive Procurement Committee, which incorporates the standard procurement procedure and policy into its decision-making.

Procurement at RAKBANK	2020	2019	2018	2017
Total number of suppliers engaged	625	706	652	699
Total number of local suppliers engaged	489	562	530	587
Total number of SME suppliers engaged	539	483	457	517
Total procurement spending (actual) (AED in millions)	655.3	584.1	393.1	500.6

Investor Relations and Share Performance

General Information pertaining to the Bank's share price movement with the general market index and sector index to which the Bank belongs to during 2020.

RAKBANK Share Price & ADX Market Index and Sector Index



ADI – Abu Dhabi Index
ADBF – Abu Dhabi Banks and Financials Index

A. Statement of the shareholders ownership distribution as on 31 December 2020 (individuals, companies, governments) classified as follows: Local, Gulf, Arab and Foreign.

Ser.	Shareholders classification	Percentage of owned shares			
		Individuals	Companies	Government	Total
1	Local	21.97%	7.05%	53.25%*	82.27%
2	Arab	4.43%	10.43%	0.00%	14.86%
3	Foreign	0.29%	2.58%	0.00%	2.87%
4	Total	26.69%	20.06%	53.25%	100%

*out of the 53.25% of local government investors, 52.78% is owned by RAK Government (direct and indirect ownership)

B. Statement of shareholders owning 5% or more of the Company's capital as on 31 December 2020:

Ser.	Name	Number of owned shares	Percentage of owned shares of the Company's capital
1	Government of Ras Al Khaimah	827,180,540	49.35%
2	Mr. Ahmad Essa Ahmad Al Naeem	112,115,000	6.69%

49.35% represents the RAK Government direct ownership

C. Statement of shareholders distribution per share ownership as on 31 December 2020:

Ser.	Share (s) ownership	Number of shareholders	Number of owned shares	Percentage of owned shares of the capital
1	Less than 50,000	171	2,149,611	0.13%
2	From 50,000 to less than 500,000	131	22,654,417	1.35%
3	From 500,000 to less than 5,000,000	56	96,141,835	5.74%
4	More than 5,000,000	35	1,555,299,565	92.78%

D. The Investor Relations Team can be reached via the below dedicated number and email ID:

- Phone Number : +971 4 291 5545
- Email ID : ir@rakbank.ae
- The link of investor relationships page on the Bank's website.
  https://rakbank.ae/wps/portal/header/investor-relations

FINANCIAL **STATEMENTS**

DIRECTORS' REPORT TO THE SHAREHOLDERS

For and on behalf of the Board of Directors

We are pleased to present the results of RAKBANK (the "Bank") and its subsidiaries (collectively known as the "Group") for the year ended 31 December 2020. Net Profit for the year amounted to AED 505.4 million, a decrease of AED 589.9 million (53.9%) over the previous year. Total Assets stood at AED 52.8 billion, decreasing by 7.6% over 2019. Gross Loans and Advances closed at AED 32.2 billion, down by 11.2% over the previous year. Deposits grew by 0.3% with CASA growth of AED 5.1 billion(22.3%). The Return on Average Assets ratio closed the year at 0.9% compared to 2.0% for the previous year and Return on Average Equity was 6.5%, compared to 14.9% in 2019.

Financial performance

The decrease of AED 589.9 million in Net Profit was due to the decrease in Net Interest Income and non-interest income, an increase in provisions for expected credit losses offset by a decrease in Operating Expenses.

Gross Interest Income and Income from Islamic Financing decreased by AED 600.9 million, which was offset by a decrease in Interest Expense and Distributions to Depositors of AED 324.4 million that resulted in a total decrease in Net Interest Income and Net Income from Islamic Financing of AED 276.5 million. Interest income from conventional loans and investments decreased by 20.5%, while interest costs on conventional deposits and borrowings went down by AED 271.8 million. Net income from Sharia-compliant financing increased by AED 97.0 million. Gross Interest Income and Income from Islamic Financing decreased due to a decline in high yielding loan and investment books because of the lock down, lower credit demand and reduced credit appetite of the Bank for higher risk customer and industry segments. This was aided by a general decline in interest rates in the economy. Interest Expense and Distributions to Depositors were lower due to the lack of demand for funds due to the declining loan book, higher contribution of CASA deposits and the lower interest rate environment.

Non-Interest Income decreased by AED 138.4 million to AED 1.0 billion. This was mainly due to a decrease of AED 139.9 million in Net fees and commission income and AED 51.8 million in forex and derivative income compared to 2019 that was partially offset by an increase in investment Income AED 40.0 million as well as an increase in Gross insurance underwriting profit by AED 22.0 million. Net fees and commission was lower due to lower business volumes.

Operating Expenses decreased by AED 175.1 million, down by 11.1% compared to the previous year. This was mainly due to a decrease of AED 110.0 million in staff costs, AED 18.5 million in occupancy costs, AED 16.4 million in marketing expenses and AED 30.2 million in other costs as a result of various cost optimisation measures taken by the Group. The Group's Cost to Revenue ratio decreased to 39.2% compared to 39.5% for the previous year.

Operating Profit before impairment losses decreased by AED 239.8 million from 2019 and provisions for credit losses increased by AED 350.1 million (26.7%) from the previous year. Total impairment provision for the year stood at AED 1.7 billion compared to AED 1.3 billion in 2019. The increase in provisions for credit losses was largely a result of an increase in pre-emptive provisions due to adverse macroeconomic conditions and also on the grouping of loans which are under deferral.

The Non-Performing Loans and Advances to Gross Loans and Advances ratio increased to 5.2% from 4.0% in the previous year. Additionally, the net credit losses to average loans and advances increased to 4.8% in 2020 compared to 3.7% in 2019.

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

Financial performance (continued)

Total Assets declined by 7.6% to AED 52.8 billion compared to 2019. This was due to a decrease in Gross Loans and Advances of AED 4.1 billion, Customer Acceptances decreased by AED 307.4 million and Insurance contract assets and receivables decreased by AED 158.2 million. This was partially offset by an increase in cash and balances with Central Bank by AED 684.8 million. Wholesale Banking and Financial Institutions lending declined by 8.0%, down by AED 748.9 million from the previous year. Retail banking's loan portfolio was down by AED 2.0 billion and Business Banking's loan portfolio was down by AED 1.3 billion compared to 2019.

Customer deposits grew by AED 118 million to AED 36.9 billion compared to 2019. This growth came mainly from an increase of AED 5.1 billion in CASA offset by decrease AED 5.0 billion in Time Deposits.

After taking into consideration the profit for 2020 and expected dividend, the Bank's Capital adequacy ratio as per Basel III was 18.6% at year-end, compared with 16.8% at the end of 2019. This level of capital provides the Bank with ample room for growth in 2021. The regulatory Eligible Liquid Asset Ratio at the end of the year was 14.5%, compared to 12.9% the previous year. The Advances to Stable Resources ratio stood at a comfortable 80.6% compared to 89.1% at the end of 2019.

Ratings

The Bank is currently rated by the following agencies. The ratings are given below:

Rating Agency	Last update date	Deposits	Outlook
Moody's	December 2020	Baa1 / P-2	Negative
Fitch	July 2020	BBB+ / F2	Stable
Capital Intelligence	August 2020	A- / A2	Stable

Regulatory disclosure

During the year, the Group has not engaged its external auditor PricewaterhouseCoopers for any non-audit services.

Developments in 2020

- RAKBANK implemented the UAE Pass registration, a National Digital Identity and Digital Signature solution for the UAE, across all branches. The UAE Pass solution enables the Bank's customers and potential customers to complete their registration seamlessly and securely in just a few simple clicks of a device with the help of the Bank's staff at any of the branches.
- RAKBANK has entered into a multi-year agreement with Emirates Skywards, the award-winning loyalty programme of Emirates Airline, to announce the launch of the RAKBANK Emirates Skywards World Elite MasterCard, available in both conventional and sharia' compliant Islamic variants.
- MetLife signed a 10-year strategic preferred partnership with RAKBANK to provide comprehensive life insurance solutions. The partnership offers a versatile and highly competitive life insurance solution for the Bank's customers. It has the highest non-medical underwriting limit of USD 1.25 million, exceptional maturity value and an intuitive digital-first sales and service platform, Mpower.
- RAKBANK partnered with BDO Unibank, a full-service universal bank in the Philippines, to enhance the Bank's RAKMoneyTransfer (RMT) footprint in the Philippines. The RMT services will now enable customers to make instant, frictionless and secure money transfer to any bank account in the Philippines.

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

Developments in 2020 (continued)

- RAKBANK expanded its RAKMoneyTransfer (RMT) services into the Bangladeshi corridor by partnering with Bank Asia, a third generation private commercial bank. The Bank's RMT service now facilitates transfers to Bank Asia accounts within minutes and to any other bank account in Bangladesh within 24 hours.
- RAK islamic played an active role in containing the spread of the novel coronavirus in the country by partnering with Thumbay University Hospital to sponsor COVID-19 swab tests and medical screenings for blue collar workers based in Dubai and Ras Al Khaimah.
- RAKBANK announced further plans to provide financial relief to individuals, SMEs, and corporates impacted by the economic consequences of the novel coronavirus that is in line with the Central Bank's Targeted Economic Support Scheme (TESS).
- Dubai Economy, along with Emirates NBD, HSBC, RAKBANK, ADCB and CBD formed a consortium for sharing of verified KYC (Know Your Customer) data between banks and licensing authorities in the UAE through the 'KYC Blockchain Consortium'.
- SwatchPAY! – a contactless payment solution launched in exclusive partnership with RAKBANK in the UAE.
- RAKBANK partnered with the Ministry of Finance to become one of the partnering banks of the new eDirham payment gateway.
- RAKBANK hosted the second edition of the much anticipated SME Conclave. The event was hosted virtually given the current pandemic. The Bank recognizes the importance of creating a supportive ecosystem during this pandemic for SMEs by equipping them with useful information, tools and solutions that assist them in running their operations efficiently, effectively and sustainably.
- RAKBANK chose Anomali Threat Intelligence Product Suite to detect threats across its Banking Infrastructure.

Recognition in 2020

- 'Best Service Performance Outlet – Services Sector' for 2020 by the Dubai Service Excellence Scheme
- The Number 1 Top Investment House in the Middle East & North Africa by The Asset Benchmark Research
- Honorary Middle East Gold Stevie® Awards 2020 for 'Outstanding Management'
- Best in lead Generation/direct response and conversion– Gold Award by the MMA MENA Smarties Awards
- Best Product/Service launch— Gold award by the MMA MENA Smarties
- Best Promotion of the year— Gold award by the MMA MENA Smarties
- Best Location based Targeting— Gold award by the MMA MENA Smarties
- Best use of Programmatic — Gold award by the MMA MENA Smarties
- Industry Award for the Advertiser of the Year by the MMA MENA Smarties
- Industry Award for the Best in Show by the MMA MENA Smarties

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

Outlook for 2021

Financial Year 2020 was an unprecedented year in many ways as the financial, economic and operational challenges brought about by the pandemic impacted every organisation and country across the globe. Extreme liquidity stress, lack of credit demand and sluggish growth marred the economy in general and the financial sector in particular. Injection of liquidity by Central Banks across the globe, especially the timely actions by the CBUAE helped the banking sector through very tumultuous times. The management in consultation with the Board of Directors took continually decisive steps to protect the health and safety of all stakeholders and do our best to safeguard the bank's assets.

With vaccines now beginning to be made available globally, some green shoots have started to appear though a rebound in growth to the pre-COVID levels is unlikely until the latter half of 2021. Economic activity in the UAE is in a gradual recovery phase as businesses return to normalcy, especially, the business segments catered to by RAKBANK. The Bank remains cautiously optimistic about 2021 and will continue to remain vigilant.

As the restrictions ease out, the Bank has initiated selective new business on boarding, albeit subdued, targeting specific industries and customer segments and expects to continue the same throughout 2021. RAKBANK will continue to explore opportunities to expand its offerings to a wider range of client/industry segments, while closely monitoring the recovery of economy.

The crisis has brought about a paradigm shift in the manner of doing business with "digital and contactless" coming to the forefront. It has also opened up new opportunities for selective sectors and industries that seemed most resilient both during and in the post COVID-19 era. These include industries such as manufacturing, trading and shipping, logistics, agriculture and more. The Bank intends to enhance its focus on such industries in the coming year as we focus back on growth and supporting the UAE economy.

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Mohamed Omran Alshamsi
Chairman

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C)

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The National Bank of Ras Al-Khaimah (the "Bank") and its subsidiaries (together 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.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses The Group applies ECL on all its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria. For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Group's impairment policy under IFRS 9 is presented in Note 3 to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.	We performed the following audit procedures on the measurement of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2020: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal experts to assess the following areas: ● Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. ● ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial assets. The appropriateness of the model methodology was assessed, taking into consideration the impact of COVID-19. ● Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
	➢ For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral. ➢ In addition, for the Stage 3 corporate credit portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files. For the Stage 3 retail credit portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised at each category level. ➢ We assessed the consolidated financial statement disclosures with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of COVID-19 on ECL.

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Other information

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

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

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

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

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

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

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards 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, the directors are 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 the directors either intend 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.

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

Report on other legal and regulatory requirements

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

(i) we have obtained all the information we considered necessary for the purposes of our audit;
(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
(iii) the Group has maintained proper books of account;
(iv) the financial information included in the Directors' report to the shareholders is consistent with the books of account of the Group;
(v) note 35 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
(vi) Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, it's Articles of Association which would materially affect its activities or its financial position as at 31 December 2020; and
(vii) note 45 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2020.

Further, as required by the 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.

PricewaterhouseCoopers
2 February 2021

Rami Sarhan
Registered Auditor Number 1152
Place: Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Notes	2020 AED'000	2019 AED'000
ASSETS			
Cash and balances with UAE Central Bank	4	**5,470,285**	4,785,504
Due from other banks, net	5	**6,562,391**	6,593,233
Investment securities measured at fair value	7	**3,633,298**	2,955,295
Investment securities measured at amortised cost	7	**4,301,664**	5,186,138
Loans and advances, net	6	**30,041,470**	34,550,563
Insurance contract assets and receivables, net	8	**282,265**	440,481
Customer acceptances		**116,865**	424,265
Other assets	9	**1,284,182**	1,009,125
Property and equipment	11	**795,930**	831,630
Right-of-use assets	36	**117,872**	176,939
Goodwill	10	**166,386**	166,386
Total assets		**52,772,608**	**57,119,559**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to other banks	12	**2,067,762**	4,977,055
Deposits from customers	13	**36,944,324**	36,826,360
Customer acceptances		**116,865**	424,265
Debt securities issued and other long term borrowings	14	**3,612,266**	4,888,881
Insurance contract liabilities and payables	15	**430,394**	556,374
Other liabilities	16	**1,653,691**	1,453,357
Lease liabilities	37	**102,348**	151,710
Total liabilities		**44,927,650**	49,278,002
EQUITY			
Share capital	17	**1,676,245**	1,676,245
Legal reserve	18	**950,431**	950,431
Retained earnings		**2,079,275**	2,015,353
Other reserves	19	**3,099,695**	3,161,700
Equity attributable to owners of the Bank		**7,805,646**	7,803,729
Non-controlling interests	20	**39,312**	37,828
Total equity		**7,844,958**	7,841,557
Total Liabilities and Equity		**52,772,608**	57,119,559

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Mohamed Omran Alshamsi
Chairman

Peter William England
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 AED'000	2019 AED'000
Interest income	21	**2,501,429**	3,146,747
Interest expense	21	**(408,527)**	(680,323)
Net interest income		**2,092,902**	2,466,424
Income from Islamic financing	22	**555,453**	511,023
Distribution to depositors	22	**(122,777)**	(175,373)
Net income from Islamic financing		**432,676**	335,650
Net interest income and net income from Islamic financing		**2,525,578**	2,802,074
Net fees and commission income	23	**632,833**	772,760
Foreign exchange & derivative income		**187,608**	239,453
Net insurance underwriting profit	24	**53,002**	30,960
Investment income	25	**89,501**	49,462
Other operating income		**75,507**	84,206
Non-interest income		**1,038,451**	1,176,841
Operating income		**3,564,029**	3,978,915
General and administrative expenses	26	**(1,395,349)**	(1,570,435)
Operating profit before provision for credit loss		**2,168,680**	2,408,480
Provision for credit loss, net	30	**(1,663,302)**	(1,313,218)
Profit for the year		**505,378**	1,095,262
Attributed to:			
Owners of the Bank		**503,777**	1,095,076
Non-controlling interests	20	**1,601**	186
Profit for the year		**505,378**	1,095,262
Earnings per share:			
Basic and diluted in AED	27	**0.30**	0.65

The accompanying notes 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
Profit for the year	**505,378**	1,095,262
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Profit / (Loss) on sale of equity investments held at fair value through other comprehensive income	-	(11,162)
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (equity instruments)	**(10,610)**	26,175
Re-measurements of post employment benefit obligations	**(7,294)**	-
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (debt instruments)	**40,717**	113,188
Loss / (profit) on sale of debt instruments transferred to profit and loss	**(32,567)**	(14,487)
Net changes in fair value arising from cash flow hedges	**12,200**	15,607
Other comprehensive income /(loss) for the year	**2,446**	129,321
Total comprehensive income for the year	**507,824**	1,224,583
Attributed to:		
Owners of the Bank	**506,340**	1,223,449
Non-controlling interests	**1,484**	1,134
Total comprehensive income for the year	**507,824**	1,224,583

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

CONSOLIDATED STAEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital AED'000	Legal reserve AED'000	Retained earnings AED'000	Other reserves AED'000	Equity attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
Balance as at 1 January 2019	1,676,245	950,431	1,453,575	3,007,575	7,087,826	38,979	7,126,805
Profit for the year	-	-	1,095,076	-	1,095,076	186	1,095,262
Other comprehensive income	-	-	(11,162)	139,535	128,373	948	129,321
Total comprehensive income for the year	-	-	1,083,914	139,535	1,223,449	1,134	1,224,583
Transfer to regulatory impairment reserve - specific	-	-	(14,590)	14,590	-	-	-
Dividend paid	-	-	(502,873)	-	(502,873)	(2,285)	(505,158)
Directors' remuneration	-	-	(4,673)	-	(4,673)	-	(4,673)
At 31 December 2019	1,676,245	950,431	2,015,353	3,161,700	7,803,729	37,828	7,841,557
Balance at 1 January 2020	**1,676,245**	**950,431**	**2,015,353**	**3,161,700**	**7,803,729**	**37,828**	**7,841,557**
Profit for the year			**503,777**		**503,777**	**1,601**	**505,378**
Other comprehensive income/(loss)			-	**2,563**	**2,563**	**(117)**	**2,446**
Total comprehensive income for the year	-	-	**503,777**	**2,563**	**506,340**	**1,484**	**507,824**
Zakat	-	-	**(1,550)**	-	**(1,550)**	-	**(1,550)**
Transfer from regulatory impairment reserve - specific	-	-	**64,568**	**(64,568)**	-	-	-
Dividend paid	-	-	**(502,873)**	-	**(502,873)**	-	**(502,873)**
At 31 December 2020	**1,676,245**	**950,431**	**2,079,275**	**3,099,695**	**7,805,646**	**39,312**	**7,844,958**

The accompanying notes 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
Cash flows from operating activities		
Profit for the year	**505,378**	1,095,262
Adjustments:		
Provision for credit losses, net	**1,663,302**	1,313,218
Depreciation of property and equipment	**122,875**	112,560
Zakat payable	**(1,550)**	-
Depreciation of Right-of-use assets	**37,435**	37,919
Interest cost on lease liability	**5,374**	7,520
Gain on rent concessions due to COVID-19	**(3,936)**	-
Amortization of intangible assets	**-**	1,337
Loss /(gain) on disposal of property and equipment	**3,245**	(83)
Amortization of discount relating to investments securities	**(114,676)**	(122,641)
Gain on sale of investment securities held through other comprehensive income	**(32,567)**	(14,488)
Gain on sale of investment securities held through profit or loss	**6,542**	(19,390)
Gain on sale of investment securities held at amortized cost	**(44,264)**	-
Impairment provision on investments held at FVOCI transferred to fair value reserve	**-**	(9,434)
Fair value (gain)/loss on investments and hedges	**(37,302)**	(110,214)
Fair value (gain)/ loss on FVTPL investment securities	**(3,403)**	(382)
Amortization premium of debt securities	**8,936**	15,705
Changes in operating assets and liabilities	**2,115,389**	2,306,889
Decrease in deposits with the UAE Central Bank	**844,446**	2,592
Decrease /(Increase) in due from other banks with original maturities of three month or over	**227,566**	(2,194,999)
Decrease /(Increase) in loans and advances, net	**2,885,490**	(3,000,171)
Decrease / (Increase) in insurance contract assets & receivables	**141,476**	(42,098)
Decrease/ (Increase) in other assets	**30,655**	30,929
Increase /(decrease) in due to other banks	**(2,909,293)**	595,593
Increase in deposits from customers	**117,964**	2,686,576
Increase/(decrease) in insurance contract liabilities and payables	**(125,980)**	48,436
Increase/(decrease) in other liabilities, goodwill & intangibles and customer acceptances	**(105,850)**	196,808
Net cash generated from operating activities	**3,221,863**	630,555
Cash flows from investing activities		
Purchase of investment securities	**(6,563,426)**	(6,688,692)
Proceeds from maturity/disposal of investment securities	**6,980,574**	6,126,980
Purchase of property and equipment	**(97,082)**	(84,256)
Proceeds from disposal of property and equipment	**6,662**	89
Net cash generated from / (used in) investing activities	**326,728**	(645,879)
Cash flows from financing activities		
Dividends paid	**(502,873)**	(505,158)
Directors' remuneration	**-**	(4,673)
Payment for rentals on lease contracts	**(27,479)**	(41,184)
Payment of debt security and other borrowings	**(1,285,550)**	(2,562,803)
Issue of debt security and other borrowings	**-**	2,609,874
Net cash used in financing activities	**(1,815,902)**	(503,944)
Net increase / (decrease) in cash and cash equivalents	**1,732,689**	(519,268)
Cash and cash equivalents, beginning of the year	**1,903,424**	2,422,692
Cash and cash equivalents, end of the year (Note 33)	**3,636,113**	1,903,424

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Incorporation and principal activities

The National Bank of Ras Al-Khaimah (P.S.C.) (the "Bank") is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates ("UAE"). The head office of the Bank is located at the National Bank of Ras Al-Khaimah building, Al Rifa area, Exit No. 129, Sheikh Mohammed Bin Zayed Road, Ras Al-Khaimah, UAE.

The Bank is engaged in providing retail, commercial banking and treasury services through a network of twenty seven branches in the UAE.

At 31 December 2020, The National Bank of Ras Al-Khaimah (P.S.C.) comprises the Bank and five subsidiaries (together referred to as the "Group"). The consolidated financial statements for the year ended 31 December 2020 comprises the Bank and following direct subsidiaries:

Subsidiary	*Authorized issued capital*	*& Ownership interest*	*Incorporated*	*Principal Activities*
Ras Al Khaimah National Insurance Company PSC	AED 121.275 million	79.23%	UAE	All type of insurance business.
BOSS FZCO	AED 500,000	80%*	UAE	Back office support services to the Bank.
RAK Technologies FZCO	AED 500,000	80%*	UAE	Technological support services to the Bank.
Rakfunding Cayman Limited	Authorized USD 50,000 Issued USD 100	100%	Cayman Islands	To facilitate the issue Euro medium term notes (EMTN) under the Bank's EMTN program.
Rak Global Markets Cayman Limited	Authorized USD 50,000 Issued USD 1	100%	Cayman Islands	To facilitate Treasury transactions.

*These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party on trust and for the benefit of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRS")

2.1 New and revised IFRSs applied with no material effect 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 consolidated financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior periods.

- **Amendments to IFRS 3 -** This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

- **Amendments to IAS 1 and IAS 8** - These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform –** These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries.

- **Amendments to Conceptual framework –** The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

  - increasing the prominence of stewardship in the objective of financial reporting
  - reinstating prudence as a component of neutrality
  - defining a reporting entity, which may be a legal entity, or a portion of an entity
  - revising the definitions of an asset and a liability
  - removing the probability threshold for recognition and adding guidance on derecognition
  - adding guidance on different measurement basis, and
  - stating that profit or loss is the primary performance indicator and that, in principle,

  income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

- **Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions** - As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	*Effective for annual periods beginning on or after*
IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.	January 1, 2023
Amendments to IAS 1, Presentation of financial statements' on classification of liabilities - These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	January 1, 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	*Effective for annual periods beginning on or after*
Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark (IBOR) reform - The Phase 2 amendments that were issued on 27 August 2020 address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform (for example, where lease payments are indexed to an IBOR rate). The Group is running a project on the transition activities involving major stakeholders to ensure smooth and timely transition in accordance with interest rate benchmark (IBOR) reform. This is a significant project which has an impact on the Banks existing products, systems and processes.	January 1, 2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	*Effective for annual periods beginning on or after*
Narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 9 and IFRS 16 - Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.	January 1, 2022
Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.	
Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.	
Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'.	

The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies

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

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and applicable requirements of the laws of the United Arab Emirates ("UAE"). Federal Decree Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Bank is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

The consolidated statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Group's operations.

The Group's consolidated statement of financial position is not presented using a current / non-current classification. However, the following balances would generally be classified as current: cash and balances with UAE Central Bank and customer acceptances. The following balances would generally be classified as non-current: property and equipment and goodwill. The following balances are of mixed nature (including both current and non-current portions): due from other banks - net, loans and advances – net, investment securities measured at fair value, investment securities measured at amortised cost, insurance contract assets receivables – net, other assets, right-of-use assets, due to other banks, deposits from customers, debt securities issued and other long term borrowings, insurance contract liabilities and payables, other liabilities and lease liabilities.

(b) Consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- *has power over an investee,*
- *is exposed, or has rights, to variable returns from its involvement with the investee, and*
- *has the ability to use its power over the investee to affect the amount of the investor's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(b) Consolidation (continued)

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's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's 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 Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank 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 into line with the Group's accounting policies.

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

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's 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's 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 or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal 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 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 as specified by applicable IFRSs). 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: Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(c) Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are as per Note 3(e).

i) Murabaha financing

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

ii) Salam

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Group (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

iii) Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal-customer) and the other party (the Mudarib- the Group) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(c) Islamic financing (continued)

iv) Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal-principal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

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

v) Ijara

Ijara financing is a finance lease agreement whereby the Group (lessor) leases an asset based on the customer's (lessee) request and promise to lease the assets for a specific period in lieu of rental instalments. Ijara ends in transferring the ownership of the asset to the lessee at the end of the lease inclusive of the risks and rewards incident to an ownership of the leased assets. Ijara assets are stated at amounts equal to the net investment outstanding in the lease including the income earned thereon less impairment provisions.

(d) Business combination and goodwill

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(d) Business combination and goodwill (continued)

Business combination (continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 with the corresponding gain or loss being recognised in profit and loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated statement of comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising of an acquisition of a business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in the subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(d) Business combination and goodwill (continued)

Goodwill (continued)
On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) Classification of financial assets and financial liabilities

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Financial liabilities

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

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

Financial liabilities (continued)

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and

- Financial guarantee contracts and loan commitments.

Business model assessment

The Bank 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:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

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

Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI Test")

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

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

In making the assessment, the Group considers:

(a) Contingent events that would change the amount and timing of cash flows;
(b) Leverage features;
(c) Prepayment and extension terms;
(d) Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
(e) Features that modify consideration of the time value of money - e.g. periodical reset of interest rate.

Reclassifications

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

Derecognition

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

(f) Measurement of financial assets and financial liabilities

Investment securities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(f) Measurement of financial assets and financial liabilities (continued)

Investment securities (continued)

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

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

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

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

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

Financial liabilities

Financial liabilities (including customer deposits and due to other banks, repurchase agreements with banks, and debt securities issued and other long term borrowings) are initially recognised as fair value and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(f) Measurement of financial assets and financial liabilities (continued)

Financial liabilities (continued)

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

When replacing an existing debt with a new debt from a new lender, the existing debt would be de-recognized in the financial statements, with the difference between the carrying amount and the fair value of the consideration paid recognized in profit or loss. However, when modifying or exchanging a debt while keeping the original lender, the International Financial Reporting Standards (IFRS) have specific guidance on whether the transaction results in a de-recognition or is accounted for differently. This analysis is driven by the question whether the modification is "substantial" or whether the original debt has been replaced by another debt with "substantially" different terms.

(g) Impairment

Measurement of ECL

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

- Due from other banks;
- Debt investment securities carried at FVOCI and amortised cost;
- Loans and advances to customers;
- Insurance assets and receivables;
- Customer acceptances and other financial assets;
- Loan commitments; and
- Financial guarantees and contracts.

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or

- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(g) Impairment (continued)

Measurement of ECL (continued)

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's interest rate.

Definition of default

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

Quantitative criteria

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

Qualitative criteria:

The bank classifies the loans as Non-performing account (NPA) when:

- Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
- Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).
- Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered.
- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down.
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(g) Impairment (continued)

Definition of default (continued)

Qualitative criteria: (continued)

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original interest rate whether it is measured on an individual basis or a collective basis.

The Group employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key input would be the term structure of the following variables:

- Probability of default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These parameters are derived from the Group's internally developed statistical models or external data, and other historical data. These are adjusted to reflect forward-looking information.

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may vary from remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle like credit cards, overdraft balances, etc. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(g) Impairment (continued)

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as timing of coupon payments, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(g) Impairment (continued)

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. Where this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share / equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecogntion, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(g) Impairment (continued)

Derecognition of Financial Assets

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for de-recognition are therefore not met. This also applies to certain securitisation transactions in which the Group retain a subordinated residual interest.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtorfailing to engage in a repayment plan with the company. The Group categorises a retail loan or receivable for write off when a debtor fails to make contractual payments exceeding a certain number of days, and meets other pre-defined criteria as per bank's internal policy. As regards the non retail loans, the write off of loans is done based on the individual assessment of these loans on a case to case basis. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(g) Impairment (continued)

Financial guarantees contract (continued)

Financial guarantee contracts not designated at FVTPL are presented as provisions in the consolidated statement of financial position and the re-measurement is presented in provision for credit loss. The Group has not designated any financial guarantee contracts as at FVTPL.

Curing period

The Group continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage2) to 12 months ECL (Stage 1).

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

(h) Derivatives and hedging

IFRS 9 expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. IFRS 9 envisions an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Bank shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

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

(i) Due from/to other banks

Amounts due from/to banks are initially recognised at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amount due from banks is assessed as outlined in the accounting policy for financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(j) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of three months or less excluding the statutory deposit required to be maintained with the UAE Central Bank.

(k) Customer acceptances

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and are recognised as a 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.

(l) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in Note 32.

Fair value hedge

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVOCI in which case it is recognised in OCI. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVOCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.
Where hedging gains/losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(l) Derivative financial instruments (continued)

Fair value hedge (continued)

The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

Cash flow hedge

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. If the Group no longer expects the transaction to occur that amount, is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

(m) Debt securities issued

Debt issued is recognised initially at fair value, net of transaction costs incurred. After initial measurement, debt issued is subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(n) Property and equipment

Land and buildings comprise branches, offices and certain residential premises purchased for occupation of management and staff. Property and equipment is stated at cost less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(n) Property and equipment (continued)

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other assets is calculated using the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	15 – 30
Computer equipment and software	2 -15
Furniture, fixtures and equipment	4 – 6
Leasehold improvements	2 – 6
Motor vehicles	2 – 4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capital work in progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the Group's accounting policy.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income.

(o) Employee benefits

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees. Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

(ii) Defined benefit plan

Provision is made for the end of service benefits due to non-UAE nationals in accordance with the UAE Labor Law for their periods of service up to the financial position date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The provision arising is disclosed as 'provision for employees' end of service benefits' under other liabilities in the consolidated statement of financial position.

(iii) Short-term employee benefits

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

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to financial position date. This provision is included in other liabilities.

(p) Fiduciary assets

Assets and the income arising on the Group's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognized in accordance with the accounting policy on fees and commission income.

(q) Share capital

(i) Share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Group's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(r) Provisions and contingent liabilities

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

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 recognized as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

(s) Deposits from customers

Deposits from customers are recognized initially at fair value, net of transaction costs incurred. Deposits from customers are subsequently carried at amortized cost using the effective interest method.

(t) Foreign currencies

Items included in the consolidated financial statements of the Group are measured using UAE Dirhams which is the currency of the primary economic environment in which the Group operates ('functional currency'). The consolidated financial statements are presented in UAE Dirhams. Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are re-translated into UAE Dirhams at the rates ruling at the consolidated statement of financial position date. Any resultant gains or losses are accounted for in the consolidated income statement other than for items presented in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(u) Interest income and expense

Interest income and expense are recognized in the consolidated income statement for all instruments measured at amortized cost using the effective interest method. Interest earned whilst holding investment securities is reported in interest income in the consolidated income statement.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(u) Interest income and expense (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(v) Fee and commission income

Fees and commissions, other than loan arrangement fees, are generally recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees earned on the Bank's fiduciary activities are recognized over the period in which the service is provided. The same principle is applied to custody services that are continuously provided over an extended period of time.

(w) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(x) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-maker. The Chief Operating Decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8 Operating Segments, the Group has the following business segments: retail banking, Wholesale banking, business banking, treasury and Insurance business.

(y) Intangible assets

Intangible assets acquired in a business combination are measured on initial recognition at cost, which is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(y) Intangible assets (continued)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(i) License

The license represents the right to conduct insurance operations, which is granted by the relevant insurance regulator. This license is assessed as having an indefinite useful life and included in goodwill.

(ii) Customer relationships

The value of customer relationships represents the value of future cash flows expected from renewals and the cross-selling of new products to customers known and identified at the time of the acquisition and will be amortized on a straight line basis over the estimated useful life which is four years.

(z) Insurance contracts

Insurance and reinsurance contracts held

The Group, through its insurance subsidiary RAKNIC, issues contracts that transfer insurance risks in the general insurance category. The general insurance category comprises Casualty, Group Life, Financial Lines, Fire, Marine, Energy and Accident and Health.

The Group writes the following types of insurance contracts:

- Accident insurance
- Property insurance
- Motor insurance
- Fire insurance
- Casualty insurance
- Medical insurance
- Marine insurance
- Engineering insurance
- Group life insurance

Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(z) Insurance contracts (continued)

Insurance and reinsurance contracts held (continued)

Insurance and other receivables

Insurance and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment losses. A provision for impairment of receivables is established in accordance with the policy outlined in note 3 (g).

The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated income statement within provision for credit loss. When a receivable is uncollectible, it is written off against the allowance account for that receivable. Subsequent recoveries of amounts previously written off are credited as other operating income in the consolidated income statement.

Deferred acquisition costs

The costs attributable to the acquisition of new business for insurance contracts and renewing existing contracts are capitalized as an intangible asset under Deferred Acquisition Costs (DAC). All other costs are recognized as expenses when incurred. DAC are subsequently amortized over the life of the contracts as premium is earned.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Classification

The Group issues contracts that transfer either insurance risk or both insurance and financial risks.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Group to pay significant additional benefits due to happening of the insured event compared to its non-happening.

Insurance contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where insurance risk is not significant are classified as investment contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(z) Insurance contracts (continued)

Insurance and reinsurance contracts held (continued)

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

Recognition and measurement

i. Premiums

Gross premiums written reflect business incepted during the year, and exclude any fees and other amounts collected with and calculated based on premiums. These are recognized when underwriting process is complete and policies are issued.

The earned position of premium is recognized as an income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below.

ii. Unearned premium provision

Unearned premiums are computed using statistical models to spread premium written evenly over period of coverage and are at least equal to the minimum stipulated by the UAE Insurance Law.

Claims

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expense reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the consolidated financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. Provision is also made for any claims incurred but not reported ("IBNR") at the date of the consolidated statement of financial position on the basis of management estimates.

Liability adequacy test

At the end of each reporting period, the Group assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognized in profit or loss and an unexpired risk provision is created.

Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(z) Insurance contracts (continued)

Insurance and reinsurance contracts held (continued)

Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in the consolidated income statement in the period in which they are incurred.

Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

Deferred acquisition cost

For general insurance contracts, the deferred acquisition cost asset represents the position of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the reporting date.

Insurance receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

Insurance contract provision and reinsurance assets

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the statement of financial position date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Significant accounting policies (continued)

(aa) Right-of-use assets and lease liabilities

Lease liabilities

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate

Interest rate for discounting

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

4. Cash and balances with UAE Central Bank

	2020 AED'000	2019 AED'000
Cash in hand	**772,356**	867,233
Balances with the UAE Central Bank	**23,468**	279,364
Overnight Deposits with the UAE central Bank	**1,880,000**	-
Certificates of deposit with the UAE Central Bank	**775,000**	400,000
Statutory deposit with the UAE Central Bank	**2,019,461**	3,238,907
	5,470,285	4,785,504

The Central Bank of the U.A.E. has prescribed reserve requirements on deposits, 1% for time deposits and 14% on current, saving, call and similar accounts. This year under the pandemic situation this requirement has been reduced by the central bank to 7% on current, saving, call and similar accounts. These are only available for day-to-day operations under certain specified conditions and cannot be withdrawn without the Central Bank's prior approval.

Central bank certificates of deposit with value of AED 350 million have been given as collateral for zero cost funding of AED 350 million under UAE Central bank Targeted Economic Support Scheme ("TESS") programme (note 12).

Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate of 0.06% to 0.2% (2019: 1.85% to 2.4%) per annum.

5. Due from other banks, net

	2020 AED'000	2019 AED'000
Placements with other banks	**791,273**	447,445
Demand deposits	**471,279**	455,628
Banker's acceptances	**2,755,336**	2,812,694
Syndicated loans	**2,544,113**	2,845,259
Others	**36,208**	61,287
Total due from other banks	**6,598,209**	6,622,313
Provision for credit loss	**(35,818)**	(29,080)
Due from other banks, net	**6,562,391**	6,593,233

The below represents deposits and balances due from:

	2020 AED'000	2019 AED'000
Banks in UAE	**569,361**	478,977
Banks outside UAE	**6,028,848**	6,143,336
Total due from other banks	**6,598,209**	6,622,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

6. Loans and advances, net

	2020 AED'000	2019 AED'000
(a) Loans and advances:		
Retail banking loans	**16,722,959**	18,715,661
Wholesale banking loans	**8,669,529**	9,418,422
Business banking loans	**6,808,424**	8,128,045
Total loans and advances [Note 6(b)]	**32,200,912**	36,262,128
Provision for credit loss [Note 6(c)]	**(2,159,442)**	(1,711,565)
Net loans and advances	**30,041,470**	34,550,563
(b) Analysis of loans and advances:		
Personal loans	**6,259,453**	7,222,957
Mortgage loans	**5,596,742**	5,380,041
Credit cards	**2,203,728**	3,121,075
Auto loans	**538,080**	868,125
RAK Business loans	**3,443,069**	4,099,197
Other Business banking loans	**3,365,355**	4,028,848
Wholesale banking loans	**8,669,529**	9,418,422
Other retail loans	**2,124,956**	2,123,463
Total loans and advances	**32,200,912**	36,262,128
(c) Movement in provision for credit losses:		
Balance at the beginning of the year	**1,711,565**	1,966,612
Impairment allowance for the year [Note 6(d)]	**1,699,534**	1,399,022
Written-off during the year	**(1,251,657)**	(1,654,069)
Balance at the end of the year	**2,159,442**	1,711,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

6. Loans and advances, net (continued)

(d) Provision for credit losses of loans and advances, net:

	2020 AED'000	2019 AED'000
Impairment allowance for the year	**1,699,534**	1,399,022
Net recovery during the year	**(75,931)**	(88,752)
	1,623,603	1,310,270

Net recovery mainly represents amounts subsequently recovered from fully written-off loans.

(e) Islamic financing assets:

The below table summarizes the Islamic financing assets that are part of loans and advances above:

	2020 AED'000	2019 AED'000
Islamic financing assets		
Islamic retail financing assets	**3,289,296**	3,508,781
Islamic business banking assets	**1,960,480**	2,043,967
Islamic wholesale banking assets	**1,125,141**	1,083,011
Total Islamic financing assets	**6,374,917**	6,635,759
Provision for impairment	**(420,858)**	(288,385)
	5,954,059	6,347,374

	2020 AED'000	2019 AED'000
Analysis of Islamic financing assets		
Islamic Salam personal finance	**2,166,569**	2,390,269
Islamic Auto Murabaha	**82,606**	160,162
Islamic business banking finance	**1,960,480**	2,043,967
Islamic Ijara Property Finance	**976,061**	869,109
Murabaha Islamic credit cards	**63,281**	86,731
Islamic wholesale banking	**1,125,141**	1,083,011
Islamic finance – other	**779**	2,510
	6,374,917	6,635,759

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

7. Investment securities, net

	2020 AED'000	2019 AED'000
Securities at fair value through other comprehensive income (FVOCI)		
Quoted equity securities	**267,896**	161,776
Unquoted equity securities	**2,612**	2,612
Quoted debt securities*	**2,759,371**	2,453,765
Unquoted debt securities	**432,294**	-
	3,462,173	2,618,153
Securities at fair value through profit or loss (FVPL)		
Quoted funds	**125,100**	37,641
Unquoted funds	**42,481**	42,083
Quoted debt securities	**3,544**	257,418
	171,125	337,142
Investment securities measured at fair value	**3,633,298**	2,955,295
Securities held at amortized cost		
Quoted debt securities*	**4,044,523**	4,749,913
Unquoted debt securities	**279,186**	464,386
	4,323,709	5,214,299
Provision for credit loss for Securities held at amortized cost	**(22,045)**	(28,161)
Investment securities measured at amortised cost	**4,301,664**	5,186,138
Net investment securities	**7,934,962**	8,141,433

*As at 31 December 2020, quoted debt securities with fair value of AED "Nil" (31 December 2019: AED 1,637 million) have been given as collateral against repo borrowings of AED "Nil " (31 December 2019: AED 1,594 million). Also quoted debt securities with fair value AED 968.5 million as at 31 December 2020 (31 December 2019: Nil) have been given as collateral for UAE Central Bank zero cost funding under "TESS" programme [Note 12].

During the year ended 31 December 2020, dividends received from investments as equity securities measured at FVOCI amounting to AED 15.8 million (31 December 2019: AED 15.2 million) were recognised as investment income in the consolidated statement of profit or loss (Note 25).

During the year ended 31 December 2020, change in fair value of investment securities measured at FVPL resulted in gain of AED 3.4 million (31 December 2019: AED 0.4 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

7. Investment securities, net (continued)

	2020 AED'000	2019 AED'000
The composition of the investment portfolio by category is as follows:		
Federal and local Government - UAE	**628,475**	441,515
Government related entity - UAE	**1,104,783**	1,080,996
Government - GCC	**684,853**	1,173,333
Government - other	**1,116,368**	1,528,764
Banks and financial institutions - UAE	**566,584**	713,749
Banks and financial institutions - GCC	**403,084**	244,607
Banks and financial institutions - other	**1,298,239**	1,265,948
Public limited companies - UAE	**438,892**	458,536
Public limited companies - GCC	**510,030**	294,522
Public limited companies - other	**767,610**	723,512
Total debt securities	**7,518,918**	7,925,482
Quoted equity securities	**267,896**	161,776
Quoted funds	**125,100**	37,641
Unquoted funds	**42,481**	42,083
Unquoted equity securities	**2,612**	2,612
Total investment securities	**7,957,007**	8,169,594

Movement in investment securities at

	FVOCI AED'000	FVPL AED'000	Amortized Cost AED'000	Total AED'000
At 1 January 2020	**2,618,153**	**337,142**	**5,214,299**	**8,169,594**
Purchases	**1,716,515**	**2,698,404**	**2,148,507**	**6,563,426**
Proceeds from disposal/maturities	**(926,064)**	**(2,861,282)**	**(3,193,228)**	**(6,980,574)**
Net changes in fair value due to revaluation	**(2,460)**	**-**	**-**	**(2,460)**
Net changes in fair value due to hedge and forex	**45,987**	**-**	**(8,685)**	**37,302**
Net changes in fair value through profit or loss	**-**	**3,403**	**-**	**3,403**
Amount charged to income	**(18,649)**	**-**	**-**	**(18,649)**
Amortization of (premium) /discount	**(3,876)**	**-**	**118,552**	**114,676**
Profit / (loss) on sale	**32,567**	**(6,542)**	**44,264**	**70,289**
At 31 December 2020	**3,462,173**	**171,125**	**4,323,709**	**7,957,007**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

7. Investment securities, net (continued)

Movement in investment securities (continued)

	FVOCI AED'000	FVPL AED'000	Amortized Cost AED'000	Total AED'000
At 1 January 2019	2,409,563	60,968	4,756,090	7,226,621
Purchases	1,055,030	2,345,714	3,287,948	6,688,692
Proceeds from disposal/maturities	(1,014,702)	(2,089,312)	(3,022,534)	(6,126,548)
Net changes in fair value due to revaluation	124,876	-	-	124,876
Net changes in fair value due to hedge and forex	45,462	-	64,752	110,214
Net changes in fair value through profit or loss	-	382	-	382
Net changes in fair value through Retained Earnings	(11,162)	-	-	(11,162)
Amortization of premium/discount	(5,402)	-	128,043	122,641
Profit on sale	14,488	19,390	-	33,878
At 31 December 2019	2,618,153	337,142	5,214,299	8,169,594

8. Insurance contract assets and receivables, net

	2020 AED'000	2019 AED'000
Reinsurance contract assets		
Claims reported unsettled	**58,411**	69,938
Claims incurred but not reported	**27,766**	40,051
Mathematical reserve	**1,433**	1,119
Unearned premium and unexpired risk reserve	**78,506**	105,048
Total reinsurance contract assets	**166,116**	216,156
Insurance related receivables		
Premium receivables	**144,587**	198,447
Reinsurance	**25,877**	64,483
Insurance agents and brokers	**393**	432
Gross insurance related receivables	**170,857**	263,362
Insurance contract assets and receivables	**336,973**	479,518
Provision for credit loss	**(54,708)**	(38,637)
Provision others	**-**	(400)
Total provisions for doubtful receivables	**(54,708)**	(39,037)
Insurance contract assets and receivables, net	**282,265**	440,481

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

9. Other assets

	2020 AED'000	2019 AED'000
Interest receivable	**275,931**	322,003
Profit receivable on Islamic financing assets	**44,326**	63,618
Prepayments and deposits	**101,502**	48,231
Foreign exchange and other derivative contracts (Note 32)	**564,418**	338,403
Insurance related receivables and assets	**24,780**	42,312
Gold on hand	**21,196**	33,069
Islamic profit paid in advance	**9,473**	18,977
Other	**242,556**	142,512
	1,284,182	1,009,125

10. Goodwill

	2020 AED'000
Cost	
At December 2019	166,386
Additions	-
At 31 December 2020	**166,386**
Accumulated impairment	-
At 1 January 2019	-
Impairment charge for the year	-
At 31 December 2019	-
Impairment charge for the year	-
At 31 December 2020	-
	-
Net book value	
At 31 December 2020	**166,386**
At 31 December 2019	166,386

For the purpose of impairment assessment, goodwill is allocated to the Group's insurance business. Goodwill is tested for impairment annually or at a more frequent basis when there is evidence that the fair value of the unit is less than the carrying value. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Management has carried out an impairment test for goodwill at the year end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use calculation using cash flow projections, based on financial budgets approved by senior management, covering a five year period. Cash flows beyond the five-year period are extrapolated using a growth rate, which management believes approximates the long term growth rate for the industry in which the cash generating unit operates. The judgements applied in the VIU calculation are disclosed in note 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

11. Property and equipment

	Land and buildings AED'000	Leasehold improvements AED'000	Other fixed assets AED'000	Capital work-in-progress AED'000	Total AED'000
Cost					
At 31 December 2018	717,339	113,844	1,031,027	25,520	1,887,730
Additions	-	-	3,334	80,922	84,256
Transfers	2,885	1,865	61,941	(66,691)	-
Disposals	-	-	(37,071)	-	(37,071)
At 31 December 2019	**720,224**	**115,709**	**1,059,231**	**39,751**	**1,934,915**
Additions	**-**	**14**	**2,054**	**95,013**	**97,081**
Transfers	**1,415**	**1,510**	**108,455**	**(111,380)**	**-**
Disposals	**(6,918)**	**(16,842)**	**(8,616)**		**(32,376)**
At 31 December 2020	**714,721**	**100,391**	**1,161,124**	**23,384**	**1,999,620**
Accumulated depreciation and impairment					
At 31 December 2018	214,652	102,334	710,802	-	1,027,788
Charge for the year	23,356	4,411	84,793	-	112,560
Disposals	-	-	(37,063)	-	(37,063)
At 31 December 2019	**238,008**	**106,745**	**758,532**	**-**	**1,103,285**
Charge for the year	**22,945**	**4,391**	**95,539**	**-**	**122,875**
Disposals	**(3,489)**	**(16,277)**	**(2,704)**		**(22,470)**
At 31 December 2020	**257,464**	**94,859**	**851,367**		**1,203,690**
Net book value					
At 31 December 2020	**457,257**	**5,532**	**309,757**	**23,384**	**795,930**
At 31 December 2019	482,216	8,964	300,699	39,751	831,630

Other fixed assets include computer equipment, furniture and fixtures, equipment and motor vehicles. Capital work in progress mainly comprises the costs pertaining to various system enhancements and set up costs for branches and offices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

12. Due to other banks

	2020	2019
	AED'000	AED'000
Term borrowings	**854,001**	3,306,567
Repurchase agreements (Note 7)	**-**	1,593,659
UAE Central Bank zero cost funding under "TESS" programme*	**1,199,000**	-
Demand deposits	**14,761**	76,829
	2,067,762	4,977,055

***Breakdown of UAE Central bank zero cost funding under "TESS"**

	AED'000
UAE Central Bank zero cost funding against quoted debt securities	**849,000**
UAE Central Bank zero cost funding against central bank certificate of deposit	**350,000**
	1,199,000

Under UAE Central Bank Targeted Economic Support Scheme ("TESS") programme the Group has received zero cost funding totalling AED 1,199 million. Central bank certificates of deposit of AED 350 million and quoted debt securities with fair value of AED 968.5 million as at 31 December 2020 have been given as collateral.

Reconciliation of liabilities arising from term borrowings

	1 January 2020 AED'000	Financing cash flows AED'000	Non cash changes AED'000	31 December 2020 AED'000
Term borrowings	**3,306,567**	**(2,453,295)**	**729**	**854,001**
	3,306,567	**(2,453,295)**	**729**	**854,001**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

13. Deposits from customers

	2020 AED'000	2019 AED'000
Current accounts	**22,984,282**	18,434,769
Call deposits	**1,248,562**	1,224,478
Saving deposits	**3,826,983**	3,275,754
Time deposits	**8,884,497**	13,891,359
	36,944,324	36,826,360

Time deposits include AED 1,308 million (2019: AED 1,420 million) held by the Group as cash collateral for loans and advances granted to customers.

The below table summarizes the Islamic deposits of customers that are part of deposits from customers above:

	2020 AED'000	2019 AED'000
Wakala deposits	**1,209,557**	2,881,992
Mudaraba term investment deposits	**23,937**	15,690
Murabaha term deposit	**896,945**	1,184,065
Qard-E-Hassan - current accounts	**881,105**	831,169
Mudaraba - current accounts	**495,994**	451,227
Mudaraba - saving accounts	**213,613**	228,079
Mudaraba - call deposits	**14,998**	21,283
	3,736,149	5,613,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

14. Debt securities issued and other long term borrowings

	31 December 2020 AED'000	31 December 2019 AED'000
USD 500 million medium term note issued at discount in April 2019 (a)	**1,832,671**	1,831,598
USD 50 million private placement at discount in July 2017 (a)	**183,494**	183,220
USD 145 million private placement net of discount (a)	**527,131**	524,996
USD 350 million syndicated borrowing (b)	**-**	1,285,550
USD 80 million bilateral borrowing (c)	**293,840**	293,840
SAR 800 million Islamic bilateral borrowing (d)	**783,458**	783,302
Less: Debt securities and other borrowing issue costs	**(8,328)**	(13,625)
	3,612,266	4,888,881

(a) In April 2019, the Group issued five-year USD 500 million Euro Medium Term Notes (EMTN) under its USD 2 billion EMTN programme through its subsidiary RAK Funding Cayman limited. This was issued at a discounted rate of 99.692% and carries a fixed interest rate of 4.125% per annum which is payable half yearly in arrears. These notes mature in April 2024.

Under the EMTN Programme, the Group issued USD 50 million floating rate notes in July 2017 through a private placement which matures in 2021. These carry a floating rate of USD 3 months LIBOR +1.5% per annum.

The Group issued USD 145 million of floating rate notes in March 2018 through a private placement with an interest rate of USD 3 months LIBOR +1.4% which mature in in March 2023.

(b) During the third quarter of 2017, the Group arranged a three-year syndicated borrowing of USD 350 million maturing in 2020. This syndicated borrowing carries an interest rate of USD 3 months LIBOR + 1.55% per annum. On 15 July 2020, the Group has settled in advance syndicated borrowing of USD 350 million which was supposed to mature in September 2020.

(c) In March 2018 the Group borrowed USD 80 million at an interest rate of USD 3 months LIBOR + 1.25% per annum which matures in March 2021.

(d) In March 2019 the Group borrowed SAR 800 million at a profit rate of 3.85% per annum which matures in March 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

14. Debt securities issued and other long term borrowings (continued)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows.

	1 January 2020 AED'000	Financing cash flows AED'000	Non cash changes AED'000	31 December 2020 AED'000
Fixed rate Euro medium term notes –issued 2019	**1,821,125**		3,374	1,824,499
Floating rate notes issued in 2017	**183,219**	-	275	183,494
Bilateral borrowing - 2018	**293,636**	-	153	293,789
Bilateral borrowing – Islamic -2019	**783,302**	-	156	783,458
Private placement issued in 2018	**524,848**	-	2,178	527,026
Syndicated borrowing made in 2017	**1,282,751**	(1,285,550)	2,799	-
Total liabilities from financing activities	**4,888,881**	(1,285,550)	8,935	3,612,266

15. Insurance contract liabilities and payables

	2020 AED'000	2019 AED'000
Insurance contract liabilities		
Claims reported unsettled, net	**81,495**	105,285
Claims incurred but not reported	**52,610**	68,811
Unearned premiums	**193,690**	224,897
Unallocated loss adjustment expense reserve	**2,841**	2,304
Unexpired risk reserve	**24,089**	32,840
Mathematical Reserve	**14,265**	10,300
Total insurance contract liabilities	**368,990**	444,437
Insurance related payables		
Creditors	**22,516**	43,818
Reinsurance payables	**20,561**	45,801
Commission payables	**18,327**	22,318
Total insurance related payables	**61,404**	111,937
Insurance contract liabilities and payables	**430,394**	556,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

15. Insurance contract liabilities and payables (continued)

	2020			2019		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
Claims						
Outstanding claims	**105,285**	**(69,938)**	**35,347**	111,354	(84,016)	27,338
Unallocated loss adjustment expense reserve	**2,304**	**-**	**2,304**	2,732	-	2,732
Incurred but not reported	**68,811**	**(40,051)**	**28,760**	58,529	(29,757)	28,772
Total at the beginning of the year	**176,400**	**(109,989)**	**66,411**	172,615	(113,773)	58,842
Claims settled during the year	**(420,796)**	**177,108**	**(243,688)**	(451,933)	213,905	(238,028)
Arising from current year claims	**348,278**	**(142,458)**	**205,820**	446,609	(209,334)	237,275
Arising from prior year claims	**33,064**	**(10,839)**	**22,225**	9,109	(787)	8,322
Total at the end of the year	**136,946**	**(86,178)**	**50,768**	176,400	(109,989)	66,411
Outstanding claims	**81,494**	**(58,411)**	**23,083**	105,285	(69,938)	35,347
Unallocated loss adjustment expense reserve	**2,842**	**-**	**2,842**	2,304	-	2,304
Incurred but not reported	**52,610**	**(27,767)**	**24,843**	68,811	(40,051)	28,760
Total at the end of the year	**136,946**	**(86,178)**	**50,768**	176,400	(109,989)	66,411
Unearned premium and unexpired risk reserves						
Total at the beginning of the year	**257,737**	**(105,048)**	**152,689**	231,197	(95,771)	135,426
Written during the year	**537,487**	**(189,897)**	**347,590**	608,979	(105,048)	503,931
Earned during the year	**(577,445)**	**216,439**	**(361,006)**	(582,439)	95,771	(486,668)
Net increase during the year	**(39,958)**	**26,542**	**(13,416)**	26,540	(9,277)	17,263
Total at the end of the year	**217,779**	**(78,506)**	**139,273**	257,737	(105,048)	152,689

Movements in the insurance contract liabilities and reinsurance contract assets during the year were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

16. Other liabilities

	31 December 2020 AED'000	31 December 2019 AED'000
Interest payable	**83,313**	180,647
Profit distributable on Islamic deposits	**29,248**	66,274
Accrued expenses	**220,255**	242,261
Provision for employees' end-of-service benefits [Note 29]	**124,314**	115,269
Foreign exchange and other derivatives derivative contracts	**636,961**	377,378
Credit card payables and liabilities	**146,645**	48,776
Managers cheques issued	**208,669**	157,663
Mortgage payables and liabilities	**18,830**	7,151
Insurance related payables and liabilities	**32,431**	48,213
Provision for credit loss on contingent assets and customer acceptances	**11,027**	11,138
Other	**141,998**	198,587
	1,653,691	1,453,357

Major portion of other in other liabilities is related to unamortised profit and commission received in advance, unclaimed customer balances and clawback provisions on fiduciary and Bancassurance income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

17. Share capital and dividend

At 31 December 2020, the authorised, issued and fully paid share capital of the Bank comprised: 1,676 million shares of AED 1 each (31 December 2019: 1,676 million shares of AED 1 each).

At the meeting held on 30 March 2020, the shareholders of the Bank approved a cash dividend of 30% amounting to AED 503 million of the issued and paid up capital in respect of the year ended 31 December 2019 (2018: 30% cash dividend amounting to AED 503 million).

18. Legal reserve

In accordance with the UAE Federal Law No (2) of 2015 and Articles of Association of the Bank, 10% of the Bank's net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. Since the legal reserve of the Bank exceeds 50% of Bank's issued capital, profit was not appropriated to legal reserve during the year. This reserve is not available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

19. Other reserves

	Voluntary reserve AED'000	General banking risk reserve AED'000	Credit risk reserve AED'000	Regulatory impairment reserve - specific AED'000	Fair value reserve AED'000	Total AED'000
At 31 December 2018	337,208	1,000,000	1,742,000	49,978	(121,611)	3,007,575
Changes during the year	-	-	-	14,590	139,535	154,125
At 31 December 2019	**337,208**	**1,000,000**	**1,742,000**	**64,568**	**17,924**	**3,161,700**
Changes during the year	-	-	-	(64,568)	2,563	(62,005)
At 31 December 2020	**337,208**	**1,000,000**	**1,742,000**	**-**	**20,487**	**3,099,695**

In accordance with the Articles of Association of the Bank, 10% of the net profit for the year is to be transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. Since the voluntary reserve of the Bank is equal to 20% of Bank's issued capital, profit was not appropriated to voluntary reserve during the year. This reserve is available for distribution.

In accordance with CBUAE circular 28/2010 the Bank has released the regulatory impairment reserve during the year as the provision under IFRS9 exceeds the provision required under CBUAE circular 28/2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

19. Other reserves (continued)

The Bank maintains a general banking risk reserve to address the risks inherent in the Bank's operating environment. Contributions to this reserve are made at the discretion of the Directors. This reserve is available for distribution.

The Bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors. This reserve is available for distribution. This reserve is available for loss absorption.

Fair value reserve includes fair value of equity instruments that will not be reclassified subsequently to profit or loss, debt instruments that may be reclassified subsequently to profit or loss and fair value of cash flow hedges.

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

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

	2020 AED'000	2019 AED'000
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	**590,616**	634,000
Less: Stage 1 and Stage 2 provisions under IFRS 9	**1,356,126**	1,156,925
General provision transferred to the regulatory impairment reserve*		-
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**757,310**	691,633
Less: Stage 3 provisions under IFRS 9	**894,790**	627,065
Opening balance regulatory impairment reserve 1 January 2020	**64,568**	49,978
Amount reversed from regulatory impairment reserve*	**(64,568)**	14,590
Total provision transferred to the regulatory impairment reserve	**-**	64,568

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

20. Non-controlling interests

	2020 AED'000	2019 AED'000
Balance at the beginning of the year	**37,828**	38,979
Profit for the year	**1,601**	186
Dividends paid	**-**	(2,285)
Change in other comprehensive income for the year	**(117)**	948
Balance at the end of the year	**39,312**	37,828

21. Interest income and interest expense

	2020 AED'000	2019 AED'000
Interest income		
Personal loans	**318,799**	370,989
Mortgage loans	**172,166**	197,046
Credit cards	**487,370**	630,001
Auto loans	**33,425**	57,376
RAK business loans	**432,273**	561,844
Wholesale banking loans	**287,956**	382,079
Other business banking loans	**229,959**	288,054
Other retail loans	**57,458**	73,205
Investment securities	**297,196**	344,372
Deposits with the U.A.E. Central Bank	**6,612**	16,580
Other banks	**178,215**	225,201
	2,501,429	3,146,747
Interest expense		
Deposits from customers	**216,581**	376,864
Debt securities issued and other long term borrowings	**131,547**	207,190
Borrowings from other banks	**60,399**	96,269
	408,527	680,323

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

22. Income from Islamic Financing and distribution to depositors

	2020 AED'000	2019 AED'000
Income from Islamic financing		
Islamic salam personal finance	213,855	216,689
Islamic auto Murabaha	6,483	14,716
Islamic business banking finance	230,583	195,329
Islamic wholesale banking finance	40,076	44,714
Islamic Investment Income	26,391	1,336
Islamic ijara property finance	38,065	38,239
	555,453	511,023
Distribution to depositors		
Distribution of profit on Islamic term investment deposits	92,791	157,460
Bilateral long term borrowing	28,759	15,332
Distribution of profit on Islamic demand deposits	1,227	2,581
	122,777	175,373

23. Net fees and commission income

	2020 AED'000	2019 AED'000
Personal loans	28,169	57,200
Mortgage loans	22,811	21,975
Credit cards	232,203	268,068
Auto loans	6,451	11,594
RAK business loans	15,049	46,826
Wholesale banking	37,753	60,632
Other business banking	141,727	160,356
Fiduciary income	56,455	46,248
Bancassurance	37,826	56,032
Other	54,389	43,829
	632,833	772,760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

24. Net insurance underwriting profit

	2020 AED'000	2019 AED'000
Gross insurance premium	561,647	570,079
Less: insurance premium ceded to reinsurers	(216,439)	(234,132)
Net retained premium	345,208	335,947
Net change in unearned premium reserve	-	-
Net insurance premium	345,208	335,947
Gross claims incurred	(404,679)	(468,683)
Insurance claims recovered from reinsurers	177,108	213,906
Net change in mathematical reserve	(3,651)	
Net claims incurred	(231,222)	(254,777)
Gross commission earned	20,804	22,269
Less: commission incurred	(81,788)	(72,479)
Net commission incurred	(60,984)	(50,210)
Net underwriting profit	53,002	30,960

25. Investment income

	2020 AED'000	2019 AED'000
Dividend income	15,809	15,205
Net gain on disposal of investments	70,289	33,878
Fair value gain , net	3,403	379
	89,501	49,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

26. General and administrative expenses

	2020 AED'000	2019 AED'000
Staff costs (Note 28)	**788,542**	898,566
Outsourced staff costs	**41,825**	35,771
Depreciation and amortization	**122,875**	113,897
Information and technology expenses	**115,188**	113,941
Occupancy costs	**81,311**	99,808
Legal and collections charges	**40,609**	50,900
Communication costs	**50,565**	57,297
Marketing expenses	**21,852**	38,227
Other	**132,582**	162,028
	1,395,349	1,570,435

27. Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year:

	2020 AED'000	2019 AED'000
Profit for the year (AED'000) [attributed to owners of the Bank]	**503,777**	1,095,076
Weighted average number of shares in issue (in 000's)	**1,676,245**	1,676,245
Basic earnings per share (AED)	**0.30**	0.65

28. Staff costs

	2020 AED'000	2019 AED'000
Salaries, allowances and bonus	**692,538**	775,612
Pension	**13,015**	11,895
End-of-service benefits	**24,186**	24,044
Other	**58,803**	87,015
	788,542	898,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

29. Provision for staff end-of-service benefits

	2020 AED'000	2019 AED'000
Balance at 1 January	**115,269**	113,402
Remeasurement charge in OCI	**7,294**	-
(Payment)/net charge during the year	**1,751**	1,867
Balance at 31 December	**124,314**	115,269

The Group provided for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at 31 December 2020 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The liabilities were measured using the projected unit credit method. For valuing liability as at 31 December 2020, a discount rate of 1.65% and salary escalation rate of 1.5% for future years were used.

Below table illustrates the impact of shift in the discount rate and the salary increment assumption on staff end-of-service benefits liabilities.

Scenario	**31 December 2020 AED'000**
Discount Rate: Increase by 1% (decrease) / Increase	**(9,338)**
Discount Rate: Decrease by 1% (decrease) / Increase	**10,786**
Salary Escalation Rate: Increase by 1% (decrease) / Increase	**10,710**
Salary Escalation Rate: Decrease by 1% (decrease) / Increase	**(9,455)**

30. Provision for credit loss, net

	2020 AED'000	2019 AED'000
Net impairment charge on loans and advances [Note 6(d)]	**1,623,603**	1,310,270
Net impairment charge / (release) on due from other banks	**6,738**	(2,060)
Net impairment charge / (release) on investment securities	**16,333**	(324)
Net impairment charge on insurance contracts	**16,739**	2,056
Net impairment charge /release on customer acceptances	**(246)**	170
Net impairment charge on off balance sheet items	**135**	3,106
Net impairment charge for the year	**1,663,302**	1,313,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

31. Contingencies and commitments

	2020 AED'000	2019 AED'000
Irrevocable commitments to extend credit	**3,332,866**	2,597,848
Letters of guarantee - Financial	**505,797**	363,087
Letters of guarantee – Non Financial	**604,815**	467,512
Letters of credit	**384,395**	328,514
Capital commitments and other contingencies	**19,654**	33,379
	4,847,527	3,790,340

Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. Commitments to extend credit amounting to AED 6,620 million (2019: AED 7,661 million) are revocable at the option of the Bank and not included in the above table.

The Group is holding AED 10.9 million (31 December 2019: AED 10.7 million) provision for expected credit loss on off balance sheet items as per IFRS 9, out of which AED 6.8 million (31 December 2019: AED 6.7 million) of provision relates to irrevocable commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

32. Derivative contracts

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Unrealised gains and losses are either recognised in profit and loss or in cash flow hedge reserve. In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

(a) Swaps are commitments to exchange one set of cash flows for another. In interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. In cross-currency swaps interest payments and principal in one currency are exchanged for interest payments and principal in another currency.

(b) Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.

(c) Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are marked to market daily.

(d) Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

(e) Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

(f) Coupon only Swap is a contract to exchange coupons in one currency for coupons in another currency. It is a form of cross-currency swap that entails no exchange of principal in different currencies at maturity, and only interest payments are exchanged.

(g) Range accrual is a structured product where the coupon is linked to a reference index, such as LIBOR, being within a defined range. Callable range accrual is a range accrual where the issuer has option to call the note at specified dates in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

32. Derivative contracts (continued)

Derivatives held or issued for hedging purposes

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

The Group uses forward foreign exchange contracts, NDFs, Futures and swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the changes in the cash flow arising from certain Floating interest rate loans and deposits.

For interest rate risks strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for hedge accounting, the related derivatives are accounted for as regular derivative transactions.

The Group has entered into interest rate swaps that are designated as fair value hedges, for hedging the interest rate risk on certain Fixed rate Investments and Loans.

The group's accounting policy for its derivative financial instruments and fair value and cash flow hedges are set out in note 3(l).

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 43(d).

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the group enters into hedge relationships where the critical terms of the hedging instrument match with the terms of the hedged item. The group uses the hypothetical derivative method to assess hedge effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

32. Derivative contracts (continued)

Derivatives held or issued for hedging purposes (continued)

The group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, there is an economic relationship between the hedged item and the hedging instrument.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan,
- differences in critical terms between the interest rate swaps and loans.
- the effects of the forthcoming reforms to IBOR, because these might take effect at a different time

and have a different impact on the hedged item (the floating-rate financial asset or liability) and the hedging instrument (the interest rate swap used to hedge the financial asset or liability).

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

32. Derivative contracts (continued)

31 December 2020				**Notional amount by term to maturity**				
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount AED'000**	**Up to 3 months AED'000**	**3 – 6 months AED'000**	**6 – 12 months AED'000**	**1 – 5 years AED'000**	**Over 5 Years AED'000**
Derivatives held for trading:								
Forward foreign exchange contract	56,586	52,173	7,880,314	3,469,188	1,191,210	3,219,916	-	-
Foreign exchange options (bought)	8,518		1,043,132	1,043,132	-	-	-	-
Foreign exchange options (sold)	-	8,526	1,043,132	1,043,132	-	-	-	-
Interest rate swaps	435,420	438,101	10,152,896	-	-	-	2,465,962	7,686,934
Cross currency swap	841	835	550,950	-	-	-	550,950	-
Commodity swaps	738	681	7,802	7,802	-	-	-	-
Multi callabale range arrangement	1,170	-	600,000	-	-	-	-	600,000
Futures contracts	4,362	449	193,459	193,459	-	-	-	-
Sub total	507,635	500,765	21,471,685	5,756,713	1,191,210	3,219,916	3,016,912	8,286,934
Derivatives held as fair value hedge								
Interest rate swap	-	127,780	1,330,192	-	37,296	-	833,771	459,125
Cross-currency swap	-	-	-	-	-	-	-	-
Sub total	-	127,780	1,330,192	-	37,296	-	833,771	459,125
Derivative held as cash flow hedge:								
Forward foreign exchange contract	7,974	1,090	1,288,459	487,631	17,370	-	783,458	-
Interest rate swap	21,544	7,326	493,840	-	-	293,840	200,000	-
Cross-currency swap	1,370	-	477,490	-	-	-	477,490	-
Coupon only swap	-	-	-	-	-	-	-	-
Future contracts	25,895	-	238,428	238,428	-	-	-	-
Sub total	56,783	8,416	2,498,217	726,059	17,370	293,840	1,460,948	-
Total Derivatives	564,418	636,961	25,300,094	6,482,772	1,245,876	3,513,756	5,311,631	8,746,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

32. Derivative contracts (continued)

31 December 2019				Notional amount by term to maturity				
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	123,351	101,033	10,115,744	4,222,377	1,915,214	3,296,943	681,210	-
Foreign exchange options (bought)	1,772	-	405,846	370,361	34,390	1,095	-	-
Foreign exchange options (sold)	-	1,503	255,352	23,953	231,399	-	-	-
Commodity option(bought)	2,923	-	58,336	14,504	14,504	29,328	-	-
Commodity option (sold)	-	2,930	58,336	14,504	14,504	29,328	-	-
Interest rate swaps	168,495	171,195	8,018,250	-	-	-	1,716,660	6,301,590
Cross currency swap	8,787	7,377	2,147,543	-	-	678,343	1,469,200	-
Commodity swaps	1,309	1,294	17,193	-	-	17,193	-	-
Multi callabale range arrangement	3,541	-	900,000	-	-	-	400,000	500,000
Futures contracts	1,320	1,312	398,111	398,111	-	-	-	-
Sub total	311,498	286,644	22,374,711	5,043,810	2,210,011	4,052,230	4,267,070	6,801,590
Derivatives held as fair value hedge								
Interest rate swap	182	75,461	1,330,192	-	-	-	782,915	547,277
Cross-currency swap	-	-	-	-	-	-	-	-
Sub total	182	75,461	1,330,192	-	-	-	782,915	547,277
Derivative held as cash flow hedge:								
Forward foreign exchange contract	3,701	8,713	2,356,342	522,168	859,900	190,973	783,301	-
Interest rate swap	12,862	6,483	493,840	-	-	-	293,840	200,000
Cross-currency swap	1,413	77	477,490	-	-	-	477,490	-
Coupon only swap	7,850	-	532,585	-	-	-	-	532,585
Future contracts	897	-	334,506	6,602	230,569	97,335	-	-
	-	-	-	-	-	-	-	-
Sub total	26,723	15,273	4,194,763	528,770	1,090,469	288,308	1,554,631	732,585
Total Derivatives	338,403	377,378	27,899,666	5,572,580	3,300,480	4,340,538	6,604,616	8,081,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

32. Derivative contracts (continued)

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

31 December 2020

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on hedged item		Balance sheet item	Cash flow hedge reserve	
	Assets AED'000	Liabilities AED'000	Assets AED'000	Liabilities AED'000		Continuing hedges AED'000	Discontinued hedges AED'000
Derivatives held as fair value hedge							
Interest rate swap	1,250,720	-	-	(119,069)	Investment securities measured at fair value through OCI	N/A	N/A
Interest rate swap	170,345	-	-	(8,711)	Loans and advances, net	N/A	N/A
Sub total	1,421,065	-	-	(127,780)		N/A	N/A
Derivative held as cash flow hedge:							
Forward foreign exchange contract-SAR	-	391,729	N/A	N/A	Deposits from customers	-	-
Forward foreign exchange contract-SAR	-	783,458	N/A	N/A	Debt securities issued and other long term borrowings	1,070	-
Forward foreign exchange contract-NGN	44,741	-	N/A	N/A	Investment securities measured at amortised cost	(20,324)	-
Forward foreign exchange contract-XAU	75,658	-	N/A	N/A	Loans and advances, net	59	-
Interest rate swap	-	293,840	N/A	N/A	Debt securities issued and other long term borrowings	(3,791)	-
Interest rate swap	200,346	-	N/A	N/A	Loans and advances, net	19,533	-
Cross-currency swap	479,255	-	N/A	N/A	Investment securities measured at amortised cost	1,172	-
Coupon only swap	-	-	N/A	N/A	Debt securities issued & other long term borrowings	-	1,461
Future contracts	312,282	-	N/A	N/A	Investment securities measured at amortised cost	25,895	-
Sub total	1,112,282	1,469,027	-	-	-	23,614	-
Total Derivatives	2,533,347	1,469,027	-	(127,780)	-	23,614	1,461

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

32. Derivative contracts (continued)

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

31 December 2019

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on hedged item		Balance sheet item	Cash flow hedge reserve	
	Assets AED'000	Liabilities AED'000	Assets AED'000	Liabilities AED'000		Continuing hedges AED'000	Discontinued hedges AED'000
Derivatives held as fair value hedge							
Interest rate swap	1,223,401	-	-	(70,942)	Investment securities measured at fair value through OCI	N/A	N/A
Interest rate swap	165,971	-	182	(4,519)	Loans and advances, net	N/A	N/A
Sub total	1,389,372	-	182	(75,461)		N/A	N/A
Derivative held as cash flow hedge:							
Forward foreign exchange contract-SAR	-	783,302	N/A	N/A	Deposits from customers		-
Forward foreign exchange contract-SAR	-	905,054	N/A	N/A	Debt securities issued and other long term borrowings	(981)	-
Forward foreign exchange contract-NGN	37,258	-	N/A	N/A	Investment securities measured at amortised cost	(208)	-
Forward foreign exchange contract-XAU	43,048	-	N/A	N/A	Loans and advances, net	1,922	-
Forward foreign exchange contract-EGP	587,680	-	N/A	N/A	Investment securities measured at amortised cost	1,214	-
Interest rate swap	200,346	-	N/A	N/A	Loans and advances, net	11,093	-
Interest rate swap	-	293,840	N/A	N/A	Debt securities issued and other long term borrowings	(4,145)	-
Cross-currency swap	478,167	-	N/A	N/A	Investment securities measured at amortised cost	1,134	-
Coupon only swap	-	532,585	N/A	N/A	Debt securities issued & other long term borrowings	1,949	-
Future contracts	350,559	-	N/A	N/A	Investment securities measured at amortised cost	897	-
Sub total	1,697,058	2,514,781	-	-	-	12,875	-
Total Derivatives	3,086,430	2,514,781	182	(75,461)	-	12,875	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

33. Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash in hand and current account with UAE Central Bank	**2,675,824**	1,146,597
Due from other banks	**6,598,209**	6,622,313
	9,274,033	7,768,910
Less: Due from other banks with original maturity of greater than Three months	**(5,637,920)**	(5,865,486)
	3,636,113	1,903,424

34. Operating segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting to the management, which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has five main business segments:

- Retail banking - incorporating individual customer and certain business current accounts, savings accounts, deposits, credit and debit cards, individual customer loans and mortgages;
- Wholesale banking - incorporating transactions with corporate bodies including government and public bodies and comprising of loans, advances, deposits and trade finance transactions of corporate customers and financial institutions;
- Business banking - incorporating transactions comprising of loans, advances, deposits and trade finance transactions of SME;
- Treasury - incorporating activities of the dealing room, related money market, and foreign exchange transactions and hedging activities with other banks and financial institutions including the UAE Central Bank, none of which constitute a separately reportable segment; and
- Insurance business - incorporating all insurance related transactions of its subsidiary Ras Al Khaimah National Insurance Company PSC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

34. Operating segments (continued)

The above segments include conventional and Islamic products and services of the Group.

As the Group's segment operations are all financial with a majority of revenues deriving from interest and fees and commission income, the management relies primarily on revenue and segmental results to assess the performance of the segment.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment revenue. Interest charged for these funds is based on the Bank's funds transfer pricing guidelines. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of net profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

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

The segment information provided to the management for the reportable segments for the period ended 31 December 2020 and 2019 is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

34. Operating segments (continued)

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury & other AED'000	Insurance business AED'000	Head office & Unallocated costs AED'000	Consolidation adjustments AED'000	Total AED'000
31 December 2020								
Net external interest income	989,128	329,987	629,082	132,717	8,491	-	3,497	2,092,902
Income from Islamic financing net of distribution to depositors	236,223	(26,465)	225,949	(3,031)	-	-	-	432,676
Internal revenue / (costs)	(279,916)	(68,015)	(52,535)	318,805	-	81,661	-	-
Net interest income and net income from Islamic financing	945,435	235,507	802,496	448,491	8,491	81,661	3,497	2,525,578
Non-interest income	511,745	41,387	209,975	215,027	75,727	1,509	(16,919)	1,038,451
Operating income	1,457,180	276,894	1,012,471	663,518	84,218	83,170	(13,422)	3,564,029
Operating expense excluding depreciation & amortisation	(621,272)	(50,054)	(244,412)	(21,574)	(49,293)	(292,375)	6,506	(1,272,474)
Depreciation & amortisation	(42,079)	(1,927)	(3,462)	(1,085)	(3,450)	(70,872)		(122,875)
Total operating expense	(663,351)	(51,981)	(247,874)	(22,659)	(52,743)	(363,247)	6,506	(1,395,349)
Impairment charge, net	(809,076)	(156,661)	(662,745)	(17,970)	(16,850)	-	-	(1,663,302)
Net profit/(loss)	(15,247)	68,252	101,852	622,889	14,625	(280,077)	(6,916)	505,378
Segment assets	16,299,683	13,729,673	6,666,608	14,254,110	691,303	1,383,933	(252,702)	52,772,608
Total assets	16,299,683	13,729,673	6,666,608	14,254,110	691,303	1,383,933	(252,702)	52,772,608
Segment liabilities	13,023,703	7,316,890	17,314,561	6,123,400	488,227	748,206	(87,337)	44,927,650
Total liabilities	13,023,703	7,316,890	17,314,561	6,123,400	488,227	748,206	(87,337)	44,927,650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

34. Operating segments (continued)

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury & other AED'000	Insurance business AED'000	Head office & Unallocated costs AED'000	Consolidation adjustments AED'000	Total AED'000
31 December 2019								
Net external interest income	1,201,309	336,322	794,711	122,775	9,820	-	1,487	2,466,424
Income from Islamic financing net of distribution to depositors	242,859	(54,074)	178,337	(32,603)	-	-	1,131	335,650
Internal revenue / (costs)	(308,579)	(46,987)	42,265	91,878	-	221,423	-	-
Net interest income and net income from Islamic financing	1,135,589	235,261	1,015,313	182,050	9,820	221,423	2,618	2,802,074
Non-interest income	586,648	64,645	274,025	218,093	44,408	139	(11,117)	1,176,841
Operating income	1,722,237	299,906	1,289,338	400,143	54,228	221,562	(8,499)	3,978,915
Operating expense excluding depreciation & amortisation	(780,382)	(46,139)	(204,249)	(19,999)	(47,070)	(365,708)	7,009	(1,456,538)
Depreciation & amortisation	(37,925)	(1,490)	(1,279)	(756)	(3,591)	(67,519)	(1,337)	(113,897)
Total operating expense	(818,307)	(47,629)	(205,528)	(20,755)	(50,661)	(433,227)	5,672	(1,570,435)
Impairment charge, net	(740,527)	(134,539)	(438,122)	1,152	(1,182)	-	-	(1,313,218)
Net profit/(loss)	163,403	117,738	645,688	380,540	2,385	(211,665)	(2,827)	1,095,262
Segment assets	18,658,865	15,222,530	7,850,779	13,169,569	823,743	1,610,472	(216,399)	57,119,559
Total assets	18,658,865	15,222,530	7,850,779	13,169,569	823,743	1,610,472	(216,399)	57,119,559
Segment liabilities	11,794,122	12,179,386	14,456,801	9,455,469	634,727	815,448	(57,951)	49,278,002
Total liabilities	11,794,122	12,179,386	14,456,801	9,455,469	634,727	815,448	(57,951)	49,278,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

35. Related parties transactions and balances

Related parties comprise key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Compensation of key management personnel comprises of salaries, bonuses and other benefits.

During the year, the Group entered into transactions with related parties in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties.

The transactions with related parties and balances arising from these transactions are as follows:

	2020 AED'000	2019 AED'000
Transactions during the period		
Interest income	**9,574**	16,676
Interest expense	**34,094**	32,314
Commission income	**621**	1,137
Directors' and key management personnel's remuneration, sitting and other expenses	**32,229**	35,043
Balances		
Loans and advances:		
- Shareholders and their related companies	**300,999**	376,207
- Directors and their related companies	**35,961**	6,312
- Key management personnel	**3,001**	6,549
	339,961	389,068
Deposits		
- Shareholders and their related companies	**2,107,864**	2,218,798
- Directors and their related companies	**10,327**	10,712
- Key management personnel	**18,503**	16,882
	2,136,694	2,246,392
Irrevocable commitments and contingent liabilities and forward contracts		
- Shareholders and their related companies	**166,161**	182,520
- Directors and their related companies	**40**	40
	166,201	182,560
Insurance related receivables		
Due from policy holders	**11,150**	10,351
Insurance related payables		
Due to policy holders	**59**	134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

36. Right-of-use assets

	2020 AED'000	2019 AED'000
Balance at the beginning of the year	**176,939**	-
Impact of adoption of IFRS 16 on 1 January 2019	**-**	225,191
Additions during the year	**909**	
Decrease due to termination and revision of lease contracts	**(22,541)**	(10,333)
Depreciation for the year	**(37,435)**	(37,919)
	117,872	176,939

37. Lease liabilities

	2020 AED'000	2019 AED'000
Balance at the beginning of the year	**151,710**	-
Impact of adoption of IFRS 16 on 1 January 2019	**-**	195,885
Additions during the year	**909**	
Decrease due to termination and revision of lease contracts	**(24,230)**	(10,511)
Gain from rent concession due to pandemic	**(3,936)**	-
Interest cost on lease liability for the year	**5,374**	7,520
Payments made during the year	**(27,479)**	(41,184)
	102,348	151,710

38. Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse. At 31 December 2020, the market value of such assets amounted to AED 2,731 million (2019: AED 2,178 million) and are excluded from the consolidated financial statements of the Group.

39. Legal proceedings

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

The Bank's subsidiary, RAKNIC as common with other insurance companies, is involved as defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

40. Seasonality of results

There is no income of seasonal nature during year 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management

Risk management review

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Bank's Board and Management believe that an effective risk department is vital to achieving the Bank's strategic growth objectives in a sustainable manner. The Board Risk Committee endorses the Bank's overall risk management strategy and appetite, providing the necessary direction concerning risk management measures undertaken by the Group. The Risk Management function of the Bank is independent of the risk taking functions which is in line with the guidelines of the UAE Central Bank and consistent with Group's model of three lines of defence.

"The Group has a Board approved Enterprise Risk Management policy which covers the Group's Risk Appetite framework including the Financial Risks and operating within the thresholds approved for Financial Risks".

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

The Board of Directors have established five committees to supervise specific areas and to prepare topics for consideration by the complete Board. The broad role of each committee is described in the table below:

BOARD RISK COMMITTEES

Committee	Roles & Responsibilities
Board Credit Committee(BCC): Board Credit Committee (BCC) will have its credit approval authority delegated by the Chairman/Board. BCC/Chairman/Board will thereafter sub-delegate or approve delegated authorities of MCC and below. BCC will also have authority to ratify approvals made by any other officers of the bank beyond their delegated authority; (typically in an emergency situation).	• Review and approve the Credit proposals which are above the delegated limits given to management. • Approve the Product Program Guidelines (PPGs) for Asset products of Business Banking and Wholesale Banking. • Review and approve Credit grading methodology for the Bank. • Approve investments within the delegated lending authority as stated in the Investment Policy of the Bank. • Review any breach in the Investment Policy of the Bank and wherever required escalate the same to the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Risk management review (continued)

Committee	Roles & Responsibilities
Board Nomination & Remuneration Committee (BNRC): The BNRC of RAKBANK has been established by the Board of Directors to assist them to oversee, monitor and review matters relating to the composition of the Board including appointment of new Directors/Board Members, Executive Management remuneration, and reward strategies.	• Review the structure, size and composition of the Board and make recommendations on changes. • Formulate the criteria to determine the Knowledge, Skills and Experience required to be a Board Member/Director. • Identify and review candidates qualified to be appointed as Board Members/Directors, including evaluation of incumbent members for potential re-nomination. The Committee will conduct candidate evaluation in accordance with a process that is formal and transparent, passing on the recommendations for the nomination to the Board. • Evaluate and approve the compensation plans, policies and succession plans of the Executive Management. • Assist the Board by reviewing/making recommendations in respect of the remuneration policies and framework for all employees. • Review and recommend to the Board for the Executive Management, their annual base salary, annual bonus/variable pay, and any other compensation or benefit. • Recommend to the Board, a set of corporate governance guidelines for the Bank.
Board Audit Committee (BAC): The Board Audit Committee has been established by the Board of Directors (the Board) of the Bank to assist the Board in the oversight, monitoring and review of the following aspects of the Bank and its subsidiaries' operations: • The quality and integrity of financial statements and financial reporting. • The effectiveness of governance, risk management and internal control systems. • Compliance with laws and regulations. • Compliance with the Group Code of Conduct. • The Group Internal Audit (GIA) function. • The statutory audit process and External Auditors.	• Monitor the appropriateness and integrity of the interim and published financial statements and annual report of the Bank and its businesses and subsidiaries, including significant financial reporting judgments contained in them. • Review and approve GIA's strategy, objectives, budget and resource plan, performance measures and outcomes, and its risk-based annual audit plan. Review GIA reports on the effectiveness of internal control systems and follow up on the implementation of corrective measures. • Consider and make recommendation to the Board on the appointment, re-appointment, resignation or removal of External Auditors. Approve the terms of engagement, nature and scope of their audit and the effectiveness of the audit process. • Review whistleblowing arrangements by which staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. • Other matters relating to Audit, Controls, Financial Reporting and Regulatory Compliance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Risk management review (continued)

Committee	Roles & Responsibilities
Board Risk Committee (BRC): The BRC of RAK Bank has been established by the Board of Directors to assist the Board in fulfilling its responsibility with respect to the oversight of the bank's risk management framework specifically relating to Market Risk, Liquidity Risk, Credit Risk, Operational Risk, Compliance and Internal Control, IT and Information Security and Information Security risk, Fraud risk &and Legal Risks. The committee also reviews and approves changes to including the significant policies and practices used in managing these risks.	• Review and approve the bank's key risk policies and overall Risk Appetite Framework. • Receive reports from, review with, and provide feedback to, Management Committees on the categories of risk the bank faces. • Review the Bank's Regulatory Risk Capital (credit, market and operational risks), including significant inputs and assumptions. • Review and approve the Bank's Internal Capital Adequacy Assessment Process (ICAAP). • Review of all Risk reports for assessing the Bank's exposure to internal and external environment and discuss strategies to overcome unacceptable risks. • Provide oversight and inquire management about existing risk management processes and challenge management to demonstrate the effectiveness of those processes in identifying, assessing, and managing the Bank's significant risk exposures.
Board Strategy Committee (BSC):	• Responsibilities involve all matters relating to formulation of Bank's Strategy, monitoring of strategy, advising on strategic issues & strategic opportunities, approval of strategic proposals relating to organic & inorganic expansions and review of annual budget and cost optimization strategies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Compliance risk

Compliance Risk at the Group is defined as the risk emanating from regulatory sanctions, material financial loss or loss to reputation that the bank will suffer as a result of its failure to comply with laws, regulations, self-regulatory organizational rules & standards/controls and codes of conduct applicable to its banking activities.

The definition of compliance at Group thereby includes:

- Compliance with regulatory requirements;
- Compliance with internal policy dictates
- Compliance with internal controls embedded in operating procedures of the Group

The Regulatory & Compliance function is managed by Chief Compliance Officer reporting to the CEO. The Group has an established Compliance function, as its second line of defence. The function is responsible for identification, monitoring and reporting of all compliance related risks. It works closely with all business and supports units of the bank in formulating compliance policies and has oversight responsibility for implementation and advice of prudential regulations and conduct of business. This Division also acts as the main liaison with the Central Bank of the U.A.E. The framework and guidelines for compliance are designed by management and approved by board of directors, in line with Basel guidelines in this regard.

Operational Risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group endeavours to effectively manage and mitigate Operational Risk through a robust and effective control environment across the organization.

The Operational Risk function is managed by Head of Operational Risk, Internal Controls and BCM reporting to the Chief Risk Officer. The Bank has a formal Operational Risk Management (ORM) governance structure established under the aegis of Management Risk Committee and Board Risk Committee, which provides the strategic direction and oversight over ORM activities.

The governance structure is designed to include three levels of Risk Management signifying a clear division of responsibilities between the risk owners (the business, operations and support units), the control functions (Risk Management) and the Internal Audit function for safeguarding the Bank's assets and reputation against potential operational risks arising from day-to-day business activities. The governance structure is described below:

- First Line of Defence - Business, Operations & Support Units
- Second Line of Defence - Risk Management & Compliance
- Third Line of Defence - Internal Audit

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Information Technology Risk

The Group considers cyber security / IT Risk as one of the most important risks to be managed. IT risk is the risk posed by internal and external threat actors targeting the bank's technology infrastructure which can have an impact on Bank's ability to service its customers through technology disruptions, data theft etc.

The Group has a dedicated IT Risk and Fraud Prevention unit managed by Director – IT Risk Management and Fraud Prevention who reports to the Chief Risk Officer. This unit manages security risk assessments, perimeter security monitoring, compliance to technical regulatory requirements and overarching governance for compliance to the Group's IT Risk policy.

Fraud risk

The Group's Management and Board recognise that proactive fraud risk management is an integral part of Group's overall risk management strategy. The Group has set up dedicated units to address, prevent, detect and respond to all aspects of fraud. The Fraud Prevention and Detection units are managed by Director IT Risk and Fraud Prevention who reports to the Chief Risk Officer. The Fraud response (Investigations) unit is managed by Head, Fraud Investigations who reports to the Chief Risk Officer.

The Group has adopted a Fraud Risk Management Framework (FRMF) with an objective to implement an effective Fraud Risk Management (FRM) policy and processes across the Group. This initiative is Group's approach to manage Fraud Risk in a timely and efficient manner by setting up systems and procedures to identify and actively mitigate Fraud risks. The Group has adopted a three pronged approach to Fraud Risk Management under the new framework:

- Fraud Prevention
- Fraud Detection
- Fraud Response

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Credit risk

Credit risk is defined as the risk associated with the inability, unwillingness or failure of the customers, clients or counterparties of the Group to honour their contractual obligations, in part or whole, by way of a default on their principal, interest, fees, profit or any other contractual obligation by whatever name called, under a loan arrangement, credit facility or any other such transaction facilitated by the Group, in effect causing the Group to suffer a financial loss.

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

The Group's credit policy provides for the development of a systematic and consistent approach to identifying and managing borrower and counter party risks contained in all retail, business banking, and wholesale banking assets.

The Chief Credit Officer and team are responsible for recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the framework set out in the Credit Policy, Product Programs Guidelines(PPG), Credit circulars and comply with regulatory norms. Credit risk teams under direction of Chief Risk Officer, manages credit risk through setting Bank's risk appetite, issuance of credit policies, PPGs and policy circulars and comprehensive portfolio analysis.

Respective Business Heads and their teams undertake comprehensive analysis of all commercial loan applications submitted for approval, more precisely, about ownership & management, business & industry, financials, structure and collaterals. Chief Credit Officer and the team review the loan applications, and identify and measures the credit risks involved in such applications before the same is put up to Delegated Authorities for approval. Business and Credit Units monitors the portfolio on on-going basis to maintain a healthy portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Credit risk (continued)

In the Retail lending business, credit risk is managed through appropriate front-end sales and credit underwriting processes, as well as back-end operational and collection processes. Appropriate product programmes defining customer segments, underwriting standards and security requirements are rolled out to ensure consistency in underwriting and the on-boarding process. The Retail credit portfolio is monitored centrally across products and customer segments. For Wholesale exposures, credit risk is managed by identifying target market segments, structured credit approval processes and robust post-disbursement monitoring and remedial processes. Board approved risk appetite framework and credit policies lay the governing principles for any credit on boarding, underwriting and monitoring of the portfolio.

The Group manages, limits and controls concentration of credit risk wherever it is identified - in particular, to individual counterparties and groups, and to industries and countries. The Group has a Product Program Guide that sets limits of exposure and lending criteria. The Group also has credit limits that set out the lending and borrowing limits to/from other banks.

The Group stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. The group considers the collateralisation levels, financial position, industry growth prospects, etc, before taking the exposure. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Credit Committee and the Board of Directors.

The Group builds, validates and uses Credit Scoring tools that are populated by internally and externally derived historical data, forward looking models and behavioural models to assess counterparty risk on a customer and portfolio level for some of its Retail products.

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime basis (lifetime ECL) rather than 12-month ECL.

Internal credit risk ratings

In order to minimize credit risk, the Group has tasked its credit committee to develop and maintain the Group's credit risk grading to categorize exposures mainly for SME and corporate exposures (Non retail portfolio) according to their degree of risk of default. For the purpose of IFRS 9 related notes, Non retail portfolio means Wholesale & Business Banking excluding RAK Business Finance Loans & Retail portfolio includes Auto Loans, Credit Cards, Mortgage Loans, Personal Loans and RAK Business Finance Loans. The Group's credit risk grading framework comprises ten categories. The credit rating information is based on a wide range of information that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. The table below provides a mapping of the Group's internal credit risk grades to external ratings:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Internal credit risk ratings (continued)

Group's Credit Risk Grades	Moody's Rating	Internal Description
1 to 4-	Aaa to Baa3	Low to fair risk
5+ to 6-	Ba1 to B3	Medium Risk
7+ to 7-	Caa1 to Caa3	Medium to High Risk
8	Default	Substandard
9	Default	Doubtful
10	Default	Loss

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each Non-retail exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The Group analyses the relevant delinquency data available and using a variety of statistical models then estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as, Economic Composite Indicator (ECI), real estate prices, gross domestic product (GDP) UAE annual exports, labour force participation and government consumption expenditure etc. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn & Downturn and their probabilities (scenario weights). The bank then computes the probability weighted average PD of different scenarios viz. baseline, adverse and upturn which is used in the computation of Expected Credit Loss (ECL).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Internal credit risk ratings (continued)

The Group uses different criteria to determine whether credit risk has increased significantly for a counterparty. The criteria used are both quantitative and qualitative, under quantitative criteria Group rely on measures like increase in PD or worsening of payment behaviour while qualitative criteria are basis assessment of individual exposures. Qualitative criteria includes but is not limited to:

- Changes in Credit ratings since initial recognition
- Customer/Loan CBRB Classification
- Whether an exposure has been restructured or not

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn and Downturn.

Baseline scenario is considered to be more likely Scenario whereas the other 2 scenarios i.e. upturn and down turn are considered relatively less likely. The bank uses multiple regression approach for arriving at PIT PD by taking into different macroeconomic factors. The bank has calculated the probability weighted average PD of different scenarios viz. baseline, adverse and upturn. Banks uses external independent data sources (Moody's) to get economic data and its forecast in various economic conditions. Additionally the Bank has identified key drivers of credit risk and credit losses for each portfolio of financial instruments. Relationships between macro-economic variables and credit risk and credit losses has been estimated using statistical analysis of historical data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Incorporation of forward-looking information (continued)

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 5%. The table below outlines the total ECL per portfolio as at 31 December 2020, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 5%. The changes are applied in isolation for illustrative purposes, and are applied to each probability-weighted scenarios used to develop the estimate of expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios:

Auto Loans		PD (Bucket 0)	PD (Bucket 1)	PD (Stage 2 Life time)	ECL
					AED'000
Non-Oil ECI (year-on-year % change)- First Difference	As expected	3.47%	44.02%	61.20%	16,868
	+[5]%	3.45%	43.74%	60.71%	16,802
	-[5]%	3.49%	44.29%	61.69%	16,934
Interpolated annual UAE exports (AED billion 2010 prices)- Log-First Difference	As expected	3.47%	44.02%	61.20%	16,868
	+[5]%	3.43%	43.55%	60.25%	16,749
	-[5]%	3.51%	44.49%	62.15%	16,987
Credit Cards					
Implicit Price Deflator: Gross Domestic Product, (Index 2010=100, NSA)- 4QMA	As expected	6.36%	-	99.99%	340,045
	+[5]%	5.84%	-	99.99%	328,886
	-[5]%	6.90%	-	99.99%	351,924
National accounts: Compensation of employees, (Bil. USD, SAAR) - YOY	As expected	6.36%	-	99.99%	340,045
	+[5]%	6.36%	-	99.99%	340,241
	-[5]%	6.35%	-	99.99%	339,850
Personal Loans					
Implicit Price Deflator: Government Consumption Expenditure, (Index 2010=100, NSA) - QOQ - LAG4	As expected	4.90%	46.00%	72.52%	494,801
	+[5]%	4.90%	46.03%	72.56%	495,036
	-[5]%	4.90%	45.98%	72.47%	494,565
National Accounts: Nominal Gross Capital Formation [GCF], (Bil. AED, NSAAR) - QOQ - LAG3	As expected	4.90%	46.00%	72.52%	494,801
	+[5]%	4.90%	45.99%	72.49%	494,651
	-[5]%	4.90%	46.02%	72.54%	494,946
Real House Prices: Residential properties - Abu Dhabi and Dubai, (Index 2010=100, NSA) - FD - LAG3	As expected	4.90%	46.00%	72.52%	494,801
	+[5]%	4.91%	46.11%	72.68%	495,676
	-[5]%	4.89%	45.90%	72.36%	493,927
Labour Force Survey: Total Employment, (Mil. #, NSA) - FD - LAG2	As expected	4.90%	46.00%	72.52%	494,801
	+[5]%	4.86%	45.63%	71.92%	491,586
	-[5]%	4.94%	46.38%	73.12%	498,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Incorporation of forward-looking information (continued)

Mortgage Loans		**PD (Bucket 0)**	**PD (Bucket 1)**	**PD (Stage 2 Life time)**	**ECL AED'000**
National accounts: Gross domestic product, (2006 bln. AED, SAAR) - QOQ - LAG2	As expected	1.94%	30.46%	64.39%	135,435
	+[5]%	1.95%	30.60%	64.02%	135,457
	-[5]%	1.93%	30.31%	64.75%	135,406
National Accounts: Nominal Imports of Goods and Services, (Bil. AED, NSAAR) - YOY	As expected	1.94%	30.46%	64.39%	135,435
	+[5]%	1.93%	30.26%	63.05%	134,972
	-[5]%	1.95%	30.67%	65.76%	135,915
RAK Business Loans					
Share Price Index: ADX General Index, (Index, NSA) - FD - LAG3	As expected	9.92%	68.26%	81.74%	574,554
	+[5]%	9.99%	68.73%	82.11%	576,915
	-[5]%	9.85%	67.80%	81.37%	572,206
National accounts: Gross domestic product, (2006 bln. AED, SAAR) - QOQ	As expected	9.92%	68.26%	81.74%	574,554
	+[5]%	9.90%	68.14%	81.16%	572,947
	-[5]%	9.94%	68.40%	82.33%	576,213
Labour Force Survey: Total Labour Force, (Mil. #, NSA) - QOQ	As expected	9.92%	68.26%	81.74%	574,554
	+[5]%	9.77%	67.27%	80.93%	569,498
	-[5]%	10.06%	69.27%	82.56%	579,685

The impact is of change in each variable while other variables are kept constant. ECL is calculated by changing +/-5% to all 3 scenarios of the macro economic data. PD's are weighted by scenario probabilities.

PD Bucket 0 : customers with no past dues are classified in bucket 0;
PD Bucket 1 : customers with past dues up-to 29 days are classified in bucket 1;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Measurement of ECL

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

As explained above these figures are derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross- collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan. Regulatory LGDs are taken for portfolios with limited historic data.

EAD is an estimate of the current exposure for funded facilities. For non-funded facilities the EAD is taken as the product of the applicable credit conversion factors and contract values. Exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Measurement of ECL (continued)

For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type;

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The Group uses external benchmark information for portfolios with limited historical data and for low default portfolios where there is no instances of historical default.

The Group has in place policies, which govern the determination of eligibility of various collateral including credit protection, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigating. The Group's major collaterals are mortgaged properties, investments, vehicles and other register-able assets.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

41. Financial risk management (continued)

Measurement of ECL (continued)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL) as at 31 December

	Maximum exposure to credit risk	
	2020	2019
	AED '000	AED '000
Securities quoted at fair value through profit or loss:		
Quoted funds	**125,100**	37,641
Unquoted funds	**42,481**	42,083
Quoted debt securities	**3,544**	257,418
Derivatives assets		
Hedging derivatives	-	182
Trading derivatives	**507,635**	311,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

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

Maximum Credit Risk Exposure as at 31 December 2020

Particular	AED '000			
Due from other banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Rating grid wise				
1 to 4-	1,170,077	119,408	-	1,289,485
5+ to 6-	3,813,395	758,835	-	4,572,230
7+ to 7-	533,209	203,285	-	736,494
Total	5,516,681	1,081,528	-	6,598,209
Loans and Advances				
1 to 4-	2,780,769	53,139	-	2,833,908
5+ to 6-	7,266,674	981,257	-	8,247,931
7+ to 7-	35,997	275,933	30,506	342,436
8 to 10		-	599,543	599,543
Unrated	17,923,754	1,109,374	1,143,966	20,177,094
Total	28,007,194	2,419,703	1,774,015	32,200,912
Investment securities (at amortized costs and FVOCI)				
AA to AA-	1,112,443	-	-	1,112,443
A+ to A-	1,008,597	-	-	1,008,597
BBB+ to BBB-	1,859,408	80,705	-	1,940,113
BB+ to BB	678,012	328,791	-	1,006,803
B+ to B-	1,657,923	114,924	-	1,772,847
CCC+ to CCC-	-	162,135	-	162,135
Unrated	523,840	-	11,516	535,356
Total Amount	6,840,223	686,555	11,516	7,538,294
Customer Acceptances				
1 to 4-	81,286	225	-	81,511
5+ to 6-	18,336	17,018	-	35,354
Total	99,622	17,243	-	116,865
Off balance sheet items				
1 to 4-	1,550,081	26,884	-	1,576,965
5+ to 6-	1,540,313	43,200	-	1,583,513
7+ to 7-	-	2,477	181	2,658
Unrated	1,115,071	-	-	1,115,071
Total	4,205,465	72,561	181	4,278,207

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

Maximum Credit Risk Exposure as at 31 December 2019

Particular	AED '000			
Due from other banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Rating grid wise				
1 to 4-	1,257,555	1,448	-	1,259,003
5+ to 6-	4,041,527	796,105	-	4,837,632
7+ to 7-	525,678	-	-	525,678
Total	5,824,760	797,553	-	6,622,313
Loans and Advances				
1 to 4-	3,933,738	137,597	-	4,071,335
5+ to 6-	7,276,282	710,643	-	7,986,925
7+ to 7-	525,506	529,051	956	1,055,513
8 to 10	-	-	323,487	323,487
Unrated	20,865,310	890,922	1,068,636	22,824,868
Total	32,600,836	2,268,213	1,393,079	36,262,128
Investment securities (at amortized costs and FVOCI)				
AA to AA-	761,646	-	-	761,646
A+ to A-	1,196,412	-	-	1,196,412
BBB+ to BBB-	2,200,167	-	-	2,200,167
BB+ to BB	471,008	441,372	-	912,380
B+ to B-	1,978,540	168,960	-	2,147,500
Unrated	441,429	-	12,801	454,230
Total Amount	7,049,202	610,332	12,801	7,672,335
Customer Acceptances				
1 to 4-	344,669	-	-	344,669
5+ to 6-	76,703	2,893	-	79,596
Total	421,372	2,893	-	424,265
Off balance sheet items				
1 to 4-	1,055,113	157,423	-	1,212,536
5+ to 6-	1,156,888	92,906	50	1,249,844
7+ to 7-	-	4,404	-	4,404
Untrated	879,359	-	-	879,359
Total	3,091,360	254,733	50	3,346,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

Investment securities

Investment securities comprise debt securities issued by the Government, organisations which are quasi-governmental and local and foreign reputable organisations.

The table below presents and analysis of debt securities by rating agency designation at 31 December 2020 and 2019, based on Moody's, Standard and Poor's and Fitch ratings or their equivalent:

	2020 AED'000	2019 AED'000
AA to AA-	**1,112,401**	761,646
A+ to A-	**1,009,418**	1,273,571
BBB+ to BBB-	**1,939,213**	2,307,851
BB+ to BB	**1,005,321**	912,380
B+ to B-	**1,765,574**	2,215,814
CCC	**150,913**	-
Unrated	**536,078**	454,220
	7,518,918	7,925,482

Concentration of risks of financial assets with credit risk exposure

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 Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to limit concentrations of exposures to counterparties, geographies and industries. Identified concentration of credit risk is controlled and managed accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

Geographical risk concentration

The following table breaks down the Group's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2020 and 2019.

For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties:

On balance sheet items

	UAE AED'000	**OECD AED'000**	**Others AED'000**	**Provision for credit loss AED'000**	**Total AED'000**
31 December 2020					
Due from other banks, net	**569,361**	**1,496,030**	**4,532,818**	**(35,818)**	**6,562,391**
Loans and advances, net	**30,557,438**	**175,180**	**1,468,294**	**(2,159,442)**	**30,041,470**
Insurance contract assets, net	**235,027**	**14,446**	**8,994**	**(54,708)**	**203,759**
Customer acceptances	**116,865**	**-**	**-**	**-**	**116,865**
Investment securities measured at amortised cost	**1,295,551**	**163,387**	**2,864,771**	**(22,045)**	**4,301,664**
Investment securities measured at fair value	**1,715,885**	**282,538**	**1,634,875**	**-**	**3,633,298**
Total	**34,490,127**	**2,131,581**	**10,509,752**	**(2,272,013)**	**44,859,447**
31 December 2019					
Due from other banks, net	478,977	1,512,906	4,630,430	(29,080)	6,593,233
Loans and advances, net	33,382,118	162,984	2,717,026	(1,711,565)	34,550,563
Insurance contract assets, net	312,687	55,380	6,403	(39,037)	335,433
Customer acceptances	424,265	-	-	-	424,265
Investment securities measured at amortised cost	975,041	352,328	3,886,930	(28,161)	5,186,138
Investment securities measured at fair value	1,895,868	25,916	1,033,511	-	2,955,295
Total	37,468,956	2,109,514	12,274,300	(1,807,843)	50,044,927

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

The following table breaks down the Bank's credit exposures on loans and advances, investment securities, due from other banks and off balance sheet items categorised by industry as of 31 December 2020 and 2019:

	On balance sheet items					
	Loans and advances AED'000	Investment securities AED'000	Due from other banks AED'000	Total funded AED'000	Off balance sheet Items AED'000	Total AED'000
31 December 2020						
Agriculture, fishing & related activities	**5,827**	**-**	**-**	**5,827**	**53**	**5,880**
Crude oil, gas, mining & quarrying	**3,762**	**-**	**-**	**3,762**	**150,619**	**154,381**
Manufacturing	**1,460,725**	**512,766**	**-**	**1,973,491**	**55,607**	**2,029,098**
Electricity & water	**3,420**	**644,979**	**-**	**648,399**	**177,930**	**826,329**
Construction and real estate	**2,775,966**	**639,431**	**-**	**3,415,397**	**246,341**	**3,661,738**
Trading	**3,844,667**		**-**	**3,844,667**	**1,155,470**	**5,000,137**
Transport, storage & communication	**1,417,023**	**507,265**	**-**	**1,924,288**	**46,450**	**1,970,738**
Financial institutions	**817,527**	**2,587,604**	**6,598,209**	**10,003,340**	**1,229,420**	**11,232,760**
Services	**3,638,331**	**635,267**	**-**	**4,273,598**	**586,148**	**4,859,746**
Government	**303,116**	**2,429,695**	**-**	**2,732,811**	**113,657**	**2,846,468**
Retail and consumer banking	**17,930,548**	**-**	**-**	**7,930,548**	**1,066,178**	**18,996,726**
Total exposures	**32,200,912**	**7,957,007**	**6,598,209**	**46,756,128**	**4,827,873**	**51,584,001**
Provision for credit loss	**(2,159,442)**	**(22,045)**	**(35,818)**	**(2,217,305)**	**(10,852)**	**(2,228,157)**
Net exposures	**30,041,470**	**7,934,962**	**6,562,391**	**44,538,823**	**4,817,021**	**49,355,844**

	On balance sheet items					
	Loans and advances AED'000	Investment securities AED'000	Due from other banks AED'000	Total funded AED'000	Off balance sheet Items AED'000	Total AED'000
31 December 2019						
Agriculture, fishing & related activities	6,788	-	-	6,788	135	6,923
Crude oil, gas, mining & quarrying	7,687	-	-	7,687	-	7,687
Manufacturing	1,463,408	453,110	-	1,916,518	72,398	1,988,916
Electricity & water	11,232	476,208	-	487,440	2,700	490,140
Construction and real estate	3,473,051	620,584	-	4,093,635	885,719	4,979,354
Trading	4,299,514	-	-	4,299,514	646,450	4,945,964
Transport, storage & communication	1,473,078	584,727	-	2,057,805	9,807	2,067,612
Financial institutions	2,107,010	2,439,096	6,622,313	11,168,419	598,108	11,766,527
Services	3,802,081	431,781	-	4,233,862	279,626	4,513,488
Government	214,264	3,164,088	-	3,378,352	432,721	3,811,073
Retail and consumer banking	19,404,015	-	-	19,404,015	829,297	20,233,312
Total exposures	36,262,128	8,169,594	6,622,313	51,054,035	3,756,961	54,810,996
Provision for credit loss	(1,711,565)	(28,161)	(29,080)	(1,768,806)	(10,717)	(1,779,523)
Net exposures	34,550,563	8,141,433	6,593,233	49,285,229	3,746,244	53,031,473

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Credit quality

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument:

Class of financial instrument	*Notes*
Due from other banks	5
Wholesale banking loans and advances	6
Business banking loans and advances	6
Retail banking Loans and advances	6
Investment securities measured at fair value	7
Investment securities measured at amortised cost	7
Insurance contract assets and receivables	8

An analysis of the Group's credit risk exposure without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Exposure stage transitions

Loans and advances				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	**32,600,836**	**2,268,213**	**1,393,079**	**36,262,128**
Stage Transfer				
Stage 1 to Stage 2 Transfer	**(2,241,894)**	**2,241,894**	**-**	**-**
Stage 1 to Stage 3 Transfer	**(1,262,090)**	**-**	**1,262,090**	**-**
Stage 2 to Stage 3 Transfer	**-**	**(668,903)**	**668,903**	**-**
Stage 2 to Stage 1 Transfer	**470,322**	**(470,322)**	**-**	**-**
Stage 3 to Stage 2 Transfer	**-**	**62,517**	**(62,517)**	**-**
Change in Exposures during the year	**(10,843,064)**	**(1,013,696)**	**(235,883)**	**(12,092,643)**
New Financial Assets Originated	**9,283,084**	**-**	**-**	**9,283,084**
Write offs	**-**	**-**	**(1,251,657)**	**(1,251,657)**
Closing Balance 31 December 2020	**28,007,194**	**2,419,703**	**1,774,015**	**32,200,912**

Loans and advances				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2019	30,196,339	3,055,710	1,575,225	34,827,274
Stage Transfer				
Stage 1 to Stage 2 Transfer	(1,695,493)	1,695,493	-	-
Stage 1 to Stage 3 Transfer	(1,101,932)	-	1,101,932	-
Stage 2 to Stage 3 Transfer	-	(659,851)	659,851	-
Stage 2 to Stage 1 Transfer	1,152,765	(1,152,765)	-	-
Stage 3 to Stage 2 Transfer	-	35,915	(35,915)	-
Change in Exposures during the year	(6,811,420)	(706,289)	(253,945)	(7,771,654)
New Financial Assets Originated	10,860,577	-	-	10,860,577
Write offs	-	-	(1,654,069)	(1,654,069)
Closing Balance 31 December 2019	32,600,836	2,268,213	1,393,079	36,262,128

Investment securities - FVOCI				AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	**2,426,272**	**18,963**	**12,801**	**2,458,036**
Stage Transfer				
Stage 1 to Stage 2 Transfer	**(270,055)**	**270,055**		
Change in Exposures during the year	**(267,304)**	**(64,686)**	**(1,285)**	**(333,275)**
New Financial Assets Originated	**1,089,824**	**-**	**-**	**1,089,824**
Closing Balance 31 December 2020	**2,978,737**	**224,332**	**11,516**	**3,214,585**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Exposure stage transitions (continued)

Investment securities - Amortized Cost				AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	**4,622,930**	**591,369**	**-**	**5,214,299**
Stage Transfer				
Stage 1 to Stage 2 Transfer	**(180,495)**	**180,495**		
Change in Exposures during the year	**(2,083,822)**	**(309,641)**	**-**	**(2,393,463)**
New Financial Assets Originated	**1,502,873**	**-**	**-**	**1,502,873**
Closing Balance 31 December 2020	**3,861,486**	**462,223**	**-**	**4,323,709**

Investment securities (Amortized Cost & FVOCI)				AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2019	5,940,272	1,012,382	-	6,952,654
Stage Transfer				
Stage 1 to Stage 2 Transfer	(18,316)	18,316	-	-
Stage 2 to Stage 3 Transfer	-	(14,546)	14,546	-
Stage 2 to Stage 1 Transfer	387,765	(387,765)	-	-
Stage 3 to Stage 2 Transfer	-	-	-	-
Change in Exposures during the year	(1,149,008)	(18,055)	(1,745)	(1,168,808)
New Financial Assets Originated	1,888,489	-	-	1,888,489
Closing Balance 31 December 2019	7,049,202	610,332	12,801	7,672,335

Due from banks				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2020	**5,824,760**	**797,553**	**-**	**6,622,313**
Stage Transfers				
Stage 1 to Stage 2 transfer	**(1,068,183)**	**1,068,183**		
Stage 2 to Stage 1 transfer	**109,339**	**(109,339)**		
Change in Exposures during the year	**(1,907,132)**	**(674,869)**	**-**	**(2,582,001)**
New Financial Assets Originated	**2,557,897**	**-**	**-**	**2,557,897**
Closing Balance 31 December 2020	**5,516,681**	**1,081,528**	**-**	**6,598,209**

Due from banks				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2019	4,429,270	357,412	-	4,786,682
Stage Transfers				
Stage 1 to Stage 2 transfer	(144,512)	144,512	-	-
Stage 2 to Stage 1 transfer	75,159	(75,159)	-	-
Change in Exposures	(75,252)	370,788	-	295,536
New Financial Assets Originated	1,540,095	-	-	1,540,095
Closing Balance 31 December 2019	5,824,760	797,553	-	6,622,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Exposure stage transitions (continued)

Customer Acceptances AED 000

	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2020	**421,372**	**2,893**	**-**	**424,265**
Stage Transfers				
Stage 1 to Stage 2 Transfer	**(20,000)**	**20,000**	**-**	**-**
Change in Exposures during the year	**(382,127)**	**(6,842)**	**-**	**(388,969)**
New Financial Assets Originated	**81,569**	**-**	**-**	**81,569**
Closing Balance 31 December 2020	**100,814**	**16,051**	**-**	**116,865**

Customer Acceptances AED 000

	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2019	559,019	2,685	-	561,704
Stage Transfers				
Stage 1 to Stage 2 Transfer	(981)	981	-	-
Change in Exposures during the year	(207,552)	(773)	-	(208,325)
New Financial Assets Originated	70,886	-	-	70,886
Closing Balance 31 December 2019	421,372	2,893	-	424,265

Off balance sheet items and irrevocable Commitments AED'000

	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	**3,091,360**	**254,733**	**50**	**3,346,143**
Stage Transfer				
Stage 1 to Stage 2 Transfer	**(27,025)**	**27,025**	**-**	**-**
Stage 2 to Stage 3 Transfer	**-**	**(131)**	**131**	**-**
Stage 2 to Stage 1 Transfer	**131,280**	**(131,280)**	**-**	**-**
Change in Exposures during the year	**(253,217)**	**(77,786)**	**-**	**(331,003)**
New Financial Assets Originated	**1,263,067**	**-**	**-**	**1,263,067**
Closing Balance 31 December 2020	**4,205,465**	**72,561**	**181**	**4,278,207**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Exposure stage transitions (continued)

Off balance sheet items and irrevocable Commitments AED'000

	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2019	2,908,360	285,219	450	3,194,029
Stage transfer				
Stage 1 to Stage 2 Transfer	(93,768)	93,768	-	-
Stage 2 to Stage 1 Transfer	46,237	(46,237)	-	-
Change in Exposures during the year	(1,032,826)	(78,017)	(400)	(1,111,243)
New Financial Assets Originated	1,263,357	-	-	1,263,357
Closing Balance 31 December 2019	3,091,360	254,733	50	3,346,143

Insurance contract assets and other receivables AED '000

	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2020	**263,362**	**-**	**-**	**263,362**
Change in Exposures	**(92,505)**			**(92,505)**
Closing Balance 31 December 2020	**170,857**	**-**	**-**	**170,857**

Insurance contract assets and other receivables AED '000

	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2019	229,129	-	-	229,129
Change in Exposures	34,233	-	-	34,233
Closing Balance 31 December 2019	263,362	-	-	263,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Movement of the provision for credit loss

Summary of provision for credit loss and net movement on the financial instruments by category are as follows:

Particulars	1 January 2020	Net Change during the year	Other Movement	AED '000 31 December 2020
Due from other banks	29,080	6,738	-	35,818
Loans and Advances	1,711,565	1,699,534	(1,251,657)	2,159,442
Investment Securities - FVOCI	4,271	22,449	(3,800)	22,920
Investment Securities – Amortised cost	28,161	(6,116)	-	22,045
Insurance contract assets and receivables	38,637	16,739	(668)	54,708
Customer Acceptances	421	(246)	-	175
Off balance sheet items	10,717	135	-	10,852
Total	**1,822,852**	**1,739,233**	**(1,256,125)**	**2,305,960**

The tables below analyse the movement of the provision for credit loss during the year per class of financial assets:

Due from banks	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening balance 1 January 2020	**19,437**	**9,643**	**-**	**29,080**
Stage Transfers				
Stage 1 to Stage 2 transfer	(9,336)	9,336	-	-
Stage 2 to Stage 1 transfer	2,384	(2,384)	-	-
Due to changes in PD's/ LGD's/ EAD	(8,947)	1,796	-	(7,151)
New Financial Assets Originated	13,889	-	-	13,889
Closing Balance 31 December 2020	**17,427**	**18,391**	**-**	**35,818**

Due from banks	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening balance 1 January 2019	28,863	2,277	-	31,140
Stage Transfers				-
Stage 1 to Stage 2 transfer	(272)	272	-	-
Stage 2 to Stage 1 transfer	444	(444)	-	-
Due to changes in PD's/ LGD's/ EAD	(14,545)	7,538	-	(7,007)
New Financial Assets Originated	4,947	-	-	4,947
Closing Balance 31 December 2019	19,437	9,643	-	29,080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Loans and advances	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2020	**658,857**	**425,666**	**627,042**	**1,711,565**
Stage Transfer				
Stage 1 to Stage 2 Transfer	(226,561)	226,561	-	-
Stage 1 to Stage 3 Transfer	(303,408)	-	303,408	-
Stage 2 to Stage 3 Transfer	-	(214,762)	214,762	-
Stage 2 to Stage 1 Transfer	55,951	(55,951)	-	-
Stage 3 to Stage 2 Transfer	-	14,443	(14,443)	-
Due to changes in PD's/ LGD's/ EAD	(67,560)	185,445	1,015,393	1,133,278
New Financial Assets Originated	566,256	-	-	566,256
Write offs, FY 19	-	-	(1,251,657)	(1,251,657)
Closing Balance 31 December 2020	**683,535**	**581,402**	**894,505**	**2,159,442**

Loans and advances	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2019	588,936	513,322	864,354	1,966,612
Stage Transfer				
Stage 1 to Stage 2 Transfer	(175,794)	175,794	-	-
Stage 1 to Stage 3 Transfer	(173,240)	-	173,240	-
Stage 2 to Stage 3 Transfer	-	(219,278)	219,278	-
Stage 2 to Stage 1 Transfer	87,290	(87,290)	-	-
Stage 3 to Stage 2 Transfer	-	15,278	(15,278)	-
Due to changes in PD's/ LGD's/ EAD	(236,704)	27,840	1,039,517	830,653
New Financial Assets Originated	568,369	-	-	568,369
Write offs, FY 19	-	-	(1,654,069)	(1,654,069)
Closing Balance 31 December 2019	658,857	425,666	627,042	1,711,565

Investment securities - FVOCI	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2020	**3,843**	**428**	**-**	**4,271**
Stage Transfer				
Stage 1 to Stage 2 Transfer	(1,562)	1,562		
Due to changes in PD's/ LGD's/ EAD	748	11,394	4,041	16,183
New Financial Assets Originated	6,266	-	-	6,266
Less: other movements	-	-	(3,800)	(3,800)
Closing Balance 31 December 2020	**9,295**	**13,384**	**241**	**22,920**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Investment securities - Amortized Cost	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2020	**13,564**	**14,597**	**-**	**28,161**
Stage Transfer				
Stage 1 to Stage 2 Transfer	**(1,332)**	**1,332**	**-**	**-**
Due to changes in PD's/ LGD's/ EAD	**(9,014)**	**119**	**-**	**(8,895)**
New Financial Assets Originated	**2,779**	**-**	**-**	**2,779**
Less: other movements	**-**	**-**	**-**	**-**
Closing Balance 31 December 2020	**5,997**	**16,048**	**-**	**22,045**

Investment securities (Amortized Cost & FVOCI)	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2019	17,443	20,582	-	38,025
Stage Transfer				-
Stage 1 to Stage 2 Transfer	(25)	25	-	-
Stage 2 to Stage 3 Transfer	-	(5,269)	5,269	-
Stage 2 to Stage 1 Transfer	8,243	(8,243)	-	-
Stage 3 to Stage 2 Transfer	-	-	-	-
Due to changes in PD's/ LGD's/ EAD	(17,078)	7,931	-	(9,147)
New Financial Assets Originated	8,823	-	-	8,823
Less: other movements	-	-	(5,269)	(5,269)
Closing Balance 31 December 2019	17,406	15,026	-	32,432

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Customer Acceptances	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening balance 1 January 2020	**413**	**8**	**-**	**421**
Stage Transfer				
Stage 1 to Stage 2 Transfer	**(10)**	**10**	**-**	**-**
Due to changes in PD's/ LGD's/ EAD	**(325)**	**36**	**-**	**(289)**
New Financial Assets Originated	**43**	**-**	**-**	**43**
Closing Balance as at 31 December 2020	**121**	**54**	**-**	**175**

Customer Acceptances	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening balance 1 January 2019	234	17	-	251
Stage Transfer				-
Stage 1 to Stage 2 Transfer	(1)	1	-	-
Due to changes in PD's/ LGD's/ EAD	(155)	(10)	-	(165)
New Financial Assets Originated	335	-	-	335
Closing Balance as at 31 December 2019	413	8	-	421

Off balance sheet items and irrevocable Commitments	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2020	**8,882**	**1,812**	**23**	**10,717**
Stage Transfer				
Stage 1 to Stage 2 Transfer	**(148)**	**148**	**-**	**-**
Stage 2 to Stage 3 Transfer	**-**	**(10)**	**10**	**-**
Stage 2 to Stage 1 Transfer	**684**	**(684)**	**-**	**-**
Due to changes in PD's/ LGD's/ EAD	**(2,534)**	**(830)**	**11**	**(3,353)**
New Financial Assets Originated	**3,488**	**-**	**-**	**3,488**
Closing Balance 31 December 2020	**10,372**	**436**	**44**	**10,852**

Off balance sheet items and irrevocable Commitments	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening balance 1 January 2019	5,369	2,151	91	7,611
Stage transfer				-
Stage 1 to Stage 2 Transfer	(780)	780	-	-
Stage 2 to Stage 1 Transfer	1,084	(1,084)	-	-
Due to change in PD's/LGD's/EAD	(1,931)	(35)	(68)	(2,034)
New Financial Assets Originated	5,140	-	-	5,140
Closing Balance 31 December 2019	8,882	1,812	23	10,717

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Insurance Contract Assets and other receivables

	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening balance 1 January 2020	**38,637**	**-**	**-**	**38,637**
Due to changes in PD's/ LGD's/ EAD	**16,739**	**-**	**-**	**16,739**
Other movements (No P&L impact)	**(668)**	**-**	**-**	**(668)**
Closing Balance 31 December 2020	**54,708**	**-**	**-**	**54,708**

Insurance Contract Assets and other receivables

	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening balance 1 January 2019	36,345	-	-	36,345
Due to changes in PD's/ LGD's/ EAD	2,056	-	-	2,056
Other movements (No P&L Impact)	236	-	-	236
Closing Balance 31 December 2019	38,637	-	-	38,637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVOCI, amortized cost and at FVTPL.

	Type of collateral held
Derivative asset	Fixed Deposit/Cash Margin
Loans and advances to banks	Letter of Comfort/Export Bills
Mortgage lending	Mortgage over Property
Corporate lending	Fixed Deposit/Cash Margin; Mortgage over Properties/Vehicles; Bank Guarantee/Stand-by Letter of Credit; Pledge of Shares; Stocks and Receivables etc.
Investment securities	Underlying investments

In addition to the collateral included in the table above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

There was no change in the Group's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets can be found below.

Credit Impaired Loans and Advances	**AED '000**
Stage 3 Loans and Advances	1,774,015
Less: Provisions held	(894,505)
Net Exposures	**879,510**
Market value of Collaterals held	
Property	714,278
Vehicles & others	158,405
Securities	63,563
Total value of Collateral values	**936,246**

Off-setting of collateral

	2020 AED '000	2019 AED '000
Loan outstanding that can be set-off against cash collateral	**992,561**	1,050,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Movement of the provision for credit loss **(continued)**

Restructured loans and advances

Restructuring activities include interest rate adjustments, extended payment arrangements and modification of payments. The majority of restructuring activity is undertaken to improve cash flow and is within the terms and conditions of the Group's product programme guideline. These policies are kept under continuous review. The Group has reviewed the entire portfolio and reported only restructured loans with financial difficulties under this note, excluding TESS restructured loans. The group has a full-fledged Collections and Recovery Unit that follow-up with overdue/delinquent customers for regularising the loan/advances. The table below presents loans restructured during the year 2020 and 2019.

Restructured loans during the year:

	2020		2019	
Product	**No of accounts**	**Loan amount AED'000**	No of accounts	Loan amount AED'000
Personal loans	**455**	**209,585**	612	255,718
Mortgage loans	**5**	**6,027**	13	36,661
Credit cards	**2811**	**124,322**	3082	114,557
Auto loans	**29**	**5,422**	96	7,923
Other business banking loans	**116**	**103,685**	136	116,219
Wholesale banking loans	**7**	**8,938**	11	174,270
RAK business loans	**273**	**171,184**	418	251,215
Total	**3,696**	**629,163**	4,368	956,563

The table below presents restructured loan portfolio outstanding as at 31 December:

	2020		2019	
Product	**No of accounts**	**Loan amount AED'000**	No of accounts	Loan amount AED'000
Personal loans	**1913**	**796,369**	2091	919,197
Mortgage loans	**80**	**160,771**	80	175,806
Credit cards	**6928**	**215,999**	7661	206,304
Auto loans	**468**	**18,844**	910	33,778
Other business banking loans	**319**	**223,167**	362	226,538
Wholesale banking loans	**29**	**283,751**	31	296,499
RAK finance business loans	**722**	**396,557**	990	493,654
Total	**10,459**	**2,095,458**	12,125	2,351,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Movement of the provision for credit loss **(continued)**

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

Personal lending

The Group's personal lending portfolio consists of secured loans, unsecured loans and credit cards.

Corporate lending

The Group requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance, cashflow generation, their liquidity, advantage, management effectiveness and growth ratios. The valuation of collateral held against corporate lending, after initial approval, is updated once every two years for a performing asset. The valuation of such collateral is monitored more closely if the loan is put on "watch-list".

Market risk

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

The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprises the Divisional heads of Finance, Treasury, Risk, Operations, Wholesale Banking, Business Banking and Retail Banking. It meets on a regular basis to monitor and manage market risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Market risk (continued)

ALCO is responsible for formalising the Group's key financial indicators and ratios, sets the thresholds to manage and monitor the market risk and also analyses the sensitivity of the Group's interest rate and maturity mismatches. ALCO also guides the Group's investment decisions and provides guidance in terms of interest rate and currency movements.

Market Risk and Treasury Mid Office functions with Risk Management are responsible for day to day monitoring of Market risk exposures within Board approved Policies and Market Risk Appetite.

The exposures to derivatives include forward exchange contracts, Option Contracts and Interest Rate Swaps which are entered to meet customer needs and covered back to back in the interbank market. Further the Group has executed some interest rate swaps and a Cross Currency Swap for economic hedging purposes. Also, the Group has executed some derivatives on proprietary books within Board approved Risk Limits for Trading.

Group's proprietary Investments are managed according to the group's Investment Policy approved by the board.

Price risk

The Group is exposed to price risk as a result of its holdings in debt securities classified as fair value through OCI and fair value through profit and loss in investment securities. The fair values of investments quoted in active markets are based on current mid prices. Senior Management meets regularly to discuss the return on investment and concentration across the Group's investment portfolio and manages the risk through diversification in terms of Counterparty, Country Industry and Rating. Any trading positions in securities under the fair value through profit and loss are guided by the Board approved Limits for Trading.

The sensitivity analysis for price risk illustrates how changes in the fair value of quoted equity securities and funds held by the Group will fluctuate because of changes to market prices whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market.

The table below summarises the impact of increases/decreases of the indexes on the group's equity and profit for the period. The analysis is based on the assumption that the equity indexes had increased or decreased by 5% and 2% respectively with all other variables held constant, and that all of the group's equity and fund instruments moved in line with the indexes.

	Impact on Profit		Impact on OCI	
	2020	2019	2020	2019
	AED'000	AED'000	AED'000	AED'000
Increase / decrease by 5%(+/-)	**6,255**	1,882	**13,395**	8,089
Increase / decrease by 2%(+/-)	**2,502**	753	**5,358**	3,236

Post-tax profit for the period would increase/decrease as a result of gains/losses on equity securities or funds classified as at FVPL. Other components of equity would increase/decrease as a result of gains/losses on equity securities or funds classified as at FVOCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Interest rate risk

Interest rate risk in the banking book (IRRBB) is the risk of loss resulting from a general change in market rates due to different terms to maturity or re-fixing on the asset and liability sides whether on- or off-balance sheet. Changes in market rates, specifically interest rates, impacts bank profitability in the short-term by varying its net interest income (NII) and the level of other interest sensitive revenues and operating expenses. Also, from a long-term perspective it impacts the underlying value of the bank's assets or liabilities, as the discounted value of future cash flows (i.e. in or out) changes due to market movements.

The Group monitors interest rate risk in banking book through the use of a detailed Interest Repricing gap reports and Net Interest Income (NII) and Economic Value of Equity (EVE) based sensitivity analysis to analyze the impact of anticipated movements in interest rates on the bank's profitability. The Group has an overarching Risk Appetite limits for NII and EVE. The Group has a Board approved Enterprise Risk Management Policy that covers the IRRBB framework & risk appetite limits for Interest Rate Risk, the Group's risk appetite framework includes the escalation mechanisms in case limits are in breach & the reporting required at the management or board level risk committees. The annual ICAAP process also includes an exhaustive stress testing exercise to assess the impact of interest rate shocks on the banking book.

IRRBB is actively steered by the Asset Liability Committee (ALCO) along with the Management Risk Committee and under the oversight of the Board Risk Committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Interest rate risk (continued)

Also the bank has a Hedging framework which includes the hedging strategies and the governance process for both fair value and cash flow interest rate risks hedging, also covers the derivatives products used for managing the interest rates risk at the bank level and assure it is within the approved risk appetite and hedging framework.

Financial assets that are not subject to any interest-rate risk mainly comprise investments in Subsidiaries, Equity investments, cash, balances with central banks excluding certificates of deposit.

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates:

	Less than 3 months AED'000	3 months to 1 year AED'000	1 – 3 years AED'000	3 – 5 years AED'000	Over 5 years AED'000	Non - interest bearing AED'000	Total AED'000
At 31 December 2020							
Assets							
Cash and balances with the UAE Central Bank	425,029	350,000	-	-	-	4,695,256	5,470,285
Due from other banks, net	5,015,564	1,419,946	152,623	9,424	652	(35,818)	6,562,391
Loans and advances, net	16,673,548	3,753,213	7,636,221	1,631,606	2,781,079	(2,434,197)	30,041,470
Investments at fair value	250,597	626,279	588,455	629,940	1,099,938	438,089	3,633,298
Investments at amortised cost, net	513,572	194,564	1,158,294	1,020,135	1,437,144	(22,045)	4,301,664
Insurance contract assets and receivables, net	-	-	-	-	-	282,265	282,265
Goodwill and other intangible assets, Right of use assets, Property and equipment, Customer acceptances and other assets	-	-	-	-	-	2,481,235	2,481,235
Total	22,878,310	6,344,002	9,535,593	3,291,105	5,318,813	5,404,785	52,772,608
Liabilities and shareholders' equity							
Due to other banks	758,572	1,309,190	-	-	-	-	2,067,762
Deposits from customers	32,360,162	4,479,004	104,779	378	1	-	36,944,324
Debt securities issued and other long term borrowings	1,004,309	-	783,458	1,824,499	-	-	3,612,266
Insurance contract liabilities and payables	-	-	-	-	-	430,394	430,394
Other liabilities and customer acceptances	-	-	-	-	-	1,872,904	1,872,904
Shareholders' equity	-	-	-	-	-	7,844,958	7,844,958
Total	34,123,043	5,788,194	888,237	1,824,877	1	10,148,256	52,772,608
Interest rate sensitivity gap	(11,244,733)	555,808	8,647,356	1,466,228	5,318,812	(4,743,471)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Interest rate risk (continued)

	Less than 3 months AED'000	3 months to 1 year AED'000	1 – 3 years AED'000	3 – 5 years AED'000	Over 5 years AED'000	Non - interest bearing AED'000	Total AED'000
At 31 December 2019							
Assets							
Cash and balances with the UAE Central Bank	100,000	300,000	-	-	-	4,385,504	4,785,504
Due from other banks, net	3,462,732	3,052,165	83,860	6,870	-	(12,394)	6,593,233
Loans and advances, net	18,036,499	6,235,879	7,436,945	2,090,221	2,688,924	(1,937,905)	34,550,563
Investments at fair value	323,585	107,500	388,066	930,361	961,776	244,007	2,955,295
Investments at amortised cost	287,769	1,373,961	911,063	922,924	1,718,583	(28,162)	5,186,138
Insurance contract assets and receivables, net	-	-	-	-	-	440,481	440,481
Goodwill and other intangible assets, Right of use assets, Property and equipment, Customer acceptances and other assets	-	-	-	-	-	2,608,345	2,608,345
Total	22,210,585	11,069,505	8,819,934	3,950,376	5,369,283	5,699,876	57,119,559
Liabilities and shareholders' equity							
Due to other banks	3,606,072	587,683	783,300	-	-	-	4,977,055
Deposits from customers	19,248,316	7,751,398	362,793	140	-	9,463,713	36,826,360
Debt securities issued and other long term borrowings	1,990,819	1,076,938	-	1,821,124	-	-	4,888,881
Insurance contract liabilities and payables	-	-	-	-	-	556,374	556,374
Other liabilities and customer acceptances	-	-	-	-	-	2,029,332	2,029,332
Shareholders' equity	-	-	-	-	-	7,841,557	7,841,557
Total	24,845,207	9,416,019	1,146,093	1,821,264		19,890,976	57,119,559
Interest rate sensitivity gap	(2,634,622)	1,653,486	7,673,841	2,129,112	5,369,283	(14,191,100)	-

* *The Group has converted the fixed rate debt securities issued into a floating rate using an interest rate swap.*

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

	2020 AED'000	2019 AED'000
Fluctuation in interest rates by 25 bps	**23,788**	29,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Interest rate risk (continued)

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 29,222 million (2019: AED 33,280 million) of interest bearing assets with maturities within one year and AED 39,911 million (2019: AED 43,725 million) of interest bearing liabilities with maturities within one year. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

IBOR transition

Regulators and central banks in various jurisdictions have convened national working groups to identify replacement rates for the interbank offer rates ('Ibors') to facilitate an orderly transition to these rates.

Given the current lack of alternatives, the group has contracts referencing Ibors with maturities beyond 2021. The group has initiated a Ibor transition programme with the objective of facilitating an orderly transition from Ibors for the group and its clients. This programme oversees the transition by each of the businesses and is led by the Managing Director, Treasury. The programme is currently focussed on evaluating the impact of the Ibor transition on legacy contracts and the proposed changes to processes, legal contracts, IT systems and communication with counterparties and customers. The group has begun to engage clients to determine their ability to transition in line with the readiness of the alternative rate product availability. Covid-19 may have affected the ability of clients to transition early and could result in compressed timelines for Ibor transition. Therefore, development and use of appropriate migration tools, and industry initiatives such as the ISDA protocol will be necessary to enable a more ordered transition coupled with legislative approaches for the products which are structurally difficult to transition.

In combination with the greater number of legacy contracts requiring transition, this increases the overall level of execution risk on the transition process, thus potentially increasing the level of conduct and operational risks. Our plans are being adjusted to reflect both the greater effort required and associated risks. In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the group to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships. Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in IBOR-based contracts and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of IBOR with alternative reference rates. We continue to engage with industry participants, the official sector and our clients to support an orderly transition and the mitigation of the risks resulting from the transition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Interest rate risk (continued)

IBOR transition (continued)

Mitigating actions:

- The Ibor transition programme is in place to facilitate an orderly transition to replacement rates for our business and our clients and is overseen by the Managing Director, Treasury.
- Transition to alternative rate products is supported by extensive training, communication and client engagement to facilitate appropriate selection of products.
- IT and operational change is being implemented to enable a longer transition window.
- Business line risks have been assessed and are dynamically monitored and overseen, with specific mitigation linked to programme deliverables.
- We continue to actively engage with regulatory and industry bodies to mitigate risks relating to hedge accounting changes, multiple loan conventions, and contracts that are unable to transition.

Currency risk

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

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Group does run open positions within the Trading limits approved by the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Currency risk (continued)

At 31 December, the Group has below mentioned currency exposures

	At 31 December 2020			At 31 December 2019		
	Net spot Position AED AED'000	**Net forward Position AED AED'000**	**Net Position AED AED'000**	Net spot Position AED AED'000	Net forward Position AED AED'000	Net Position AED AED'000
US Dollars - USD	**6,677,330**	**(4,056,104)**	**2,621,226**	5,101,885	(2,635,655)	2,466,230
Euro - EUR	**(251,262)**	**246,023**	**(5,239)**	(181,928)	182,930	1,002
Pound Sterling - GBP	**(117,227)**	**116,658**	**(569)**	(163,873)	165,069	1,196
Saudi Riyal - SAR	**(1,227,390)**	**998,409**	**(228,981)**	(2,548,389)	840,305	(1,708,084)
Japanese Yen – JPY	**521**	**-**	**521**	17,448	(17,221)	227
Nigerian Nira - NGN	**691,664**	**(590,770)**	**100,894**	350,714	(372,996)	(22,282)
Gold - XAU	**102,085**	**(102,362)**	**(277)**	87,093	(87,699)	(606)
Egyptian Pound - EGP	**185,681**	**(4,940)**	**180,741**	631,032	(587,376)	43,656
Indian Rupee _ INR	**31,047**	**3,612**	**34,659**	12,242	2,850	15,092
Philippine Peso - PHP	**7,683**	**-**	**7,683**	3,448	-	3,448
Others	**19,926**	**(275)**	**19,651**	9,084	991	10,075
	6,120,058	**(3,389,749)**	**2,730,309**	3,318,756	(2,508,802)	809,954

The Group has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the Group has the largest net open position at 31 December 2020 and 2019. All currency positions are within limits laid down by Board Risk Committee.

Impact of fluctuation in market rate on open currency position other than USD

	2020 AED'000	2019 AED'000
Net open currency position non-USD	**109,083**	(1,656,276)
Impact of 1 % change in currency rate (+/-)	**1,091**	16,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for customer lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

Liquidity risk management process

The Group manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the Group's internal guidelines mandated by ALCO and Management Risk Committee under the oversight of the Board Risk Committee. Based on the directives of the ALCO, the Treasury manages the liquidity of the Group.

On the funding side, the Group has a large proportion of its funds in the form of own funds which reduces the requirement for external funds. The Group relies on deposits from its relationship-based retail business banking and wholesale banking customers as its primary source of funding and only on a short term basis relies on interbank borrowings to fund its assets. The Group's debt securities typically are issued with maturities of greater than three years. Deposits from customers generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short-term nature of these deposits increases the Group's liquidity risk and the bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. Also, most of the deposit customers of the Group are relationship based and based on past trends. It is observed that these deposits are sticky in nature, thus reducing the liquidity risk to a large extent. The Group does not rely on large ticket deposits and its depositor profile is diverse leading to a more stable deposit funding.

In July 2017, USD 50 million floating rate notes (FRN) were issued which matures on July 2021. Further in October 2017, Group arranged a three year syndicated borrowing of USD 350 million and in 15 July 2020, this was settled in advance which was supposed to mature in September 2020. The Group issued USD 145 million of bonds in September 2018 through a private placement which matures in September 2023. In September 2018 the Group borrowed USD 80 million which matures in September 2021. In April 2019, the Group issued five-year USD 500 million Euro Medium Term Notes (EMTN) under its USD 2 billion EMTN programme which matures in April 2024. In June 2019 the Group borrowed SAR 800 million which matures in June 2022. This helped the Group to achieve its long-term funding requirements.

On the deployment side, the Group maintains a portfolio of highly liquid assets largely made up of balances with the UAE Central Bank, certificates of deposits issued by the Central Bank, inter-bank facilities and investment securities including investments in local government bonds which can be repaid to meet short term liquidity mismatches and be offloaded to meet longer term mismatches. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits, 1% for time deposits and 14% on current, saving, call and similar accounts. This year under the pandemic situation this requirement has been reduced by the central bank to 7% on current, saving, call and similar accounts. As a contingency funding plan, the Bank evaluates and keeps ready debt financing plans which can be quickly executed if required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Liquidity risk (continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining years from the reporting date to the contractual cash flow date. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Contractual undiscounted repayment obligations are not significantly different from those reported in the table below.

The Central Bank of the U.A.E. also imposes mandatory 1:1 Loans to Stable Resources Ratio (LSRR) whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. This year under the pandemic situation this requirement has been eased to 110% along with easing the Eligible Liquid Assets Ratio (ELAR) from erstwhile 10% to 7% by the Central Bank of UAE. ALCO monitors loans to stable resources ratios on a daily basis. The Bank on a daily basis also monitors the liquid assets to total assets ratio and the Eligible Liquid Asset Ratio (ELAR) and has set up internal management Action Triggers and Board Approved Risk Appetite Triggers to take suitable corrective actions once the internal thresholds have been reached.

The LSRR as at 31 December 2020, stood at 80.6% % (2019: 89.1%) which is significantly lower than the maximum requirement of 110%. Similarly, the Eligible Liquid Assets Ratio of the Group stood at 14.5% (2019: 12.9%) as at 31 December 2020, also reflecting a healthy liquidity position.

The Group has a large proportion of its liabilities as demand deposits which do not have a fixed maturity. Although behaviourally these deposits are stable, these have been grouped under up to 3 months category in accordance with the UAE Central Bank guideline.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Liquidity risk (continued)

	Up to 3 months AED'000	3 – 12 Months AED'000	1 - 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Provision for Credit loss AED'000	Total AED'000
At 31 December 2020							
Assets							
Cash and balances with the UAE Central Bank	5,120,285	350,000	-	-	-	-	5,470,285
Due from other banks	3,185,049	2,606,340	796,744	9,424	652	(35,818)	6,562,391
Loans and advances	6,562,088	4,255,161	8,003,257	4,409,460	8,970,946	(2,159,442)	30,041,470
Investment securities at fair value	673,279	626,279	603,862	629,940	1,099,938	-	3,633,298
Investment securities at amortised cost	513,572	194,564	1,158,294	1,020,135	1,437,144	(22,045)	4,301,664
Insurance contract assets and receivables	267,868	23,807	45,298	-	-	(54,708)	282,265
Customer acceptances	39,677	77,188	-	-	-	-	116,865
Goodwill and other intangible assets	-	-	-	-	166,386	-	166,386
Property and equipment, Right of use asset and other assets	953,892	11,610	16,430	75,556	1,140,496	-	2,197,984
Total	17,315,710	8,144,949	10,623,885	6,144,515	12,815,562	(2,272,013)	52,772,608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Liquidity risk (continued)

	Up to 3 months AED'000	3 - 12 months AED'000	1 - 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Provision Credit loss AED'000	Total AED'000
At 31 December 2020							
Liabilities and shareholders' equity							
Due to other banks	319,727	1,627,744	120,291	-	-	-	2,067,762
Deposit from customers	32,360,163	4,479,004	104,779	378	-	-	36,944,324
Debts securities issue and other long term borrowing	-	477,224	1,310,543	1,824,499	-	-	3,612,266
Insurance contract liabilities and payables	416,779	3,642	9,973	-	-	-	430,394
Customer acceptances	39,677	77,188	-	-	-	-	116,865
Other liabilities and lease liabilities	1,177,724	11,823	38,847	84,790	442,855	-	1,756,039
Shareholders' equity	-	-	-	-	7,844,958	-	7,844,958
Total	34,314,070	6,676,625	1,584,433	1,909,667	8,287,813	-	52,772,608
Net cumulative liquidity gap	(16,998,360)	(15,530,036)	(6,490,584)	(2,255,736)	2,272,013	-	
At 31 December 2019							
Total assets	15,933,205	11,328,850	11,866,560	8,684,548	11,114,345	(1,807,949)	57,119,559
Total liabilities and equity	33,007,238	12,110,294	1,692,967	2,467,503	7,841,557	-	57,119,559
Net cumulative liquidity gap	(17,074,033)	(17,855,477)	(7,681,884)	(1,464,839)	1,807,949	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Liquidity risk (continued)

Off-balance sheet items

	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2020				
Credit commitments	**3,332,866**	**-**	**-**	**3,332,866**
Letter of credits and guarantees	**1,200,628**	**294,379**	**-**	**1,495,007**
Total	**4,533,494**	**294,379**	**-**	**4,827,873**
At 31 December 2019				
Credit commitments	2,597,848	-	-	2,597,848
Letter of credits and guarantees	888,008	271,105	-	1,159,113
Total	3,485,856	271,105	-	3,756,961

Financial instruments

Categories of financial instruments

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9:

	At amortized cost AED'000	Fair value through comprehensive income AED'000	Hedging derivatives AED'000	Fair value through profit or loss AED'000	Total AED'000
At 31 December 2020					
Assets					
Investment securities	4,301,664	3,462,173	-	171,125	7,934,962
Derivative financial instruments	-	-	56,783	507,635	564,418
Cash and balances with the UAE central Bank	5,470,285	-	-	-	5,470,285
Due from other banks	6,562,391	-	-	-	6,562,391
Loans and advances	30,041,470	-	-	-	30,041,470
Insurance contract assets and receivables	203,759	-	-	-	203,759
Customer acceptances	116,865	-	-	-	116,865
Total financial assets	46,696,434	3,462,173	56,783	678,760	50,894,150
Liabilities					
Due to other banks	2,067,762	-	-	-	2,067,762
Deposits from customers	36,944,324	-	-	-	36,944,324
Debt securities issued and other long term borrowings	3,612,266	-	-	-	3,612,266
Insurance contract liabilities and payables	430,394	-	-	-	430,394
Derivative financial instruments	-	-	136,196	500,765	636,961
Customer acceptances	116,865	-	-	-	116,865
Total financial liabilities	43,171,611	-	136,196	500,765	43,808,572

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Financial instruments (continued)

Categories of financial instruments (continued)

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9:

	At amortized cost AED'000	Fair value through comprehensive income AED'000	Hedging derivatives AED'000	Fair value through profit or loss AED'000	Total AED'000
At 31 December 2019					
Assets					
Investment securities	5,186,138	2,618,153	-	337,142	8,141,433
Derivative financial instruments	-	-	26,905	311,498	338,403
Cash and balances with the UAE central Bank	4,785,504	-	-	-	4,785,504
Due from other banks	6,593,233	-	-	-	6,593,233
Loans and advances	34,550,563	-	-	-	34,550,563
Insurance contract assets and receivables	335,433	-	-	-	335,433
Customer acceptances	424,265	-	-	-	424,265
Total financial assets	51,875,136	2,618,153	26,905	648,640	55,168,834
Liabilities					
Due to other banks	4,977,055	-	-	-	4,977,055
Deposits from customers	36,826,360	-	-	-	36,826,360
Debt securities issued and other long term borrowings	4,888,881	-	-	-	4,888,881
Insurance contract liabilities and payables	556,374	-	-	-	556,374
Derivative financial instruments	-	-	90,734	286,644	377,378
Customer acceptances	424,265	-	-	-	424,265
Total financial liabilities	47,672,935	-	90,734	286,644	48,050,313

Fair value hierarchy

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices - Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs - Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as forwards foreign exchange contracts which are valued using market standard pricing techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Financial instruments (continued)

Fair value hierarchy (continued)

Valuation techniques using significant unobservable inputs - Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from a transaction in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The table below analyses recurring fair value measurements for assets and liabilities.

Financial assets measured	Level	Valuation techniques and key inputs
FVTPL Quoted debt investments	Level 1	Quoted mid prices in an active market
Quoted equity investments	Level 1	Quoted mid prices in an active market
Unquoted debt investments	Level 2	Based on the recent similar transaction in market
Unquoted debt investments	Level 3	Based on discounted cash flow model
Mutual and other funds	Level 2	Quoted prices in secondary market.

The assets measured at fair value as per the hierarchy are disclosed in the table below:

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
31 December 2020				
Asset at fair value				
(Through other comprehensive income)				
Investment securities - debt	2,759,371	272,662	159,632	3,191,665
Investment securities - equity	267,896	-	2,612	270,508
Foreign exchange contracts	-	64,560	-	64,560
Derivative financial instruments	-	499,858	-	499,858
(Through profit and loss)				
Investment market fund	125,100	-	42,481	167,581
Investment- debt securities	3,544	-	-	3,544
(Held at amortised cost)				
Investment securities - debt	4,199,593	-	257,064	4,456,657
	7,355,504	837,080	461,789	8,654,373
Liabilities at fair value				
Foreign exchange contracts	-	53,263	-	53,263
Derivative financial instruments	-	583,698	-	583,698
	-	636,961	-	636,961

There are no transfers between levels during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Financial instruments (continued)

Fair value hierarchy (continued)

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
31 December 2019				
Asset at fair value				
(Through other comprehensive income)				
Investment securities - debt	2,453,765	-	-	2,453,765
Investment securities - equity	161,776	-	2,612	164,388
Foreign exchange contracts	-	127,052	-	127,052
Derivative financial instruments	-	211,351	-	211,351
(Through profit and loss)				
Investment market fund	295,059	-	42,083	337,142
(Held at amortised cost)				
Investment securities - debt	4,865,024	-	463,653	5,328,677
	7,775,624	338,403	508,348	8,622,375
Liabilities at fair value				
Foreign exchange contracts	-	109,746	-	109,746
Derivative financial instruments	-	267,632	-	267,632
	-	377,378	-	377,378

There were no transfers between levels during the period.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

Reconciliation of Level 3 fair value measurement of financial assets measured at FVOCI

Investment securities - equity	**2020 AED'000**	2019 AED'000
At 1 January	**2,612**	2,612
Purchases	**-**	-
Disposals/matured	**-**	-
Change in fair value	**-**	-
At 31 December	**2,612**	2,612

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Financial instruments (continued)

Fair value hierarchy (continued

Reconciliation of Level 3 fair value measurement of financial assets measured at FVPL

Investment market fund	**2020 AED'000**	2019 AED'000
At 1 January	**42,083**	38,004
Purchases	**-**	-
Disposals/matured	**-**	-
Change in fair value	**398**	4,079
At 31 December	**42,481**	42,083

Reconciliation of Level 3 fair value measurement of financial assets at amortised cost

Investment securities - debt	**2020 AED'000**	2019 AED'000
At 1 January	**463,653**	336,702
Purchases	**205,727**	244,007
Disposals/matured	**(390,927)**	(116,856)
Change in fair value	**(21,389)**	(200)
At 31 December	**257,064**	463,653

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

Investment securities - debt	**2020 AED'000**	2019 AED'000
At 1 January		
Purchases	**158,715**	-
Disposals/matured	**-**	-
Change in fair value	**-**	-
	917	-
At 31 December	**159,632**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Financial instruments (continued)

Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2020, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

	Fair value		**Carrying value**	
	31 December 2020 AED'000	31 December 2019 AED'000	**31 December 2020 AED'000**	31 December 2019 AED'000
Assets				
Loans and advances	**30,280,145**	34,906,646	**30,041,470**	34,550,563
Investment securities measured at fair value	**3,633,298**	2,955,295	**3,633,298**	2,955,295
Investment securities measured at amortised cost	**4,456,657**	5,328,677	**4,301,664**	5,186,138
Cash and balances with the UAE central Bank	**5,470,341**	4,789,244	**5,470,285**	4,785,504
Due from other banks	**6,519,107**	6,530,790	**6,562,391**	6,593,233
Total financial assets	**50,359,548**	54,510,652	**50,009,108**	54,070,733
Liabilities				
Due to other banks	**2,082,509**	4,973,965	**2,067,762**	4,977,055
Deposits from customers	**36,968,118**	36,843,560	**36,944,324**	36,826,360
Debt securities issued and other long term borrowings	**3,649,115**	4,895,514	**3,612,266**	4,888,881
Total financial liabilities	**42,699,742**	46,713,039	**42,624,352**	46,692,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of United Arab Emirates;
- to safeguard the Bank's 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.

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

The Bank's capital management is driven by short and long-term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

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

Capital structure and capital adequacy as per Basel III requirement as at 31 December 2020

The Bank is required to report capital resources and risk-weighted assets under the Basel III from January 2018. Capital structure and capital adequacy as per Basel III requirement as at 31 December 2020 and 31 December 2019 is given below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Capital Management (continued)

	31 December 2020 (after applying prudential filter) AED'000	31 December 2019 AED'000
Tier 1 capital		
Ordinary share capital	**1,676,245**	1,676,245
Legal and other reserves	**4,172,571**	4,077,839
Retained earnings	**1,583,664**	919,100
Current year profit	**497,669**	1,104,419
Dividend	**(251,437)**	(502,874)
Tier 1 capital base	**7,678,712**	7,274,729
Tier 2 capital base	**492,180**	526,496
Total capital base	**8,170,892**	7,801,225
Risk weighted assets		
Credit risk	**39,374,431**	42,119,704
Market risk	**1,153,831**	1,178,301
Operational risk	**3,341,552**	3,044,186
Total risk weighted assets	**43,869,814**	46,342,191
Capital adequacy ratio on Tier 1 capital	**17.50%**	15.70%
Capital adequacy ratio on Tier 2 capital	**1.13%**	1.13%
Total Capital adequacy ratio	**18.63%**	16.83%

As per UAE Central Bank Regulation for Basel III, Minimum Capital requirement including Capital Conservation Buffer (CCB) is 13.0% for the year 2020. However, based on Notice CBUAE/BSD/N/2020/1479 dated 18 March 2020, effective from 15 March 2020 and for a period of 1 year, banks are allowed to tap into the CCB up to a maximum of 60% 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 a Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangement in conjunction to the Notice CBUAE/BSD/N/2020/2016 dated 22 April 2020 which explained the application of Prudential Filter. The Prudential Filter allows banks to add back any increases in Stage 1 and 2 IFRS9 ECL provision between 31 December 2019 and the reporting period, to the regulatory capital over a transitional period of 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE

Gross loans and advances to customers by product and/or industry

	Gross loans and advances (Audited)				ECL on loans and advances (Audited)	
	Gross loans	Deferred Amount	Deferrals under TESS/Non Tess (exposure)	%	No of Customers in deferral	Total ECL
As at 31 December 2020	**AED'000**	**AED'000**	**AED'000**			**AED'000**
Retails banking loans:						
Personal loans	**6,259,453**	**5,291**	**226,403**	**3.6%**	**1,112**	**494,801**
Mortgage loans	**5,596,742**	**-**	**-**	**0.0%**		**133,896**
Credit cards	**2,203,728**	**-**	**-**	**0.0%**		**340,045**
Auto loans	**538,080**	**11**	**375**	**0.1%**	**4**	**16,868**
Other retail loans	**2,124,956**					**11,020**
Total retail banking loans	**16,722,959**	**5,302**	**226,778**	**1.4%**	**1,116**	**996,630**
Business banking loans:						
RAK business loans	**3,443,069**	**7,130**	**195,681**	**5.7%**	**200**	**574,554**
Other business banking loans	**3,365,355**	**14,447**	**322,891**	**9.6%**	**17**	**233,836**
Total business banking loans	**6,808,424**	**21,577**	**518,572**	**7.6%**	**217**	**808,390**
Wholesale banking loans	**8,669,529**	**469**	**342,072**	**3.9%**	**2.00**	**354,422**
Total loans and advances	**32,200,912**	**27,348**	**1,087,422**	**3.4%**	**1,335**	**2,159,442**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Gross loans and advances to customers by product and/or industry

	Deferrals under TESS / Non TESS					
	Group 1			Group 2		
As at 31 December 2020	Gross loans AED'000	No of customers	ECL AED'000	Gross loans AED'000	No of customers	ECL AED'000
Retails banking loans:						
Personal loans	201,518	963	6,139	24,885	149	13,631
Mortgage loans	-		-	-		-
Credit cards	-		-	-		-
Auto loans	375	4	31	-		-
Other retail loans						
Total retail banking loans	201,893	967	6,170	24,885	149	13,631
Business banking loans:						
RAK business loans	84,735	93	5,101	110,946	107	59,727
Other business banking loans	79,698	9	219	243,193	8	29,810
Total business banking loans	164,433	102	5,320	354,139	115	89,537
Wholesale banking loans	342,072	2	497	-	-	-
Total loans and advances	708,398	1,071	11,987	379,024	264	103,168

The above disclosure / note is in respect of active deferrals as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Change in gross carrying amount and expected credit losses

	Gross carrying amount			ECL on loans and advances		
	31-Dec-20 Audited AED'000	31-Dec-19 Audited AED'000	% Change	**31-Dec-20 Audited AED'000**	31-Dec-19 Audited AED'000	% Change AED'000
Retails banking loans:						
Personal loans	**6,259,453**	7,222,957	(13.3%)	**494,801**	419,479	18.0%
Mortgage loans	**5,596,742**	5,380,041	4.0%	**133,896**	82,036	63.2%
Credit cards	**2,203,728**	3,121,075	(29.4%)	**340,045**	279,702	21.6%
Auto loans	**538,080**	868,125	(38.0%)	**16,868**	34,004	(50.4%)
Other retail loans	**2,124,956**	2,123,463	0.1%	**11,020**	15,340	(28.2%)
Total retail banking loans	**16,722,959**	18,715,661	(10.6%)	**996,630**	830,561	20.0%
Business banking loans:						
RAK business loans	**3,443,069**	4,099,197	(16.0%)	**574,554**	507,394	13.2%
Other business banking loans	**3,365,355**	4,028,848	(16.5%)	**233,836**	154,840	51.0%
Total business banking loans	**6,808,424**	8,128,045	(16.2%)	**808,390**	662,234	22.1%
Total wholesale banking loans	**8,669,529**	9,418,422	(8.0%)	**354,422**	218,770	62.0%
Total loans and advances	**32,200,912**	36,262,128	(11.2%)	**2,159,442**	1,711,565	26.2%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Wholesale Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 January 2020	8,408,631	867,404	142,387	9,418,422
Stage 1 to Stage 2 Transfer	(553,364)	553,364	-	-
Stage 1 to Stage 3 Transfer	(154,279)	-	154,279	-
Stage 2 to Stage 3 Transfer	-	(188,408)	188,408	-
Stage 2 to Stage 1 Transfer	139,058	(139,058)	-	-
Stage 3 to Stage 2 Transfer	-	-	-	-
Change in Exposures during the year	(3,810,089)	(526,419)	(4,451)	(4,340,959)
New Financial Assets Originated FY 20	3,611,977	-	-	3,611,977
Write offs, YTD FY 20	-	-	(19,911)	(19,911)
Gross carrying amount as at 31 December 2020	7,641,934	566,883	460,712	8,669,529

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Business Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 January 2020	7,015,334	722,178	390,533	8,128,045
Stage 1 to Stage 2 Transfer	(993,691)	993,691	-	-
Stage 1 to Stage 3 Transfer	(388,202)	-	388,202	-
Stage 2 to Stage 3 Transfer	-	(214,772)	214,772	-
Stage 2 to Stage 1 Transfer	187,295	(187,295)	-	-
Stage 3 to Stage 2 Transfer	-	3,996	(3,996)	-
Change in Exposures during the year	(2,025,095)	(233,383)	(46,254)	(2,304,732)
New Financial Assets Originated FY 20	1,521,297	-	-	1,521,297
Write offs, YTD FY 20	-	-	(536,186)	(536,186)
Gross carrying amount as at 31 December 2020	5,316,938	1,084,415	407,071	6,808,424

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Retail Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 January 2020	17,176,871	678,631	860,159	18,715,661
Stage 1 to Stage 2 Transfer	(694,839)	694,839	-	-
Stage 1 to Stage 3 Transfer	(719,609)	-	719,609	-
Stage 2 to Stage 3 Transfer	-	(265,723)	265,723	-
Stage 2 to Stage 1 Transfer	143,969	(143,969)	-	-
Stage 3 to Stage 2 Transfer	-	58,521	(58,521)	-
Change in Exposures during the year	(5,007,880)	(253,894)	(185,178)	(5,446,952)
New Financial Assets Originated FY 20	4,149,810	-	-	4,149,810
Write offs, YTD FY 20	-	-	(695,560)	(695,560)
Gross carrying amount as at 31 December 2020	15,048,322	768,405	906,232	16,722,959

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Wholesale Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 October 2020	7,471,649	581,876	301,724	8,355,249
Stage 1 to Stage 2 Transfer	(284,103)	284,103	-	-
Stage 1 to Stage 3 Transfer	(13,863)	-	13,863	-
Stage 2 to Stage 3 Transfer	-	(146,628)	146,628	-
Stage 2 to Stage 1 Transfer	32,323	(32,323)	-	-
Stage 3 to Stage 2 Transfer	-	-	-	-
Change in Exposures during the year	(1,158,046)	(120,145)	(1,503)	(1,279,694)
New Financial Assets Originated FY 20	1,593,974	-	-	1,593,974
Write offs, YTD FY 20	-	-	-	-
Gross carrying amount as at 31 December 2020	7,641,934	566,883	460,712	8,669,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Business Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 October 2020	6,059,489	811,891	383,131	7,254,511
Stage 1 to Stage 2 Transfer	(634,310)	634,310	-	-
Stage 1 to Stage 3 Transfer	(106,240)	-	106,240	-
Stage 2 to Stage 3 Transfer	-	(129,762)	129,762	-
Stage 2 to Stage 1 Transfer	117,052	(117,052)	-	-
Stage 3 to Stage 2 Transfer	-	6,271	(6,271)	-
Change in Exposures during the year	(676,014)	(121,243)	(12,568)	(809,825)
New Financial Assets Originated FY 20	556,961	-	-	556,961
Write offs, YTD FY 20	-	-	(193,223)	(193,223)
Gross carrying amount as at 31 December 2020	5,316,938	1,084,415	407,071	6,808,424

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Retail Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 October 2020	15,039,436	969,571	972,672	16,981,679
Stage 1 to Stage 2 Transfer	(279,185)	279,185	-	-
Stage 1 to Stage 3 Transfer	(63,272)	-	63,272	-
Stage 2 to Stage 3 Transfer	-	(216,324)	216,324	-
Stage 2 to Stage 1 Transfer	309,243	(309,243)	-	-
Stage 3 to Stage 2 Transfer	-	48,135	(48,135)	-
Change in Exposures during the year	(1,382,136)	(2,919)	(116,165)	(1,501,220)
New Financial Assets Originated FY 20	1,424,236	-	-	1,424,236
Write offs, YTD FY 20	-	-	(181,736)	(181,736)
Gross carrying amount as at 31 December 2020	15,048,322	768,405	906,232	16,722,959

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued

Loss allowance for loans and advances measured at amortized cost

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Wholesale Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2020	65,963	64,687	88,120	218,770
Transfer from Stage 1 to Stage 2	(16,420)	16,420	-	-
Transfer from Stage 1 to Stage 3	(81,985)	-	81,985	-
Transfer from Stage 2 to Stage 3	-	(46,294)	46,294	-
Transfer from Stage 2 to Stage 1	1,065	(1,065)	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Due to changes in PD's/ LGD's/ EAD	(29,061)	12,501	59,267	42,707
New financial assets originated	112,856	-	-	112,856
Write-offs	-	-	(19,911)	(19,911)
ECL allowance as at 31 December 2020	52,418	46,249	255,755	354,422

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Business Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2020	266,654	157,366	238,214	662,234
Transfer from Stage 1 to Stage 2	(88,746)	88,746	-	-
Transfer from Stage 1 to Stage 3	(144,734)	-	144,734	-
Transfer from Stage 2 to Stage 3	-	(86,115)	86,115	-
Transfer from Stage 2 to Stage 1	20,089	(20,089)	-	-
Transfer from Stage 3 to Stage 2	-	2,216	(2,216)	-
Due to changes in PD's/ LGD's/ EAD	(9,617)	129,938	341,450	461,771
New financial assets originated	220,571	-	-	220,571
Write-offs	-	-	(536,186)	(536,186)
ECL allowance as at 31 December 2020	264,217	272,062	272,111	808,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Loss allowance for loans and advances measured at amortized cost (continued)

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Retail Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2020	326,240	203,613	300,708	830,561
Transfer from Stage 1 to Stage 2	(121,395)	121,395	-	-
Transfer from Stage 1 to Stage 3	(76,689)	-	76,689	-
Transfer from Stage 2 to Stage 3	-	(82,353)	82,353	-
Transfer from Stage 2 to Stage 1	34,797	(34,797)	-	-
Transfer from Stage 3 to Stage 2	-	12,227	(12,227)	-
Due to changes in PD's/ LGD's/ EAD	(28,882)	43,006	614,676	628,800
New financial assets originated	232,829	-	-	232,829
Write-offs	-	-	(695,560)	(695,560)
ECL allowance as at 31 December 2020	366,900	263,091	366,639	996,630

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Wholesale Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 October 2020	62,809	55,003	155,401	273,213
Transfer from Stage 1 to Stage 2	(4,328)	4,328	-	-
Transfer from Stage 1 to Stage 3	(283)	-	283	-
Transfer from Stage 2 to Stage 3	-	(38,601)	38,601	-
Transfer from Stage 2 to Stage 1	488	(488)	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Due to changes in PD's/ LGD's/ EAD	(12,338)	26,007	61,470	75,139
New financial assets originated	6,070	-	-	6,070
Write-offs	-	-	-	-
ECL allowance as at 31 December 2020	52,418	46,249	255,755	354,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Loss allowance for loans and advances measured at amortized cost (continued)

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Business Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 October 2020	321,726	242,871	247,261	811,858
Transfer from Stage 1 to Stage 2	(60,677)	60,677	-	-
Transfer from Stage 1 to Stage 3	(69,771)	-	69,771	-
Transfer from Stage 2 to Stage 3	-	(59,585)	59,585	-
Transfer from Stage 2 to Stage 1	49,595	(49,595)	-	-
Transfer from Stage 3 to Stage 2	-	4,560	(4,560)	-
Due to changes in PD's/ LGD's/ EAD	(70,172)	73,134	93,277	96,239
New financial assets originated	93,516	-	-	93,516
Write-offs	-	-	(193,223)	(193,223)
ECL allowance as at 31 December 2020	264,217	272,062	272,111	808,390

	31 December 2020 (Audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Retail Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 October 2020	377,854	364,275	343,289	1,085,418
Transfer from Stage 1 to Stage 2	(39,154)	39,154	-	-
Transfer from Stage 1 to Stage 3	(13,908)	-	13,908	-
Transfer from Stage 2 to Stage 3	-	(78,188)	78,188	-
Transfer from Stage 2 to Stage 1	125,570	(125,570)	-	-
Transfer from Stage 3 to Stage 2	-	20,601	(20,601)	-
Due to changes in PD's/ LGD's/ EAD	(129,863)	42,819	133,591	46,547
New financial assets originated	46,401	-	-	46,401
Write-offs	-	-	(181,736)	(181,736)
ECL allowance as at 31 December 2020	366,900	263,091	366,639	996,630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

ECL charge (flow) since beginning of period - during the quarter

Retail Banking segment Loans	Non-credit impaired Stage 1 12-month	Stage 2 Lifetime	Credit Impaired Stage 3 Lifetime	Total
	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 October 2020	**377,854**	**364,275**	**343,289**	**1,085,418**
Credit Cards	2,685	(19,415)	(4,191)	(20,921)
Housing Loans	8,227	(7,102)	22,219	23,344
Personal Loans	(15,399)	(64,907)	10,632	(69,674)
Auto Loans	(6,583)	(9,437)	(4,494)	(20,514)
Other Retail Loans	116	(323)	(816)	(1,023)
ECL allowance as at 31 December 2020	**366,900**	**263,091**	**366,639**	**996,630**

Business Banking segment Loans	Non-credit impaired Stage 1 12-month	Stage 2 Lifetime	Credit Impaired Stage 3 Lifetime	Total
	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 October 2020	**321,726**	**242,871**	**247,261**	**811,858**
RAK Business Banking Loans	(54,258)	(3,105)	67,051	9,688
Other Business Banking Loans	(3,251)	32,296	(42,201)	(13,156)
ECL allowance as at 31 December 2020	**264,217**	**272,062**	**272,111**	**808,390**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

ECL charge (flow) since beginning of period - during the quarter

Wholesale Banking segment Loans	Non-credit impaired Stage 1 12-month	Stage 2 Lifetime	Credit Impaired Stage 3 Lifetime	Total
	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 October 2020	**62,809**	**55,003**	**155,401**	**273,213**
Federal Government	(206)	-	-	(206)
Emirates Governments	-	-	-	-
GREs (Gov ownership >50%)	(2,565)	(21)	-	(2,586)
Corporate with Govt ownership <50%	355	(426)	-	(71)
Other Corporates	(135)	6,376	9,047	15,288
High Net Worth Individuals	(1,135)	13,453	-	12,318
SMEs	(12,475)	(27,581)	63,567	23,511
Banks	403	(543)	-	(140)
NBFI	(688)	-	-	(688)
Others	6,055	(12)	27,740	33,783
ECL allowance as at 31 December 2020	**52,418**	**46,249**	**255,755**	**354,422**

ECL charge (flow) for the year 2020

Retail Banking segment Loans	Non-credit impaired Stage 1 12-month	Stage 2 Lifetime	Credit Impaired Stage 3 Lifetime	Total
	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2020	**326,240**	**203,613**	**300,708**	**830,561**
Credit Cards	21,172	7,475	31,698	60,345
Housing Loans	12,246	6,147	33,467	51,860
Personal Loans	14,808	48,219	12,295	75,322
Auto Loans	(7,296)	(3,391)	(6,449)	(17,136)
Other Retail Loans	(270)	1,028	(5,080)	(4,322)
ECL allowance as at 31 December 2020	**366,900**	**263,091**	**366,639**	**996,630**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

ECL charge (flow) for the year 2020

	Non-credit impaired		Credit Impaired	
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	Total
Business Banking segment Loans				
	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2020	266,654	157,366	238,214	662,234
RAK Business Banking Loans	(28,740)	71,252	24,649	67,161
Other Business Banking Loans	26,303	43,444	9,248	78,995
ECL allowance as at 31 December 2020	264,217	272,062	272,111	808,390

	Non-credit impaired		Credit Impaired	
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	Total
Wholesale Banking segment Loans				
	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2020	65,963	64,687	88,120	218,770
Federal Government	705	-	-	705
Emirates Governments	-	-	-	(0)
GREs (Gov ownership >50%)	6,022	45	-	6,067
Corporate with Govt ownership <50%	355	(857)	-	(502)
Other Corporates	(937)	182	19,231	18,476
High Net Worth Individuals	1,628	14,060	-	15,688
SMEs	(19,840)	(28,069)	78,255	30,346
Banks	(3,782)	(3,718)	-	(7,500)
NBFI	112	-	-	112
Others	2,192	(81)	70,149	72,260
ECL allowance as at 31 December 2020	52,418	46,249	255,755	354,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

42. Insurance risk

The Group accepts insurance risk through its written insurance contracts. The Group is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Group mainly issues short term insurance contracts in connection with property, motor, marine and casualty risks.

Two key elements of the Group's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

42. Insurance risk (continued)

Underwriting strategy

The Group's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Group that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. All general insurance contracts except marine, are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Frequency and amounts of claims

The Group has developed their underwriting strategy to diversify the type of insurance risks accepted and within each of the categories to achieve sufficiently large populations of risk to reduce the variability of the expected outcome. The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly property, motor, casualty, medical and marine risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place.

Property

Property insurance covers a diverse collection of risks and therefore property insurance contracts are subdivided into four risks groups, fire, business interruption, weather damage and theft. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured. The cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruptions are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, flood damage or other weather related incidents.

Motor

Motor insurance contracts are designed to compensate policies holders for damage suffered to vehicles, disability to third parties arising through accidents and fire or theft of their vehicles.

Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

Marine

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

42. Insurance risk (continued)

Frequency and amounts of claims (continued)

Marine (continued)

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered.

Casualty

For casualty class of business, such as workmen's compensation, personal accident, general third party liability and loss of money, the extent of loss or damage and the potential court awards are the main factors that influence the level of claims.

The Group manage these risks through their underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk. Underwriting limits are in place to enforce appropriate risk selections.

The Group proactively manage and pursue early settlement of claims to reduce their exposure to unpredictable developments.

The Group has adequate reinsurance arrangements to protect their financial viability against such claims for all classes of business.

The Group has obtained adequate non-proportionate reinsurance cover for all classes of an amount considered appropriate by the management.

Medical

Medical selection is part of the Group's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

42. Insurance risk (continued)

The concentration by sector at the end of the year is broadly consistent with the prior year.

Assumptions and sensitivities

Process used to determine the assumptions

The method used by the Group for provision of incurred but not reported (IBNR) takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years.

Reinsurance strategy

The Group reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Group has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The Group buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by reinsurance department.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

43. Critical accounting estimates and judgments in applying accounting policies

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting policies and management judgement for certain items are especially critical for the Group's results and financial situation due to their materiality.

(a) Critical judgments in applying the group's accounting policies - IFRS 9

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(a) Critical judgments in applying the group's accounting policies - IFRS 9 (continued)

- *Business model assessment*

Classification and measurement of financial assets depends on the results of the "solely payments of principal and interest" and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets are evaluated and measured, the risks that affect the performance of the assets and how they are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate, whether there has been a change in business model resulting in a prospective change to the classification of those assets.

- *Significant increase of credit risk*

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

- *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 according to product. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- *Models and assumptions used*

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement 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 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(b) Classification of and measurement of financial assets and liabilities

The Group classifies financial instruments, or its component parts, at initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of the instruments. The substance of the financial instrument, rather than the legal form, governs its reclassification in the statement of financial position.

The Group determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this designation at every statement of financial position date.

In measuring financial assets and liabilities, some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

(c) Fair value measurement

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, 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 where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives, discount rates, prepayment rates and default rate assumptions for asset backed securities. The Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(d) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, Bank uses Counterparty valuations (third party valuations) or fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

(i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(e) Provision for outstanding claims, whether reported or not

Considerable judgment by the management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the date of statement of financial position. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

(f) Useful lives of property and equipment

The management determines the useful lives of property and equipment and the related depreciation charge. The depreciation charge for the year will change significantly if the actual life is different from the estimated useful life of the asset. The review carried out by management in the current year did not indicate any necessity for changes in the useful lives of property and equipment.

(g) Impairment of goodwill

The calculation of value-in-use is sensitive to the following assumptions:

(i) Growth rate

Growth rates are based on the management's assessment of the market share having regard to the forecasted growth and demand for the products offered. Terminal growth rate of 2.5% per annum has been applied in the calculation.

(ii) Profit margins

Profit margins are based on the management's assessment of the performance potential of the cash generating unit for the next five years.

(iii) Discount rates

Management has used the discount rate of 8.48% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

(h) Measurement of ECL under IFRS 9

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- *Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario:* When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

h) Measurement of ECL under IFRS 9 (continued)

- *Probability of default:* PD *constitutes* a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- *Loss Given Default:* LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- EAD is an estimate of the current exposure for funded facilities. For non-funded facilities the EAD is taken as the *product* of the applicable credit conversion factors and contract values. Exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities

(i) Critical judgments in applying the group's accounting policies introduced on adoption of IFRS 16

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial information:

Determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The amount payable under residual value guarantees
The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period.

(j) Process used to decide on insurance contract assumptions

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(k) Process used to decide on insurance contract assumptions

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market- based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that a weighted average of different techniques have been selected for individual accident years or groups of accident years within the same class of business. The Company has an internal actuary and independent external actuaries are also involved in the valuation of technical reserves of the Company and has used historical data for the past 9 years.

The Company did not change its assumptions for the insurance contracts during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

44. Risk management in the current economic scenario

The economic fallout of COVID-19 crisis is expected to be significant and continues to evolve rapidly. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. The Central Bank of UAE ("CBUAE") also announced multiple measures and incentives totalling to AED 256 billion to help banks support the economic sectors and individuals in the UAE impacted by this crisis.

COVID-19 impact on measurement of ECL

IFRS 9 framework requires the estimation of Expected Credit Loss (ECL) based on current and forecast economic conditions. In order to assess ECL under forecast economic conditions, the Bank utilizes a range of economic scenarios of varying severity, and with appropriate weightings, to ensure that ECL estimates are representative of a range of possible economic outcomes. The Bank has robust governance in place to ensure the appropriateness of the IFRS 9 framework and resultant ECL estimates at all times. Specifically, all aspects of the IFRS 9 framework are overseen by a IFRS 9 Steering Committee with participation from the Chief Risk Officer, Chief Financial Officer and other members from Risk and Finance functions. The Bank, through this committee, reviews the appropriateness of inputs and methodology for IFRS 9 ECL, effectiveness and reliability of the reporting under IFRS 9 & other relevant matters pertaining to IFRS 9 on an ongoing basis.

The Bank has reviewed the potential impact of COVID-19 outbreak on the inputs and assumptions for IFRS 9 ECL measurement in light of available information. Overall, the COVID-19 situation remains fluid and is rapidly evolving at this point, which makes it challenging to reliably reflect impacts in our ECL estimates. Notwithstanding this, recognizing that the outbreak is expected to have an impact on the macro-economic environment beyond reasonable doubt, which is expected to have an impact on bank's portfolio. The Group, based on historical analysis determines key economic variables that impacts the credit risk of its various portfolios and uses macro-economic forecasts for these variables to estimate the PD's. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn and Downturn, in accordance with IFRS 9 requirements. In accordance with the Joint Guidance Note issued by CBUAE, Dubai Financial Services Authority ("DFSA") and the Financial Services Regulatory Authority (the "FSRA") the group has used the updated macro-economic forecasts for Q4'20 ECL, which incorporates the impact of Covid-19 on the bank's ECL numbers, and hence the increase in the probability of pessimistic scenario has been discontinued from Q4'20.

In recognition of significant economic uncertainty due to the COVID-19 crisis coupled with challenge while applying IFRS 9 principles and requirements under these circumstances, CBUAE, Dubai Financial Services Authority ("DFSA") and the Financial Services Regulatory Authority (the "FSRA") jointly issued a guidance note to Banks and Finance companies ("Joint Guidance") in UAE on 15 April 2020 relating to estimation of IFRS 9 ECL provisions in context of the COVID-19 crisis. The Group has taken into consideration provisions of the Joint Guidance in estimating ECL.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in risk profile as well as any actual and expected increase in credit risk. This assessment includes detailed review of potential impacts of COVID-19 on individual clients as well as on industry.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

44. Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

As per the requirement of the Joint Guidance, the Bank has started grouping of the customers receiving the payment deferrals, into two groups (Group 1 and Group 2) based on the estimated extent of impact of this pandemic on the particular customer; Group 1 classification for the mildly impacted customers and Group 2 classification for the borrowers whose credit profile has deteriorated materially.

The grouping decisions are being taken based on relevant product or portfolio, for example; for Non Retail portfolio (Wholesale banking & Business Banking clients) , the grouping exercise is being done on a case-by-case assessment of the borrower & the underlying business including the impact of the externalities on the underlying business (cash-flows, turnover, repayment capacity, etc.) of the borrower and based on a combination of certain criteria (like job loss, reduction in salary, level of business operations whether normalcy has reached or not) for other retail and small and medium enterprise portfolios. These grouping decisions are iterative and are being reviewed on ongoing basis & may change based on the evolving external situations. The Bank has put an internal governance framework around grouping evaluation.

The Bank is continuously monitoring the current situation, which is unprecedented and is working very closely with its customers and extending required support in these uncertain and evolving times and has also reassessed its staging of the portfolio as at 31st December 2020. This included evaluating whether the investment and Financial Institutions' portfolio has suffered a significant deterioration in credit quality.

The Bank continues to work with CBUAE and other regulatory authorities in the jurisdictions it operates to refine and operationalize relief schemes being deployed to assist clients impacted by COVID-19. This includes the Targeted Economic Support Scheme ("TESS") announced in UAE in March 2020 and subsequently updated on 6 April 2020 and 6 August 2020. More than twenty two thousand of the Bank's retail, SME and corporate clients have subscribed to these schemes as at 31 December 2020.

Liquidity management

The extreme liquidity stress brought about by the pandemic during the earlier part of the year is now largely behind us. Gradual oil price recovery, injection of liquidity by Central Banks across the globe, especially the timely actions by the CBUAE helped the banking sector tide the initial concerns. With the sudden liquidity crunch during mid-March, the ALCO chair along with the relevant members had taken multiple steps to execute the requisite actions to address the situation at hand with regular updates to the Board of Directors. In addition to increasing the frequency and the depth of monitoring of new deals and the associated cash flows, the bank amended its internal funds transfer pricing to tighten assets disbursals and to encourage more deposit seeking to boost the liquidity buffers. The Bank effectively stopped all non-committed business which was not relationship driven or did not impact the Bank's franchise, for a short period of time. CBUAE also reduced Reserve Requirement against CASA balances in April 2020, providing an immediate boost to UAE Banks' liquidity. In order to allow Banks to utilize the liquidity thus released, the CBUAE reduced the minimum threshold of liquidity ratios (LCR and ELAR) by 30%. The combination of the above measures by CBUAE along with prudent management of liquidity by the Bank helped ensure that the Bank was able to meet its clients' banking services requirements effectively without disruption, even during a prolonged period of reduced access to the foreign funding markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

44. Risk management in the current economic scenario (continued)

Liquidity management (continued)

The CBUAE has continued to support the banking industry by extending the Targeted Economic Support Scheme (TESS), allowing UAE Banks to access zero cost funding from the CBUAE and pass on the benefit through allowing fresh funds, principal and/or interest deferrals to their clients, for an additional period of six months. This will further ease the liquidity scenario for the industry as a whole and provide the sector an appropriate cushion. The Bank has drawn the requisite zero cost funds amounting to AED 1,199 million and has passed on the benefit to the customers in line with the Central Bank regulations ensuring that the clients are appropriately supported.

The market liquidity has since improved dramatically both locally and globally leading to a substantial increase of liquidity in the banking system. The bank accordingly repaid high cost sources of funds while maintaining surplus liquidity at the same time. The Bank continues to remain vigilant and is well prepared for any unexpected liquidity scenarios

Business continuity planning

The Bank's Management Committee (GMC) consisting of heads of all departments continues to closely monitor the situation and take appropriate actions in line with the guidance by NCEMA (National Emergency Crisis and Disasters Management Authority) to ensure safety and security of Bank staff and an uninterrupted service to our customers. About 50% of the staff members have started working from office and the teams working from office have been split at various locations. All required protocols by Department of Health (DHA) are being adhered to i.e. wearing of mask by staff members when on bank premises and maintaining social distance between workstations. Business Continuity Plans (BCP) for respective areas are in place and tested.

Remote access to workstations is protected using Virtual desktops (VDI) and Virtual private network (VPN) connectivity. The connectivity mandates two factor authentication using tokens. Specific cyber security awareness initiatives were rolled out for both staff and customers. All remote work capabilities enabled for staff are being monitored and all threat intelligence is intercepted and responded to by a 24x7 security operations centre.

The Bank is monitoring local developments that can have an impact on our operations. The Bank continues to promote usage of digital channels resulting in reduced footfall in Branches. All Branches are fully operational and customers are being serviced. Social distancing and queues are being managed as per local authority guidelines. The Bank has taken measures to monitor service levels and the Bank continues to meet the expectations of our clients and support them effectively during these times.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

45. Social contributions

The social contributions made (including donations and charity) during the year to various beneficiaries amounted to AED 0.63 million (2019: AED 0.66 million).

46. Reclassification

Certain items have been reclassified to conform to current year presentation.

47. Subsequent Events

The Board of Directors have proposed a cash dividend of 15% (15 fils per share) of the share capital of the Bank at their meeting held on 2 February 2021.

48. Zakat payable

With reference to the UAE Central Bank notice CBUAE/BSD/N/2020/3519 dated 3 August 2020 on transfer of Zakat monies to Zakat Fund, Group's Internal Shari'ah Supervision Committee has approved to transfer AED 1,550,000 to the Zakat payable account for the year 2020 and 20% of this amount will be transferred to the "Zakat Fund".

49. Approval of the consolidated financial statements

The consolidated financial statements were approved on 2 February 2021.

Basel III –
Pillar 3 Disclosures

Basel III – Pillar 3 Disclosures for the year ended 31 December 2020

The disclosures given below pertain to National Bank of Ras Al Khaimah P.S.C. and its five subsidiaries (Group) and are in accordance with Basel III, Pillar 3, market discipline principles where Banks are required to disclose qualitative and quantitative information of its risk and capital management. These disclosures are also in compliance with Circular No 28/2018 dated 17th January 2018 issued by the Central Bank of UAE.

1. Subsidiaries and Significant investments:

The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and its five subsidiaries. These subsidiaries are Ras Al Khaimah National insurance company PSC (RAKNIC), P.S.C, BOSS FZCO, RAK Technologies FZCO, RAK Funding Cayman Limited and Rak Global Markets Cayman Limited (together referred as the "Group").The consolidated disclosures comprises the Bank and its subsidiaries. The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

Subsidiary	Authorized & issued capital	Ownership interest	Incorporated	Principal Activities
Ras Al Khaimah National Insurance Company PSC ("RAKNIC")	AED 121.275 million	79.23%	UAE	All type of insurance business.
BOSS FZCO	AED 500,000	80%*	UAE	Back office support services to the Bank.
RAK Technologies FZCO	AED 500,000	80%*	UAE	Technological support services to the Bank.
Rakfunding Cayman Limited	Authorized USD 50,000 Issued USD 100	100%	Cayman Island	To facilitate the issue of Euro medium term notes (EMTN) and other long term borrowings.
RAK Global Markets Cayman Limited	Authorized USD 50,000 Issued USD 1	100%	Cayman Island	To facilitate Treasury transactions.

- These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party on trust and for the benefit of the Bank.

Under the regulatory scope of consolidation, the investment in Ras Al Khaimah National Insurance Company PSC ("RAKNIC") not deducted from capital but is risk weighted at 250%

Investment in RAKNIC	RWA for Investment in RAKNIC	RW%
AED 317.24 million	AED 793.11 million	250%

2. *Capital Structure*

Quantitative Disclosure:

The Group's capital structure under Basel III is as indicated below:

	Capital Base	31 December 2020 AED 000's	31 December 2019 AED 000's
1	**Common Equity Tier 1 (CET 1) Capital**		
1.1	Share Capital	**1,676,245**	1,676,245
1.2	Eligible Reserves	**4,172,571**	4,077,839
1.3	Retained Earnings	**1,583,664**	919,100
1.4	Audited current year profits	**497,669**	1,104,419
1.5	Dividend	**(251,437)**	(502,874)
	CET 1 Capital before regulatory adjustments and threshold deductions	**7,678,712**	7,274,729
	Less : Regulatory deductions		-
	Less : Threshold deductions		-
	Total CET 1 capital after regulatory adjustments and threshold deductions	**7,678,712**	7,274,729
2	**Additional Tier 1 (AT 1) Capital**		
2.1	Eligible AT 1 capital	-	-
2.2	Other AT 1 Capital	-	-
	Total AT 1 Capital	-	-
3	**Tier 2 Capital**		
3.1	Tier 2 Instruments	-	-
3.2	Other Tier 2 capital	**492,180**	526,496
	Total T2 Capital	**492,180**	526,496
	Total Capital base	**8,170,892**	7,801,225

Note:

(1) The Tier 2 Capital consists of eligible portion of General Provision.

3. *Capital adequacy*

The Bank is following the Standardized Approach to assess its Pillar 1 Capital Adequacy. Also in line with the Central Bank's instructions, the Bank is required to set aside some portion of its capital as Capital Conservation Buffer (CCB). From 2019, CCB is required to be kept at 2.5% of the Capital base as per the prescribed transition arrangement.

The Pillar I RWA Calculation covers the following risks:

- Credit Risk in Banking Book (Using Standardized Approach)
- Market Risk in Trading Book (Using Standardized Approach)
- Operational Risk across the Bank (Using Alternative Standardized Approach)

RAKBANK currently maintains a Common Equity Tier 1 (CET 1) Ratio of 17.50% and a Total Capital Adequacy Ratio of 18.63%. The Tier 2 Capital in 2019 and 2020 is the eligible portion of the General Provision. Capital structure and capital adequacy as per Basel III requirement as at 31 December 2020 and 31 December 2019 is given below:

	31 December 2020 (before applying prudential filter) AED'000	**31 December 2020 (after applying prudential filter) AED'000**	31 December 2019 AED'000
Tier 1 capital			
Ordinary share capital	**1,676,245**	**1,676,245**	1,676,245
Legal and other reserves	**3,973,371**	**4,172,571**	4,077,839
Retained earnings	**1,583,664**	**1,583,664**	919,100
Current year profit	**497,669**	**497,669**	1,104,419
Dividend	**(251,437)**	**(251,437)**	(502,874)
Tier 1 capital base	**7,479,512**	**7,678,712**	7,274,729
Tier 2 capital base	**489,690**	**492,180**	526,496
Total capital base	**7,969,202**	**8,170,892**	7,801,225
Risk weighted assets			
Credit risk	**39,175,230**	**39,374,431**	42,119,704
Market risk	**1,153,831**	**1,153,831**	1,178,301
Operational risk	**3,341,552**	**3,341,552**	3,044,186
Total risk weighted assets	**43,670,613**	**43,869,814**	46,342,191
Capital adequacy ratio on Tier 1 capital	**17.13%**	**17.50%**	15.70%
Capital adequacy ratio on Tier 2 capital	**1.12%**	**1.13%**	1.13%
Total Capital adequacy ratio	**18.25%**	**18.63%**	16.83%

As per UAE Central Bank Regulation for Basel III, Minimum Capital requirement including Capital Conservation Buffer (CCB) is 13.0% for the year 2020. However, based on Notice CBUAE/BSD/N/2020/1479 dated 18 March 2020, effective from 15 March 2020 and for a period of 1 year, banks are allowed to tap into the CCB up to a maximum of 60% 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 a Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangement in conjunction to the Notice CBUAE/BSD/N/2020/2016 dated 22 April 2020 which explained the application of Prudential Filter. The Prudential Filter allows banks to add back any increases in Stage 1 and 2 IFRS9 ECL provision between 31 December 2019 and the reporting period, to the regulatory capital over a transitional period of 5 years.

Qualitative Disclosure:

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business. The group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the group's financial performance.

The Group's risk management considers a variety of risks. These typically include credit risk, liquidity risk, concentration risk, market risk, interest rate risk, operational risk, Information security risk, business continuity risk, reputational risk and regulatory and compliance risk. Policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

RAKBANK's Board and Management believe that an effective risk department is vital to achieving the Bank's strategic growth objectives in a sustainable manner. The Board Risk Committee endorses the Bank's overall risk management strategy and appetite, providing the necessary direction concerning risk management measures undertaken by the Group. The Risk Management function of the Bank is independent of the risk taking functions which is in line with the guidelines of the UAE Central Bank and consistent with Group's model of three lines of defense.

As part of the ICAAP process under the Central Bank of UAE's Basel III framework, the Bank periodically submits to the central bank its internal capital adequacy assessment process (ICAAP) Report, where it sets out all the risks it is exposed to, how it measures, monitors and where possible how it mitigates these risks and how the alignment with capital is achieved. The, Bank has the framework to measure the capital requirements for material risks other than Pillar 1 risks such as Liquidity risk, Interest rate Risk in Banking Book and Concentration risk under Pillar 2. The Group shall assess these risks and set aside capital if found to be material. It takes into account any feed-back it gets from its regulator.

The Risk Management Department is responsible for calculation of capital requirements under the ICAAP framework. The Bank also performs annual macro-economic stress testing exercise as per Central Bank Guidelines.

Liquidity is managed by Treasury under the guidance of Asset and Liability Committee (ALCO) and in accordance with UAE Central Bank regulation and the Bank's internal guidelines. The Risk Management Department manages Liquidity Risk and has established a formal robust liquidity risk management framework that ensures sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events. The Bank monitors its regulatory liquidity ratios on a daily basis and has set up internal management action triggers to take suitable action when required. In addition, liquidity stress testing and scenario analysis is one of the key tools used by the Bank for measuring liquidity risk and evaluating the Bank's short-term liquidity position.

Regulatory Compliance continues to be an area of focus for the Board and Management of the Bank; the Bank continues to maintain a zero tolerance approach with respect to any regulatory breach. An independent Compliance function oversees Compliance Risk management framework and procedures across the Bank. The Compliance function is also responsible for actively mitigating AML and Sanctions risk apart from reviewing regulatory landscape and issuance of internal policies.

Qualitative Disclosure (continued)

The function is staffed with qualified professionals. Trainings and workshops are conducted on periodic intervals to maintain and enhance compliance discipline across all facets of Bank

The Bank has established an independent IT Risk function under the CRO. The IT risk team proactively monitors the cyber threat landscape and implements controls to mitigate applicable risks. The IT Risk practice of the Bank has a 24x7x365 Security Operations Centre to monitor and respond to information security threats.

The Bank has adopted the Standardized approach for calculation of credit risk and market risk. For operational risk the group has adopted the Alternative Standardized Approach (ASA). The various risks considered in the computation of risk assets under Basel III are described below:

Credit risk

Credit risk is defined as the risk that the Group's customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the group to suffer a financial loss.

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

The Bank has centralized Credit Management functions each for Retail banking, Business banking and Wholesale banking lending businesses, independent from the Operations and Business departments. The Bank has implemented appropriate policies, procedures and systems separately for the Retail and Wholesale lending businesses to ensure credit exposure is taken prudently.

In case of Retail lending business, the credit risk is managed through appropriate front-end sales and credit underwriting processes, and back-end operational and collection processes. Appropriate Product programmes defining customer segments, underwriting standards and security requirement are rolled-out to ensure consistency in underwriting and on-boarding process. Retail credit portfolio is monitored centrally across products and customer segments. For Wholesale Banking and Business Banking exposures, credit risk is managed by appropriately identifying target market segment, structured credit approval process and robust post-disbursement monitoring and remedial processes.

The Board Credit Committee and Board Risk Committee oversees the credit management measures including Portfolio, sectorial and customer level review as also quality of assets and health of large borrower accounts and borrower groups. The executive level Management Credit Committee and Management Risk Committee reviews major credit portfolios, non-performing loans, accounts under watch, overdue and credit sanctions.

Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market.

Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprises the Divisional heads of Finance, Treasury, Risk, Operations, Wholesale Banking, Business Banking and Retail Banking. It meets on a regular basis to monitor and manage market risk, interest rate risk and Liquidity risk.

Investment Committee (IC) is chaired by Chief Executive Officer and comprises of MD-Treasury, Chief Financial Officer, Chief Risk Officer, Chief Credit Officer, Director - Risk and Director – Trading. The Committee meets on a regular basis to discuss the Investment Portfolio along with valuation changes due to changes in Interest Rates and Credit Spreads. Further it decides the Investment Strategy & Asset Allocation on an annual basis, and recommends further to the Board.

Market Risk and Treasury Middle Office functions operates within the Risk Management under the Chief Risk Officer and are responsible for day to day monitoring of Market risk exposures within Board approved Policies and Market Risk Appetite. The governance framework for Market Risk includes internal board approved Market Risk policy and actively tracked Market Risk Limits in line with extant regulations and internal policies. Risk is undertaken in the book within the Investment & Trading polices of the bank & overall Risk Appetite. Market Risk ensures that all limit breaches, concentration and other relevant risks are reported to Management and Board on a timely basis. Further, Bank has set up a hedging framework that elucidates how Market Risks arising from Currencies & Interest Rates are hedged at a Bank wide level.

The exposures to derivatives includes forward exchange contracts, Option contracts and Interest Rate Swaps which are entered to meet customer needs and covered back to back in the interbank market. Further Bank has executed some interest rate swaps and a Cross currency swap for economic hedging purposes.

The Group, has also executed some derivatives on proprietary books as well as FVTPL Bond Investments within the Board approved Risk Limits for trading.

Operational Risk

Operational Risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems or from external events. Bank endeavors to effectively identify, assess, monitor and mitigate Operational Risks through a robust and effective control environment across the organization.

The Operational Risk Management function is managed by Head of Operational Risk, Internal Controls and BCM reporting to the Chief Risk Officer. Bank has a formal Operational Risk Management (ORM) governance structure established under the aegis of Management Risk Committee and Board Risk Committee, which provides the strategic direction and oversight over ORM activities.

Operational Risk (continued)

The risk governance structure is designed to include three lines of defense signifying a clear division of responsibilities between the risk owners (the business, operations and support units), the control functions (Risk Management) and Independent Assurance by the Internal

Audit function for safeguarding the Bank's assets and reputation against potential operational risks arising from day-to-day business activities. The governance structure is described below:

- First Line of Defense - i.e. Business, Operations & Support Units
- Second Line of Defense - i.e. Risk Management
- Third Line of Defense - i.e. Internal Audit

Bank's Operational Risk Management Framework includes Product & Process Approval in line with Product Management Guideline, Risk & Control Self-Assessment Process (RCSA), Key Risk Indicators (KRI) and Internal Loss (OR Incidents) Management Process.

4. *Credit Risk - Quantitative disclosures*

a) Net credit exposure by geography:

Geographical risk concentration

At 31 December 2020 the Group had the following gross exposures based on geographical region.

	UAE	OECD	Others	Provision for credit loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Due from other banks, net	569,361	1,496,030	4,532,818	(35,818)	**6,562,391**
Loans and advances, net	30,557,438	175,180	1,468,294	(2,159,442)	**30,041,470**
Insurance contract assets, net	235,027	14,446	8,994	(54,708)	**203,759**
Customer acceptances	116,865	-	-	-	**116,865**
Investment securities measured at amortised cost	1,295,551	163,387	2,864,771	(22,045)	**4,301,664**
Investment securities measured at fair value	1,715,885	282,538	1,634,875	-	**3,633,298**
Total exposures	**34,490,127**	**2,131,581**	**10,509,752**	**(2,272,013)**	**44,859,447**

4. Credit Risk - Quantitative disclosures (continued)

b) Gross credit exposure by Industry:

The following table breaks down the Group's credit exposures categorised by industry as of 31 December 2020:

	On balance sheet items					
	Loans and advances	Investment securities	Due from other banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Agriculture, fishing & related activities	5,827	-	-	5,827	53	**5,880**
Crude oil, gas, mining & quarrying	3,762	-	-	3,762	150,619	**154,381**
Manufacturing	1,460,725	512,766	-	1,973,491	55,607	**2,029,098**
Electricity & water	3,420	644,979	-	648,399	177,930	**826,329**
Construction and real estate	2,775,966	639,431	-	3,415,397	246,341	**3,661,738**
Trading	3,844,667		-	3,844,667	1,155,470	**5,000,137**
Transport, storage & communication	1,417,023	507,265	-	1,924,288	46,450	**1,970,738**
Financial institutions	817,527	2,587,604	6,598,209	10,003,340	1,229,420	**11,232,760**
Services	3,638,331	635,267	-	4,273,598	586,148	**4,859,746**
Government	303,116	2,429,695	-	2,732,811	113,657	**2,846,468**
Retail and consumer banking	17,930,548	-	-	17,930,548	1,066,178	**18,996,726**
Total exposures	32,200,912	7,957,007	6,598,209	46,756,128	4,827,873	**51,584,001**
Provision for credit loss	(2,159,442)	(22,045)	(35,818)	(2,217,305)	(10,852)	**(2,228,157)**
Net exposures	**30,041,470**	**7,934,962**	**6,562,391**	**44,538,823**	**4,817,021**	**49,355,844**

4. Credit Risk - Quantitative disclosures (continued)

c] Gross credit exposure by residual contractual maturity:

On balance sheet items as at 31 December 2020

	Up to 3 months	3 – 12 Months	1 - 3 years	3 to 5 years	Over 5 years	Provision for Credit loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	5,120,285	350,000	-	-	-	-	5,470,285
Due from other banks	3,185,049	2,606,340	796,744	9,424	652	(35,818)	6,562,391
Loans and advances	6,562,088	4,255,161	8,003,257	4,409,460	8,970,946	(2,159,442)	30,041,470
Investment securities at fair value	673,279	626,279	603,862	629,940	1,099,938	-	3,633,298
Investment securities at amortised cost	513,572	194,564	1,158,294	1,020,135	1,437,144	(22,045)	4,301,664
Insurance contract assets and receivables	267,868	23,807	45,298	-	-	(54,708)	282,265
Customer acceptances	39,677	77,188	-	-	-		116,865
Goodwill and other intangible assets	-	-	-	-	166,386	-	166,386
Property and equipment, Right of use asset and other assets	953,892	11,610	16,430	75,556	1,140,496	-	2,197,984
Total	17,315,710	8,144,949	10,623,885	6,144,515	12,815,562	(2,272,013)	52,772,608

4. Credit Risk - Quantitative disclosures (continued)

c] Gross credit exposure by residual contractual maturity (continued)

Off-balance sheet items as at 31 December 2020

	No later than 1 year	1-5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000
Credit commitments	3,332,866	-	-	3,332,866
Letter of credits and guarantees	1,200,628	294,379	-	1,495,007
Total	4,533,494	294,379		4,827,873

5. *Currency risk*

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

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Group does run open positions within the Trading limits approved by the Board.

At 31 December 2020, the Group has below mentioned currency exposures:

	Net spot Position	Net forward Position	Net Position
	AED'000	AED'000	AED'000
US Dollars - USD	6,677,330	(4,056,104)	2,621,226
Euro - EUR	(251,262)	246,023	(5,239)
Pound Sterling - GBP	(117,227)	116,658	(569)
Saudi Riyal - SAR	(1,227,390)	998,409	(228,981)
Japanese Yen – JPY	521	-	521
Nigerian Nira - NGN	691,664	(590,770)	100,894
Gold - XAU	102,085	(102,362)	(277)
Egyptian Pound - EGP	185,681	(4,940)	180,741
Indian Rupee _ INR	31,047	3,612	34,659
Philippine Peso - PHP	7,683	-	7,683
Others	19,926	(275)	19,651
	6,120,058	**(3,389,749)**	**2,730,309**

The Group has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the Group has the largest net open position at 31 December 2020 All currency positions are within limits laid down by Board Risk Committee.

Impact of fluctuation in market rate on open currency position other than USD.

	2020 AED'000
Net open currency position non-USD	109,083
Impact of 1 % change in currency rate (+/-)	1,091

6. *Provisioning for expected credit loss – Qualitative disclosures*

- ***Measurement of ECL***

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

- Due from other banks;
- Debt investment securities carried at FVOCI and amortised cost;
- Loans and advances to customers;
- Insurance assets and receivables;
- Customer acceptances and other financial assets;
- Loan commitments; and
- Financial guarantees and contracts.

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's interest rate.

- ***Definition of default***

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

<u>Quantitative criteria</u>

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

6. *Provisioning for expected credit loss – Qualitative disclosures (continued)*

<u>Qualitative criteria:</u>

The bank classifies the loans as Non-performing account (NPA) when:

- Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
- Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).
- Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered.
- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down.
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original interest rate whether it is measured on an individual basis or a collective basis.

The Group employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key input would be the term structure of the following variables:

- Probability of default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These parameters are derived from the Group's internally developed statistical models or external data, and other historical data. These are adjusted to reflect forward-looking information.

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may vary from remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle like credit cards, overdraft balances, etc. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

6. *Provisioning for expected credit loss – Qualitative disclosures (continued)*

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as timing of coupon payments, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. Where this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share / equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.

6. *Provisioning for expected credit loss – Qualitative disclosures (continued)*

Modification of financial assets (continued)

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset.

The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in the de-recognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

De-recognition of Financial Assets

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in de-recognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for de-recognition are therefore not met. This also applies to certain securitisation transactions in which the Group retain a subordinated residual interest.

6. *Provisioning for expected credit loss – Qualitative disclosures (continued)*

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The Group categorises a retail loan or receivable for write off when a debtor fails to make contractual payments exceeding a certain number of days, and meets other pre-defined criteria as per bank's internal policy. As regards the non-retail loans, the write off of loans is done based on the individual assessment of these loans on a case to case basis. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions in the consolidated statement of financial position and the re-measurement is presented in provision for credit loss. The Group has not designated any financial guarantee contracts as at FVTPL.

Curing period

The Group continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage2) to 12 months ECL (Stage 1).

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

6. *Provisioning for expected credit loss – Qualitative disclosures (continued)*

Expected credit loss allowance

Summary of provision for credit loss and net movement on the financial instruments by category are as follows:

Particulars	1 January 2020	Net Change during the year	Other Movement	31 December 2020
	AED '000	AED '000	AED '000	AED '000
Due from other banks	29,080	6,738	-	**35,818**
Loans and Advances	1,711,565	1,699,534	(1,251,657)	**2,159,442**
Investment Securities - FVOCI	4,271	22,449	(3,800)	**22,920**
Investment Securities – Amortised cost	28,161	(6,116)	-	**22,045**
Insurance contract assets and receivables	38,637	16,739	(668)	**54,708**
Customer Acceptances	421	(246)	-	**175**
Off balance sheet items	10,717	135	-	**10,852**
Total	**1,822,852**	**1,739,233**	**(1,256,125)**	**2,305,960**

7. *Credit risk weighted assets – Quantitative disclosures*

	On and off balance sheet Gross outstanding	Credit Risk Mitigation (CRM) Exposure before CRM	CRM	After CRM	On and off balance sheet Net exposure after credit conversion factors	Risk weighted Assets
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
31 December 2020						
Claims on Sovereigns	7,566,264	7,566,264	-	7,566,264	7,511,169	1,429,226
Claims on Multilateral Development Banks	518,771	518,771	-	518,771	518,771	258,930
Claims on Banks	10,652,308	10,652,308	-	10,652,308	10,073,847	7,098,495
Claims on Corporates and Government Related Entities (GREs)	13,626,942	13,626,942	1,026,734	12,600,208	10,843,940	9,229,478
Claims included in the Regulatory Retail Portfolio	20,077,620	20,077,598	92,217	19,985,381	15,254,444	11,807,535
Claims Secured by Residential Property	5,928,926	5,928,874	54,336	5,874,538	5,408,689	2,642,178
Claims Secured by Commercial Real Estate	3,135,381	3,135,381	18,050	3,117,331	3,125,605	3,107,555
Past Due Loans	1,944,128	1,111,337	-	1,111,337	1,110,977	1,197,434
Other Assets	3,684,462	3,684,462	-	3,684,462	3,684,462	2,603,600
Total claims	**67,134,802**	**66,301,937**	**1,191,337**	**65,110,600**	**57,531,903**	**39,374,431**
Of which :						
Rated exposure		**19,326,517**				
Unrated exposure		**46,975,420**				

The rated exposure mainly pertains to financial institutions, interbank placements and investments. Majority of all other exposures are unrated.

The Group has used only those ECAI's (External Credit Assessment Institutions) which are approved by the Central Bank of UAE namely Moody's, Fitch and Standard & Poor's and Capital Intelligence.

8. *Credit risk mitigation:*

a) *Qualitative disclosure:*

The group manages, limits and controls concentration of credit risk wherever it is identified – in particular, to individual counterparties and groups, and to industries and countries. The group has Product Program Guides that set limits of exposure and lending criteria. The group also has credit limits that set out the lending and borrowing limits to/from other banks. Further mortgage loans, loan against investments, assets based finance and auto loans, which together represent a significant portion of loans and advances, are backed by collaterals.

Respective Business Heads and their teams undertake comprehensive analysis of all commercial loan applications submitted for approval, more precisely, about ownership & management, business & industry, financials, structure & collaterals. Chief Credit Officer and the team review the loan applications, and identify & measure the credit risks involved in such applications before the same is put up to Delegated Authorities for approval. Business and Credit Units monitor the portfolio on an on-going basis to maintain a performing portfolio.

The Group stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Credit Committee and the Board of Directors.

The exposure to any one borrower, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on an on-going basis.

The bank has a strong Collections & recovery team that handles the overdue & delinquent portfolio. Collection & recovery procedures are instituted based on the account ageing classification (i.e. bucket status).

b) *Quantitative disclosure:*

	Exposure	Risk Weighted Assets
	AED '000	AED '000
Gross exposure prior to Credit Risk Mitigation	66,301,937	40,321,518
Less: Value of eligible financial collateral	(1,191,337)	(947,087)
Net Exposures after Credit Risk Mitigation	**65,110,600**	**39,374,431**

The eligible financial collaterals above include cash, deposits and bonds.

9. *Market Risk:*

Capital requirement for Market risk under standardized approach:

	Risk weighted asset AED '000	Capital charge AED '000
Interest Rate Risk	475,045	49,880
Foreign Exchange Risk	340,591	35,762
Equity Risk	335,162	35,192
Commodity Risk	3,033	318
Options Risk	-	-
Total Market Risk	**1,153,831**	**121,152**

Capital charge for year ended 31 December 2020 has been calculated at 10.5%.

Equity risk:

As at 31 December 2020, the Group has exposures in Funds which are classified as trading positions.

Foreign exchange risk:

The Bank identifies foreign exchange rate risk as the risk to future cash-flows from adverse foreign exchange movements. This can have an impact on both the earnings and economic value of the Bank and as a consequence the Board seeks to manage these risks to ensure the achievement of its business objectives.

The Bank has Board approved limits on Foreign Currency positions, which are monitored on an ongoing basis, and hedging strategies are also used to ensure that positions are maintained within the limits.

The Bank follows the Short hand method as prescribed by CBAUE for computing capital charge.

Commodity Risk:

The Bank has provided hedging products to customers through commodity forwards and commodity swaps and the same are covered in the interbank market. The Bank has no trading positions in commodities. For the purposes of capital charge; the Bank follows the Simplified Approach as prescribed by CBUAE.

9. *Market Risk (continued)*

Interest rate risk:

Interest Rate risk arises on account of movement of Interest rates thereby impacting interest rates instruments in the Trading book. This includes FVTPL Bonds and Trading positions in Interest Rate Derivatives

For assessing the Capital requirements for Interest Rate Risk in the Trading Book (as a part of Market Risk Capital), Bank follows Maturity method for General Interest Rate Risk charge. Further, Bank applies a Specific Risk charge to account for Issuer Risk for FVTPL Bonds.

Interest rate risk in the banking book arises due to unfavourable moment in interest rates and mismatches of interest rate sensitive assets and interest rate sensitive liabilities, thereby impacting the Net Interest Income (NII) and the economic value of equity (EVE). This is monitored through the use of detailed re-pricing gap report and stress testing. Refer to Note number 39 of the audited financial statement for details of Interest rate risk.

Interest Rate Risk in Banking Book

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

	2020 **AED'000**	2019 AED'000
Fluctuation in interest rates by 25 bps	**23,788**	29,825

10. *Operational Risk:*

Bank follows Alternative Standardized Approach (ASA) for calculation of Operational Risk Capital.

The Group has a formal Operational Risk Governance structure. The Board and Management Risk Management Committees provide strategic direction and oversight on Operational Risk management processes.

Bank endeavours to monitor and minimise the Operational Risk exposure through Risk & Control Self-Assessment Process, Key Risk Indicators and recording and tracking of internal Operational Risk Incidents and losses.

The calculation of capital requirement for Operational Risk under Alternative Standardised Approach is a follows:

	Three year Average	M Factor	Beta Factor	Capital Charge	Capital charge (UAE)	RWA = Capital Charge x9.524*
	AED '000			AED '000	AED '000	AED '000
Trading and Sales	404,775	-	18%	72,860	95,628	910,744
Commercial Banking	19,280,789	0.035	15%	101,224	132,857	1,265,302
Retail Banking	22,200,113	0.035	12%	93,240	122,378	1,165,506
Operational Risk					**350,863**	**3,341,552**

- Total Risk weighted assets are determined by multiplying the Capital Charge for operational risk by 9.524 (i.e. the reciprocal of the minimum capital ratio of 10.5%) and adding the resulting figures to sum the risk weighted assets.

11. *Options risk:*

As of December 2020, the Bank has no exposure to options as part of the Trading Book.

Appendix 1

RAKBANK RAKislamic الخدمات المصرفية الإسلامية

لجنة الرقابة الشرعية الداخلية
Internal Sharia Supervision Committee

ANNUAL REPORT OF THE INTERNAL SHARI'AH SUPERVISION COMMITTEE OF THE ISLAMIC WINDOW OF THE NATIONAL BANK OF RAS AL KHAIMAH

Issued on: 31st January 2021

To: Shareholders of the The National Bank of Ras Al Khaimah (in relation to its Islamic window) (the "RAKIslamic")

Assalam Alaikum Wa Rahamtoolah Wa Barakatu,

Dear Respected Shareholders,

Pursuant to the requirements stipulated in the relevant laws, regulations and standards (the "**Regulatory Requirements**"), the Internal Shari'ah Supervision Committee of RAKislamic (the "**ISSC**") presents to you the ISSC's Annual Report regarding Shari'ah compliant business and operations of RAKislamic for the financial year ending on 31st December 2020 (the "**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:

(i) undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of RAKislamic; and the RAKislamic's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders (the "**RAKIslamic Activities**") and issue Shari'ah resolutions in this regard, and

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

2. **RESPONSIBILITY OF THE SENIOR MANAGEMENT**

The senior management is responsible for RAKislamic's compliance with the 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 (the "**Compliance with Islamic Shari'ah**") regarding the RAKislamic Activities, and the Board of Directors of Ras Al Khaimah Bank (the "**Board of Directors**") bears the ultimate responsibility in this regard.

3. **SHARI'AH STANDARDS**

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has 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 RAKislamic Activities without exception.

4. **WORKS UNDERTAKEN BY THE ISSC DURING THE FINANCIAL YEAR**

The ISSC undertook Shari'ah supervision of RAKislamic Activities through review of RAKislamic Activities, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. Works of the ISSC included the following:

(i) Convening four meetings during the year.

(ii) Providing fatwas, opinions and resolutions on matters presented to the ISSC in relation to the RAKislamic Activities.

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

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

(v) Supervision through internal Shari'ah control department and internal Shari'ah audit of RAKislamic Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.

(vi) Providing direction to relevant parties of RAKislamic to rectify (where possible) findings cited in the reports submitted by internal Shari'ah control department and internal Shari'ah audit.

(vii) Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.

(viii) Specifying the amount of Zakat payable with respect to the RAKislamic for the year ending 2020.

(ix) Communicating with the Board of Directors and its subcommittees, and the senior management of RAKislamic (as needed) concerning compliance of RAKislamic 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 RAKislamic is compliant with Islamic Shari'ah.

The assets and liabilities portfolio of RAKislamic was reviewed by the internal Shari'ah governance function and was found to be fully satisfactory.

5. **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 Directors of RAKislamic. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

6. **THE ISSC'S OPINION ON THE SHARI'AH COMPLIANCE STATUS OF RAKISLAMIC**

Based on the information and explanations that were provided to the ISSC with the aim of ascertaining RAKislamic's Compliance with the Islamic Shari'ah, the ISSC has unanimously concluded with a reasonable level of confidence that the RAKislamic Activities are in Compliance with the 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.

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

Muhammad Nazir Mian Chairman	Prof. Dr. Mohamad Akram Laldin Member

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