

## **REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2019



The National Bank of Ras Al-Khaimah (P.S.C.)

These audited financial statements are subject to approval of the Central bank of U.A.E. and adoption by shareholders at the annual general meeting.

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## **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 2019. Net Profit for the year amounted to AED 1,095.3 million, an increase of AED 177.7 million (19.4%) over the previous year. Total Assets stood at AED 57.1 billion, increasing by 8.4% on 2018. Gross Loans and Advances closed at AED 36.3 billion, up by 4.1% over the previous year. The Return on Average Assets ratio closed the year at 2.0% compared to 1.8% for the previous year and Return on Average Equity was 14.9%, compared to 13.5% in 2018.

### ***Financial performance***

The increase of AED 177.7 million in Net Profit was due to an increase of Net Interest Income, Net Income from Islamic Financing and non-interest income, a reduction in provisions for expected credit losses offset by an increase in Operating Expenses.

Gross Interest Income and Income from Islamic Financing increased by AED 201.9 million, which was offset by an increase in Interest Expense and Distributions to Depositors of AED 168.5 million, leading to a net increase to Net Interest Income and Net Income from Islamic Financing of AED 33.4 million. Interest income from conventional loans and investments increased by 3.2%, while interest costs on conventional deposits and borrowings rose by AED 88.9 million. Net income from Sharia-compliant financing increased by AED 24.4 million.

Non-Interest Income increased by AED 118.6 million to AED 1.2 billion. This was mainly due to an increase of AED 84.2 million in forex and derivative income compared to 2018. Investment Income increased by 22.7 million and Net Fees and commission also increased by 43.1 million. This was partially offset by a decrease in Gross insurance underwriting profit by AED 27.2 million

Operating Expenses increased by AED 82.1 million, up by 5.5% over the previous year. This was mainly due to an increase of AED 13.5 million in marketing expenses, AED 11.2 million in IT Related expenses, AED 12.7 million in communication expenses and nostro charges and an increase of AED 43.7 million in other operating expenses largely due to VAT. The Group's Cost to Revenue ratio increased marginally to 39.5% compared to 38.9% for the previous year.

Operating Profit before impairment losses increased by AED 69.8 million from 2018 and provisions for credit losses decreased by AED 107.9 million (7.6%) from the previous year. Total impairment provision for the year was AED 1.3 billion compared to AED 1.4 billion in 2018.

The Non-Performing Loans and Advances to Gross Loans and Advances ratio dropped to 4.0% from 4.2% in the previous year. Additionally, net credit losses to average loans and advances reduced to 3.7% in 2019 compared to 4.1% in 2018.

Total Assets rose by 8.4% to AED 57.1 billion compared to 2018. This was due to an increase in Gross Loans and Advances of AED 1.4 billion, lending to banks, which grew by AED 1.8 billion and an increase in investments of AED 0.9 billion. Wholesale Banking and Financial Institutions lending grew by 17.9%, up by AED 1.4 billion from the previous year. Retail banking's loan portfolio was up by AED 232.5 million and Business Banking's loan portfolio was down by AED 227 million compared to 2018.

Customer deposits grew by AED 2.7 billion (7.9%) to AED 36.8 billion compared to 2018. This growth came mainly from an increase of AED 1.9 billion in current accounts, AED 368 million in Savings Accounts and AED 459 million in Time Deposits.

## DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

### Financial performance (continued)

After taking into consideration the profit for 2019 and expected dividend, the Bank's Capital adequacy ratio as per Basel III was 16.8% at year-end, compared with 17.2% at the end of 2018. This level of capital provides the Bank with ample room for growth in 2020. The regulatory Eligible Liquid Asset Ratio at the end of the year was 12.9%, compared to 14.5% the previous year. The Advances to Stable Resources ratio stood at a comfortable 89.1% compared to 94.5% at the end of 2018.

### Ratings

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

Rating agency	Last update	Deposits	Outlook
Moody's	August 2019	Baa1/P-2	Stable
Fitch	August 2019	BBB+/F2	Stable
Capital Intelligence	August 2019	A-/A2	Stable

### Regulatory disclosure

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

### Developments in 2019

- Partnership agreement with Pine Labs to convert the 'point of sale' terminals at RAKBANK into a 'point to acquire and engage' customers by offering value-added services such as instant instalments, access to diverse rewards & loyalty programmes, top-ups, bill payments, instant discounts, campaign management, electronic-KYC, and more.
- Partnered with MI CAPITAL, a leading corporate finance and business advisory firm to offer Business Banking customers access to VAT and accounting advisory, VAT compliance tools, in-house accounting and remote accounting services.
- RAKBANK priced a 5-year USD 500 million bond issuance.
- Launch of Mini-Gold product a result of MoU signed with DGCX to develop bullion products.
- 5-year partnership with Coca-Cola Arena to facilitate seamless transactions as a Founding Partner and Official Retail Bank
- RAKBANK provided access to all digital wallets – including Google PayTM, Fitbit Pay, Garmin Pay, in addition to the current digital wallet solutions on hand such as Samsung Pay and Apple Pay
- RAKBANK partnered with CRIF GULF DWC LLC (Dun & Bradstreet) to offer SMEs Business Information, Risk and Compliance solutions
- Multi-year agreement designating RAKBANK as exclusive banking partner of Dubai Festivals and Retail Establishment's retail calendar
- RAKBANK went live as a Trade Member on Dubai Gold and Commodities Exchange (DGCX).

## **DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)**

### ***Developments in 2019 (continued)***

- Launch of SMEsouk, providing small businesses via a digital community platform with non-banking value-added services
- RAKBANK partnered with Principal Portfolio Strategies to produce periodic investment publications to update its Wealth Management customers of current investment market conditions, asset class performance and investment outlook.
- Launch of RAK Foodie - mobile app with discounts and offers at over 2,000 outlets in the UAE
- Introduction of Skiplly app for online payments with any bank card for school fees, excursions, uniforms and other school expenses
- Completion of a strategic offshoring programme in full compliance with CBUAE guidelines on outsourcing.
- Agreement signed with Emirates Development Bank for AED 100 million SME credit guarantee scheme
- Agreement signed with Etihad Credit Insurance (ECI), the UAE Federal export credit company, to assist local SMEs in accessing international markets via a number of financial services and educational tools.
- Launch of Simplify Commerce scheme for SME customers in partnership with Mastercard
- Launch of RAK Starter zero balance account for entrepreneurs and start-ups

### ***Recognition in 2019***

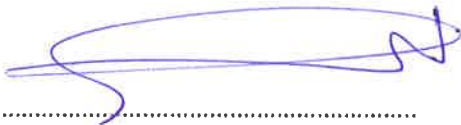
- Best Branch Digitisation by the Asian Banker's Financial Technology Innovation Awards
- HR / L&D Team of the year by CIPD
- Best SME Customer Service Provider UAE 2019 at International Business Magazine Award 2019
- Best Process Automation Initiative Awards – Asian Banker
- Mobile Social category for 'My RAK Campaign' - MMA Smarties MENA Awards
- Best Internal Use of Digital - IT ChatBot - Gulf Customer Experience Awards
- Most Effective Customer Experience in Social Media – Marketing – 'Football for All' campaign - Gulf Customer Experience Awards
- Employee Empowerment - HR - Disrupt or be Disrupted program - Gulf Customer Experience Awards
- Best website for 2018 - Ethos Customer Happiness Seminar & Awards
- Best Digital Banking - Ethos Customer Happiness Seminar & Awards
- Technology & Smart Technology - SOC orchestration - International Business Excellence Awards
- 3rd HRD Awards in the Banking & Financial Sector – From Emirates Institute for Banking and Financial Studies (EIBFS)
- Wholesale Banking Group awarded - New Toll Free Collection Mandate by RAK Department of Public Services
- Best Digital Initiative in HR - CIPD Middle East people Awards
- L&D Best Recruitment & Talent Strategy - CIPD Middle East people Awards
- Data Analytics - Digital Transformation award by the Asian Banker
- Best SME Bank Award by The Islamic Business and Finance

## **DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)**

### ***Outlook for 2020***

Despite ongoing regional and global geopolitical risk and challenges with Trade agreements we expect the UAE banking sector to remain stable in 2020. Whilst we expect loan growth to remain relatively subdued we believe we will see some further improvement in the operating environment especially as the activities relating to EXPO 2020 gain increasing traction. UAE Banks generally are well capitalised and the market remains flush with domestic liquidity ensuring the market will be resilient to any external factors that may prevail.

At RAKBANK, whilst we continue our journey of diversification, we remain as always very committed to the UAE SME market where we are a clear market leader. We also intend to continue developing our growing corporate business and engagement with financial institutions through capitalizing on selective syndication deals, trade finance and corporate loans to diversify our revenue streams. We also believe we will see strong results from our revitalised personal banking franchise. The Bank's funding cost will also be managed by continued efforts to grow low cost customer deposits across segments, particularly with on-going focus on retail and SME customers. This is expected to facilitate revenue growth over and above our solid result in 2019. Operating cost will be managed with streamlining of non-value add activities and legacy structures and seeing the full year benefit of our offshoring program. Moreover, we will intensify our commitment to the digital transformation of all aspects of product development, sales and service channels as well as back-end operations. The objective of these transformational initiatives is to facilitate more efficient and effective service delivery of the Bank's offerings with scope to better capitalize on future business opportunities. Asset quality is expected to remain stable and continue to improve gradually as we see ongoing improvement through our strong risk management practices and proactive governance in managing customer credit profiles. All things considered, we expect RAKBANK to improve the profitability and other key metrics in 2020.



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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

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### 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 2019, 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 2019;
- 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 a summary of significant accounting policies.

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### 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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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.

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### 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.

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Douglas O'Mahony, Rami Sarhan, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

## 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
<p><b>Measurement of Expected Credit Losses</b></p> <p>The Group applies ECL on all its financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments.</p> <p>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.</p>	<p>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 2019:</p> <ul style="list-style-type: none"> <li>➤ We tested the completeness and accuracy of the data used in the calculation of ECL.</li> <li>➤ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria.</li> <li>➤ We involved our internal specialists to assess the following areas: <ul style="list-style-type: none"> <li>• Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9.</li> <li>• 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 instruments.</li> <li>• Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.</li> </ul> </li> </ul>



## 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
<p>For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral.</p> <p>The Group's impairment policy under IFRS 9 is presented in Note 3 to the consolidated financial statements.</p> <p>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.</p>	<p>➤ For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral.</p> <p>➤ 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.</p> <p>➤ We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9. We have also ensured completeness and accuracy of the disclosures by verifying the information to accounting records.</p> <p>➤</p>

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

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### 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 Board of Directors' report prior to the date of this auditor's report and the remaining information of the annual report is expected to be made available to us after that date.

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

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### 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)

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### 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, related safeguards.



## 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 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 financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and
- (vii) note 45 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2019.

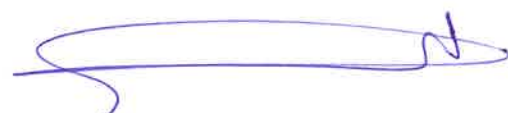
Further, as required by the Article 114 of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers  
5 February 2020

Douglas O'Mahony  
Registered Auditor Number 834  
Place: Dubai, United Arab Emirates

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Notes	2019 AED'000	2018 AED'000 (Restated)
<b>ASSETS</b>			
Cash and balances with UAE Central Bank	4	4,785,504	4,947,996
Due from other banks, net	5	6,593,233	4,755,542
Loans and advances, net	6	34,550,563	32,860,662
Investment securities, net	7	8,141,433	7,189,133
Insurance contract assets and receivables, net	8	440,481	400,439
Customer acceptances		424,265	561,704
Other assets	9	1,009,125	932,099
Property and equipment	11	831,630	859,942
Right-of-use assets	36	176,939	-
Goodwill and other intangible assets	10	166,386	167,723
<b>Total assets</b>		<b>57,119,559</b>	<b>52,675,240</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to other banks	12	4,977,055	4,381,462
Deposits from customers	13	36,826,360	34,139,784
Customer acceptances		424,265	561,704
Debt securities issued and other long term borrowings	14	4,888,881	4,826,105
Insurance contract liabilities and payables	15	556,374	507,938
Other liabilities	16	1,453,357	1,131,442
Lease liabilities	37	151,710	-
<b>Total liabilities</b>		<b>49,278,002</b>	<b>45,548,435</b>
<b>Equity</b>			
Share capital	17	1,676,245	1,676,245
Legal reserve	18	950,431	950,431
Retained earnings		2,015,353	1,453,575
Other reserves	19	3,161,700	3,007,575
<b>Equity attributable to owners of the Bank</b>		<b>7,803,729</b>	<b>7,087,826</b>
Non-controlling interests	20	37,828	38,979
<b>Total equity</b>		<b>7,841,557</b>	<b>7,126,805</b>
<b>Total Liabilities and Equity</b>		<b>57,119,559</b>	<b>52,675,240</b>



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Mohamed Omran Alshamsi  
Chairman



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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 2019

	Notes	2019 AED'000	2018 AED'000
Interest income	21	3,146,747	3,048,835
Interest expense	21	(680,323)	(591,412)
<b>Net interest income</b>		<b>2,466,424</b>	<b>2,457,423</b>
Income from Islamic financing	22	511,023	407,033
Distribution to depositors	22	(175,373)	(95,754)
<b>Net income from Islamic financing</b>		<b>335,650</b>	<b>311,279</b>
<b>Net interest income and net income from Islamic financing</b>		<b>2,802,074</b>	<b>2,768,702</b>
Net fees and commission income	23	772,760	729,698
Foreign exchange & derivative income		239,453	155,221
Gross insurance underwriting profit	24	30,960	58,154
Investment income	25	49,462	26,725
Other operating income		84,206	88,486
<b>Non-interest income</b>		<b>1,176,841</b>	<b>1,058,284</b>
<b>Operating income</b>		<b>3,978,915</b>	<b>3,826,986</b>
General and administrative expenses	26	(1,570,435)	(1,488,320)
<b>Operating profit before provision for credit loss</b>		<b>2,408,480</b>	<b>2,338,666</b>
Provision for credit loss, net	30	(1,313,218)	(1,421,146)
<b>Profit for the year</b>		<b>1,095,262</b>	<b>917,520</b>
<b>Attributed to:</b>			
Owners of the Bank		1,095,076	912,626
Non-controlling interests		186	4,894
<b>Profit for the year</b>		<b>1,095,262</b>	<b>917,520</b>
<b>Earnings per share:</b>			
Basic and diluted in AED	27	0.65	0.54

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

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

	2019 AED'000	2018 AED'000
Profit for the year	1,095,262	917,520
<b>Other comprehensive income/(loss):</b>		
(Loss)/gain on sale of equity investments held at fair value through other comprehensive income	(11,162)	-
<i>Items that will not be reclassified subsequently to profit or loss</i> Changes in fair value of financial assets measured at fair value through other comprehensive income, net (equity instruments)	26,175	(25,098)
<i>Items that may be reclassified subsequently to profit or loss</i> Changes in fair value of financial assets measured at fair value through other comprehensive income, net (debt instruments)	98,701	(111,079)
Net changes in fair value arising from cash flow hedges	15,607	(987)
<b>Other comprehensive income / (loss) for the year</b>	<b>129,321</b>	<b>(137,164)</b>
<b>Total comprehensive income for the year</b>	<b>1,224,583</b>	<b>780,356</b>
<b>Attributed to:</b>		
Owners of the Bank	1,223,449	776,116
Non-controlling interests	1,134	4,240
<b>Total comprehensive income for the year</b>	<b>1,224,583</b>	<b>780,356</b>

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

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

	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 (Restated)	Total AED'000 (Restated)
Balance at 31 December 2017	1,676,245	950,431	2,101,295	3,089,364	7,817,335	51,109	7,868,444
Impact of adopting IFRS 9 1 January 2018	-	-	(976,181)	4,743	(971,438)	(6,054)	(977,492)
Balance as at 1 January 2018 restated	1,676,245	950,431	1,125,114	3,094,107	6,845,897	45,055	6,890,952
Profit for the year	-	-	912,626	-	912,626	4,894	917,520
Other comprehensive loss	-	-	-	(136,510)	(136,510)	(654)	(137,164)
Total comprehensive income for the year	-	-	912,626	(136,510)	776,116	4,240	780,356
Transfer to regulatory impairment reserve - specific	-	-	(49,978)	49,978	-	-	-
Dividend paid	-	-	(502,873)	-	(502,873)	(3,427)	(506,300)
Directors' remuneration	-	-	(5,033)	-	(5,033)	-	(5,033)
At 31 December 2018	1,676,245	950,431	1,479,856	3,007,575	7,114,107	45,868	7,159,975
Balance at 1 January 2019	1,676,245	950,431	1,479,856	3,007,575	7,114,107	45,868	7,159,975
Prior year adjustment related to insurance business	-	-	(26,281)	-	(26,281)	(6,889)	(33,170)
Restated opening 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

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



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

	2019 AED'000	2018 AED'000
<b><i>Cash flows from operating activities</i></b>		
Profit for the year	1,095,262	917,520
<b><i>Adjustments:</i></b>		
Provision for credit loss, net	1,313,218	1,421,146
Depreciation and impairment of property and equipment	112,560	101,619
Amortisation of intangible assets	1,337	3,209
Depreciation of Right-of-use assets	37,919	-
Interest cost on lease liability	7,520	-
Amortisation of discount/premium relating to investments securities	(122,641)	(56,683)
Gain on disposal of property and equipments	(83)	-
Amortisation of (discount )/ Premium of debit securities	15,705	(68,838)
Net changes in fair value arising from hedge and forex revaluation	(110,214)	(17,824)
Impairment provision on investments held at FVOCI transferred to fair value reserve	(9,434)	-
Gain on sale of investment securities held through other comprehensive income	(14,488)	(398)
Gain on sale of investment securities held through profit or loss	(19,390)	(9,926)
Fair value (gain)/ loss on FVTPL investment securities	(382)	1,681
<b>Changes in operating assets and liabilities</b>	<b>2,306,889</b>	<b>2,291,506</b>
Decrease/(increase) in deposits with the UAE Central Bank	2,592	(120,472)
Increase in due from other banks with original maturities of three months or over	(2,194,999)	(903,907)
Increase in loans and advances, net	(3,000,171)	(2,925,138)
Increase/(decrease) in insurance contract assets and receivables	(42,098)	13,885
Decrease/(increase) in other assets and customer acceptances	30,929	(797,105)
Increase in due to other banks	595,593	1,617,263
Increase in deposits from customers	2,686,576	1,963,910
Increase/(decrease) in insurance contract liabilities and payables	48,436	(5,596)
Increase in other liabilities, goodwill & intangibles and customer acceptances	196,808	614,020
<b>Net cash generated from operating activities</b>	<b>630,555</b>	<b>1,748,366</b>
<b><i>Cash flows from investing activities</i></b>		
Purchase of investment securities	(6,688,692)	(3,967,772)
Purchase of property and equipment	(84,256)	(86,294)
Proceeds from maturity/disposal of investment securities	6,126,980	2,261,813
Proceeds from disposal of property and equipment	89	73
<b>Net cash used in investing activities</b>	<b>(645,879)</b>	<b>(1,792,180)</b>
<b><i>Cash flows from financing activities</i></b>		
Dividend paid	(505,158)	(506,300)
Directors' remuneration	(4,673)	(5,033)
Payment of rental on lease contracts	(41,184)	-
Payment of debt security and other long term borrowings	(2,562,803)	-
Issue of debt security and other long term borrowings	2,609,874	725,641
<b>Net cash (used in)/generated from financing activities</b>	<b>(503,944)</b>	<b>214,308</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(519,268)</b>	<b>170,494</b>
Cash and cash equivalents, beginning of the year	2,422,692	2,252,198
Cash and cash equivalents, end of the year (Note 33)	<b>1,903,424</b>	<b>2,422,692</b>

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

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

### 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 thirty six branches in the UAE.

At 31 December 2019, 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 2019 comprises the Bank and following direct subsidiaries:

<i><b>Subsidiary</b></i>	<i><b>Authorized &amp; issued capital</b></i>	<i><b>Ownership interest</b></i>	<i><b>Incorporated</b></i>	<i><b>Principal Activities</b></i>
Ras Al Khaimah National Insurance Company PSC (“RAKNIC”)	AED 115.5 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.

On 19 April 2017, the shareholders at the annual general meeting resolved to liquidate RAK Islamic Finance Company Pvt. J.S.C. fully owned subsidiary of the Bank and liquidation was completed during second quarter of 2019.

## **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 IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.
- IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances.
- Amendments to IFRS 9 Financial Instruments: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
- Amendments to IAS 28 Investment in Associates and Joint Ventures relating to long-term interests in associates and joint ventures: These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Amendments to IAS 19 Employee Benefits relating to Plan Amendment, Curtailment or Settlement: This amendment mentions that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(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:

<i><b>New and revised IFRSs</b></i>	<i><b>Effective for annual periods beginning on or after</b></i>
IFRS 17 Insurance Contracts requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2022.	January 1, 2022
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 17, may have no material impact on the consolidated financial statements of the Group in the year of initial application. The Group is in the process of assessing the impact of IFRS 17.

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 Leases.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 2.3. The other standards did not have any impact on the Group’s accounting policies and did not require retrospective adjustments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

**2.3 New and revised IFRSs applied with material effect on the consolidated financial statements**

This note explains the impact of the adoption of IFRS 16 Leases on the Group’s financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The re-measurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	<b>AED’000</b>
Operating lease commitments disclosed as at 31 December 2018	-
Discounted using the lessee’s incremental borrowing rate of at the date of initial Application	<b>195,885</b>
Add: finance lease liabilities recognised as at 31 December 2018	-
(Less): short-term leases recognised on a straight-line basis as expense	-
(Less): low-value leases recognised on a straight-line basis as expense	-
(Less): contracts reassessed as service agreements	-
Add/(less): adjustments as a result of a different treatment of extension and termination options	-
<b>Lease liability recognised as at 1 January 2019</b>	<b>195,885</b>
Of which are:	
Current lease liabilities	<b>39,468</b>
Non-current lease liabilities	<b>156,417</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

**2.3 New and revised IFRSs applied with material effect on the consolidated financial statements (continued)**

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets at 1 January 2019 relate to the following types of assets:

	<b>AED’000</b>
Properties	225,191
Equipment	-
Motor Vehicles	-
<b>Total right-of-use assets</b>	<b>225,191</b>

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by AED 225.19 million
- Prepayments – decrease by AED 29.3 million
- Lease liabilities – increase by AED 195.89 million

**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 are prepared under the historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

**(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.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 3. Significant accounting policies (continued)

#### *(b) Consolidation (continued)*

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

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

**3. Significant accounting policies (continued)**

***(b) Consolidation (continued)***

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.

***(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 2019**  
**(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 2019 (continued)

### 3. Significant accounting policies (continued)

#### *(d) Business combination and goodwill (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 2019**  
**(continued)**

**3. Significant accounting policies (continued)**

***(d) Business combination and 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:

**3. Significant accounting policies (continued)**

***(e) Classification of financial assets and 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.

**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 2019**  
**(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 2019**  
**(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 2019 (continued)

### 3. Significant accounting policies (continued)

#### *(g) Impairment (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 2019 (continued)

### 3. Significant accounting policies (continued)

#### *(g) Impairment (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 2019  
(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 unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

**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 derecognition, 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.

**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 derecognition 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 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, 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.

**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 remeasurement 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.

### **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 FVTOCI 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 FVTOCI.

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 FVTOCI, 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 FVTOCI, 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.

**3. Significant accounting policies (continued)**

**(l) Derivative financial instruments (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 2019**  
**(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:

	<i>Years</i>
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 2019**  
**(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 2019 (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 2019 (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 2019**  
**(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 2019**  
**(continued)**

**3. Significant accounting policies (continued)**

**(z) Insurance contracts (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 2019 (continued)

### 3. Significant accounting policies (continued)

#### (z) Insurance contracts (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 inception 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 2019  
(continued)**

**3. Significant accounting policies (continued)**

***(z) Insurance contracts (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 2019 (continued)**

### **3 Significant accounting policies (continued)**

#### **(aa) Significant accounting policies introduced on adoption of IFRS 16**

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The group leases various branches, offices and ATM premises. Rental contracts are typically made for fixed periods of 1 year to 5 years but may have extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019  
(continued)**

**3. Significant accounting policies (continued)**

***(aa) Significant accounting policies introduced on adoption of IFRS 16 (continued)***

*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 2019**  
**(continued)**

**4. Cash and balances with UAE Central Bank**

	<b>2019</b>	<b>2018</b>
	<b>AED'000</b>	<b>AED'000</b>
Cash in hand	<b>867,233</b>	979,697
Balances with the UAE Central Bank	<b>279,364</b>	326,800
Certificates of deposit with the UAE Central Bank	<b>400,000</b>	550,000
Statutory deposit with the UAE Central Bank	<b>3,238,907</b>	3,091,499
	<b>4,785,504</b>	4,947,996

Statutory deposits maintained with the UAE Central Bank represent deposits at stipulated percentages of the Group's demand, savings, time and other deposits. These are only available for day-to-day operations under certain specified conditions and cannot be withdrawn without the Central Bank's prior approval.

Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate of 1.85% to 2.40% (2018: 2.25% to 2.35%) per annum.

**5. Due from other banks, net**

	<b>2019</b>	<b>2018</b>
	<b>AED'000</b>	<b>AED'000</b>
Placements with other banks	<b>447,445</b>	563,076
Demand deposits	<b>455,628</b>	714,553
Banker's acceptances	<b>2,812,694</b>	2,012,723
Syndicated loans	<b>2,845,259</b>	1,474,788
Other	<b>61,287</b>	21,542
Total due from other banks	<b>6,622,313</b>	4,786,682
Provision for credit loss	<b>(29,080)</b>	(31,140)
Due from other banks, net	<b>6,593,233</b>	4,755,542

*The below represents deposits and balances due from:*

	<b>2019</b>	<b>2018</b>
	<b>AED'000</b>	<b>AED'000</b>
Banks in UAE	<b>478,977</b>	715,691
Banks outside UAE	<b>6,143,336</b>	4,070,991
Total due from other banks	<b>6,622,313</b>	4,786,682

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**6. Loans and advances, net**

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
<b><i>Loans and advances:</i></b>		
Retail banking loans	<b>18,715,661</b>	18,483,144
Wholesale banking loans	<b>9,392,408</b>	7,963,190
Business banking loans	<b>8,154,059</b>	8,380,940
Total loans and advances [Note 6(b)]	<b>36,262,128</b>	34,827,274
Provision for credit loss [Note 6(c)]	<b>(1,711,565)</b>	(1,966,612)
<b>Net loans and advances</b>	<b>34,550,563</b>	32,860,662
<b><i>Analysis of loans and advances:</i></b>		
Personal loans	<b>7,222,957</b>	7,057,161
Mortgage loans	<b>5,380,041</b>	4,744,304
Credit cards	<b>3,120,286</b>	3,215,481
Auto loans	<b>868,125</b>	1,595,257
RAK Business loans	<b>4,099,197</b>	4,413,098
Other Business banking loans	<b>4,054,862</b>	3,967,842
Wholesale banking loans	<b>9,392,408</b>	7,963,190
Other retail loans	<b>2,124,252</b>	1,870,941
<b>Total loans and advances</b>	<b>36,262,128</b>	34,827,274
<b><i>Movement in provision for credit losses</i></b>		
Balance at the beginning of the year	<b>1,966,612</b>	995,171
Impact of adoption of IFRS 9	-	912,475
Impairment allowance for the year [Note 6(d)]	<b>1,399,022</b>	1,507,990
Written-off during the year	<b>(1,654,069)</b>	(1,449,024)
<b>Balance at the end of the year</b>	<b>1,711,565</b>	1,966,612

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**6 Loans and advances, net (continued)**

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

	2019 AED'000	2018 AED'000
Impairment allowance for the year	1,399,022	1,507,990
Net recovery during the year	(88,752)	(115,796)
	<b>1,310,270</b>	<b>1,392,194</b>

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:

	2019 AED'000	2018 AED'000
<b><i>Islamic financing assets</i></b>		
Islamic retail financing assets	3,508,781	3,347,024
Islamic business banking assets	2,043,967	1,432,433
Islamic wholesale banking assets	1,083,011	722,012
Total Islamic financing assets	<b>6,635,759</b>	<b>5,501,469</b>
Provision for impairment	<b>(288,385)</b>	<b>(253,145)</b>
	<b>6,347,374</b>	<b>5,248,324</b>

***Analysis of Islamic financing assets***

Islamic Salam personal finance	2,390,269	2,166,272
Islamic Auto Murabaha	160,162	360,579
Islamic business banking finance	2,043,967	1,432,433
Islamic Ijara Property Finance	869,109	711,058
Murabaha Islamic credit cards	86,731	107,533
Islamic wholesale banking	1,083,011	722,012
Islamic finance – other	2,510	1,582
	<b>6,635,759</b>	<b>5,501,469</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**7 Investment securities, net**

	<b>2019</b>	2018
	<b>AED'000</b>	AED'000
<b><i>Investments</i></b>		
<b><i>Securities at fair value through other comprehensive income (FVOCI)</i></b>		
Quoted equity securities	<b>161,776</b>	210,924
Unquoted equity securities	<b>2,612</b>	2,612
Quoted debt securities*	<b>2,453,870</b>	2,196,564
	<b>2,618,258</b>	2,410,100
<b><i>Securities at fair value through profit or loss (FVPL)</i></b>		
Quoted funds	<b>37,641</b>	22,964
Unquoted funds	<b>42,083</b>	38,004
Quoted debt securities	<b>257,418</b>	-
	<b>337,142</b>	60,968
<b><i>Securities held at amortized cost</i></b>		
Quoted debt securities*	<b>4,749,913</b>	4,417,540
Unquoted debt securities	<b>464,386</b>	338,550
	<b>5,214,299</b>	4,756,090
<b>Total investment securities</b>	<b>8,169,699</b>	7,227,158
Provision for credit loss	<b>(28,266)</b>	(38,025)
<b>Net investment securities</b>	<b>8,141,433</b>	7,189,133

\*As at 31 December 2019, quoted debt securities with book value of AED 1,637 million (31 December 2018: AED 1,549 million) have been given as collateral against repo borrowings of AED 1,594 million (31 December 2018: AED 1,377 million) [Note 12]. These repos have an average maturity of 2 to 3 months.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**7. Investment securities, net (continued)**

	2019 AED'000	2018 AED'000
<i>The composition of the investment portfolio by category is as follows:</i>		
Federal and local Government - UAE	441,515	497,210
Government related entity - UAE	1,088,673	1,065,897
Government - GCC	1,165,760	1,304,226
Government - other	1,528,764	944,621
Banks and financial institutions - UAE	713,749	536,479
Banks and financial institutions - GCC	244,607	171,666
Banks and financial institutions - other	1,265,947	1,015,293
Public limited companies - UAE	458,536	564,022
Public limited companies - GCC	294,522	269,111
Public limited companies - other	723,514	584,129
<b>Total debt securities</b>	<b>7,925,587</b>	<b>6,952,654</b>
Quoted equity securities	161,776	210,924
Quoted funds	37,641	22,964
Unquoted funds	42,083	38,004
Unquoted equity securities	2,612	2,612
<b>Total investment securities</b>	<b>8,169,699</b>	<b>7,227,158</b>

**c) Movement in investment securities at**

	FVOCI AED'000	FVPL AED'000	Amortized Cost AED'000	Total AED'000
<b>At 1 January 2019</b>	<b>2,410,100</b>	<b>60,968</b>	<b>4,756,090</b>	<b>7,227,158</b>
Purchases	1,055,030	2,345,714	3,287,948	6,688,692
Proceeds from disposal/maturities	(1,015,134)	(2,089,312)	(3,022,534)	(6,126,980)
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
<b>At 31 December 2019</b>	<b>2,618,258</b>	<b>337,142</b>	<b>5,214,299</b>	<b>8,169,699</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**7. Investment securities, net (continued)**

**c) Movement in investment securities (continued)**

	<b>FVOCI AED'000</b>	<b>FVPL AED'000</b>	<b>Amorized Cost AED'000</b>	<b>Total AED'000</b>
At 1 January 2018	5,564,475	4,274	-	5,568,749
Purchases	589,175	495,022	2,883,575	3,967,772
Reclassification from FVOCI to amortized cost	(3,447,430)	-	3,452,907	5,477
Transfers	(65,192)	65,192	-	-
Proceeds from disposal/maturities	(106,948)	(511,765)	(1,643,100)	(2,261,813)
Net changes in fair value due to revaluation	(136,177)	-	-	(136,177)
Net changes in fair value due to hedge and forex	19,590	-	(1,766)	17,824
Net changes in fair value through profit or loss	-	(1,681)	-	(1,681)
Amortization of premium/discount	(7,791)	-	64,474	56,683
Profit on sale	398	9,926	-	10,324
At 31 December 2018	<u>2,410,100</u>	<u>60,968</u>	<u>4,756,090</u>	<u>7,227,158</u>

**8. Insurance contract assets and receivables, net**

	<b>2019 AED'000</b>	<b>2018 AED'000</b>
<b>Reinsurance contract assets</b>		
Claims reported unsettled	<b>69,938</b>	84,016
Claims incurred but not reported	<b>40,051</b>	29,758
Mathematical reserve	<b>1,119</b>	-
Deferred reinsurance premium and commission	<b>105,048</b>	95,771
<b>Total reinsurance contract assets</b>	<b>216,156</b>	209,545
<b>Insurance related receivables</b>		
Premium receivables	<b>198,447</b>	217,797
Reinsurance	<b>64,483</b>	10,544
Insurance agents and brokers	<b>432</b>	788
Gross insurance related receivables	<b>263,362</b>	229,129
<b>Insurance contract assets and receivables</b>	<b>479,518</b>	438,674
Provision for credit loss	<b>(38,637)</b>	(36,345)
Provision others	<b>(400)</b>	(1,890)
Total provisions doubtful receivables	<b>(39,037)</b>	(38,235)
<b>Insurance contract assets and receivables, net</b>	<b>440,481</b>	400,439

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**9. Other assets**

	2019 AED'000	2018 AED'000
Interest receivable	322,003	279,424
Profit receivable on Islamic financing assets	63,618	60,814
Prepayments and deposits	48,231	87,313
Foreign exchange and other derivative contracts (Note 32)	338,403	57,505
Insurance related receivables and assets	42,312	47,488
Gold on hand	33,069	5,266
Islamic profit paid in advance	18,977	23,677
Other	142,512	370,612
	<b>1,009,125</b>	<b>932,099</b>

**10. Goodwill and other intangible assets**

	Goodwill including insurance license AED'000	Intangibles- customer relationship AED'000	Goodwill and other intangible AED'000
<b>Cost</b>			
At 1 January 2018	166,386	12,835	179,221
At 31 December 2018	166,386	12,835	179,221
<b>At 31 December 2019</b>	<b>166,386</b>	<b>12,835</b>	<b>179,221</b>
<b>Accumulated amortization</b>			
At 1 January 2018	-	(8,289)	(8,289)
Charge for the year		(3,209)	(3,209)
At 31 December 2018	-	(11,498)	(11,498)
<b>Charge for the year</b>	-	<b>(1,337)</b>	<b>(1,337)</b>
<b>At 31 December 2019</b>	-	<b>(12,835)</b>	<b>(12,835)</b>
<b>Net book value</b>			
<b>At 31 December 2019</b>	<b>166,386</b>	-	<b>166,386</b>
At 31 December 2018	166,386	1,337	167,723

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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(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
<b>Cost</b>					
At 31 December 2017	710,673	108,436	959,944	26,948	1,806,001
Additions	4,521	-	9,503	72,270	86,294
Transfers	2,145	5,408	66,145	(73,698)	-
Disposals	-	-	(4,565)	-	(4,565)
At 31 December 2018	<b>717,339</b>	<b>113,844</b>	<b>1,031,027</b>	<b>25,520</b>	<b>1,887,730</b>
Additions	-	-	3,334	80,922	84,256
Transfers	2,885	1,865	61,941	(66,691)	-
Disposals	-	-	(37,071)	-	(37,071)
<b>At 31 December 2019</b>	<b>720,224</b>	<b>115,709</b>	<b>1,059,231</b>	<b>39,751</b>	<b>1,934,915</b>
<b>Accumulated depreciation and impairment</b>					
At 31 December 2017	189,456	97,438	643,767	-	930,661
Charge for the year	23,813	4,896	71,527	-	100,236
Disposals	-	-	(4,492)	-	(4,492)
Impairment charge	1,383	-	-	-	1,383
At 31 December 2018	<b>214,652</b>	<b>102,334</b>	<b>710,802</b>	-	<b>1,027,788</b>
Charge for the year	23,356	4,411	84,793	-	112,560
Disposals	-	-	-	-	-
Write off	-	-	(37,063)	-	(37,063)
<b>At 31 December 2019</b>	<b>238,008</b>	<b>106,745</b>	<b>758,532</b>	-	<b>1,103,285</b>
<b>Net book value</b>					
<b>At 31 December 2019</b>	<b>482,216</b>	<b>8,964</b>	<b>300,699</b>	<b>39,751</b>	<b>831,630</b>
At 31 December 2018	502,687	11,510	320,225	25,520	859,942

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 2019**  
**(continued)**

**12. Due to other banks**

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

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Term borrowings	<b>3,306,567</b>	3,000,065
Repurchase agreements (Note 7)	<b>1,593,659</b>	1,377,152
Demand deposits	<b>76,829</b>	4,245
	<b>4,977,055</b>	<b>4,381,462</b>

Reconciliation of liabilities arising from term borrowing

	<b>1 January</b> <b>2019</b> <b>AED'000</b>	<b>Financing</b> <b>cash flows</b> <b>AED'000</b>	<b>Non cash</b> <b>changes</b> <b>AED'000</b>	<b>31 December</b> <b>2019</b> <b>AED'000</b>
Term borrowings	3,000,065	305,732	770	3,306,567
	<b>3,000,065</b>	<b>305,732</b>	<b>770</b>	<b>3,306,567</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**13. Deposits from customers**

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Current accounts	<b>18,434,769</b>	16,531,178
Call deposits	<b>1,224,478</b>	1,267,797
Saving deposits	<b>3,275,754</b>	2,908,097
Time deposits	<b>13,891,359</b>	13,432,712
	<hr/>	
	<b>36,826,360</b>	34,139,784
	<hr/>	

Time deposits include AED 1,420 million (2018: AED 1,872 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:

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Wakala deposits	<b>2,881,992</b>	2,580,538
Mudaraba term investment deposits	<b>15,690</b>	14,755
Murabaha term deposit	<b>1,184,065</b>	1,441,875
Qard-E-Hassan - current accounts	<b>831,169</b>	754,907
Mudaraba - current accounts	<b>451,227</b>	476,743
Mudaraba - saving accounts	<b>228,079</b>	179,408
Mudaraba - call deposits	<b>21,283</b>	26,352
	<hr/>	
	<b>5,613,505</b>	5,474,578
	<hr/>	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**Debt securities issued and other long term borrowings**

	2019	2018
	AED'000	AED'000
USD 500 million medium term note issued at discount in June 2014 (a)	-	1,549,098
USD 300 million medium term note issued at premium in March 2015 (a)	-	1,103,044
USD 500 million medium term note issued at discount in April 2019 (a)	1,831,598	-
USD 50 million private placement at discount in July 2017 (a)	183,220	182,945
USD 145 million private placement net of discount (a)	524,996	523,009
USD 350 million syndicated borrowing (b)	1,285,550	1,285,550
USD 80 million bilateral borrowing (c)	293,840	293,840
SAR 800 million Islamic bilateral borrowing (d)	783,302	-
Less: Own investment in debt securities issued	-	(89,452)
Less: Debt securities and other borrowing issue costs	(13,625)	(8,326)
Fair value adjustment on hedged debt securities in issue	-	(13,603)
	<b>4,888,881</b>	<b>4,826,105</b>

(a) The USD 500 million Euro Medium Term Notes (EMTN) issued in June 2014 and the second tranche of USD 300 million issued in March 2015 matured and was repaid in full during June 2019.

Under the same 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 June 2018 through a private placement with an interest rate of USD 3 months LIBOR +1.4% which mature in June 2023.

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.

(b) During the third quarter of year 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.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(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 2019 AED'000	Financing cash flows AED'000	Non cash changes AED'000	31 December 2019 AED'000
Fixed rate Euro medium term notes –issued in year 2014 and 2015	2,547,672	(2,562,803)	15,131	-
Fixed rate Euro medium term notes –issued 2019	-	1,826,436	(5,311)	1,821,125
Floating rate notes issued in 2017	182,945	-	274	183,219
Bilateral borrowing - 2018	293,444	-	192	293,636
Bilateral borrowing – Islamic -2019	-	783,438	(136)	783,302
Private placement issued in 2018	522,826	-	2,022	524,848
Syndicated borrowing made in 2017	1,279,218	-	3,533	1,282,751
<b>Total liabilities from financing activities</b>	<b>4,826,105</b>	<b>47,071</b>	<b>15,705</b>	<b>4,888,881</b>

**15. Insurance contract liabilities and payables**

	2019 AED'000	2018 AED'000
<b>Insurance contract liabilities</b>		
Claims reported unsettled, net	105,285	111,355
Claims incurred but not reported	68,811	58,530
Unearned premiums	227,201	233,816
Unexpired risk reserve	32,840	113
Mathematical Reserve	10,300	-
<b>Total insurance contract liabilities</b>	<b>444,437</b>	<b>403,814</b>
<b>Insurance related payables</b>		
Creditors	43,818	29,620
Reinsurance payables	45,801	50,888
Commission payables	22,318	23,616
<b>Total insurance related payables</b>	<b>111,937</b>	<b>104,124</b>
<b>Insurance contract liabilities and payables</b>	<b>556,374</b>	<b>507,938</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**16. Other liabilities**

	<b>2019</b>	2018
	<b>AED'000</b>	AED'000
Interest payable	<b>180,647</b>	137,825
Profit distributable on Islamic deposits	<b>66,274</b>	30,273
Accrued expenses	<b>242,261</b>	161,268
Provision for employees' end-of-service benefits (Note 29)	<b>115,269</b>	113,402
Foreign exchange and other derivatives derivative contracts (Note 32)	<b>377,378</b>	100,480
Credit card payables and liabilities	<b>48,142</b>	117,036
Managers cheques issued	<b>157,663</b>	99,427
Mortgage payables and liabilities	<b>7,151</b>	11,632
Asset based finance payables and liabilities	<b>24,428</b>	15,152
Insurance related payables and liabilities	<b>48,213</b>	56,956
Provision for expected credit loss on financial guarantees, letter of credit & customer acceptances	<b>11,138</b>	7,862
Other	<b>174,793</b>	280,129
	<b>1,453,357</b>	1,131,442

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 2019**  
**(continued)**

**17. Share capital and dividend**

At 31 December 2019, the authorised, issued and fully paid share capital of the Bank comprised: 1,676 million shares of AED 1 each (31 December 2018: 1,676 million shares of AED 1 each).

At the meeting held on 20 March 2019, 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 2018 (2017: 30% cash dividend amounting to AED 503 million). Further, AED 4.7 million was approved as Directors' remuneration for year 2018.

**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 is equal to 50% of Bank's issued capital, profit was not appropriated to legal reserve during the year. This reserve is not available for distribution. Additionally, the subsidiaries of the Bank also appropriate their profit to a legal reserve which is added to the Bank's legal reserve.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 19. Other reserves

	Voluntary reserve AED'000	General banking risk reserve AED'000	Credit risk reserve AED'000	Regulatory credit risk reserve AED'000	Regulatory impairment reserve - specific AED'000	Fair value reserve AED'000	Total AED'000
At 31 December 2017	337,208	1,000,000	1,250,000	492,000	-	10,156	3,089,364
Changes during the year	-	-	492,000	(492,000)	49,978	(131,767)	(81,789)
At 31 December 2018	<b>337,208</b>	<b>1,000,000</b>	<b>1,742,000</b>	-	<b>49,978</b>	<b>(121,611)</b>	<b>3,007,575</b>
Changes during the year	-	-	-	-	<b>14,590</b>	<b>139,535</b>	<b>154,125</b>
<b>At 31 December 2019</b>	<b>337,208</b>	<b>1,000,000</b>	<b>1,742,000</b>	-	<b>64,568</b>	<b>17,924</b>	<b>3,161,700</b>

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. Additionally, the subsidiaries of the Bank also appropriate their profit to such reserve which is added to the Bank's voluntary reserve. This reserve is available for distribution.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
(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.

The Bank has a non-distributable special reserve titled as 'Regulatory Credit Risk Reserve' and this reserve was maintained at least at a level of 1.5% of the credit risk weighted assets at the end of each financial year, as instructed by the UAE Central Bank. Balance in this reserve has been transferred to credit risk reserve on implementation of IFRS 9 from 1 January 2018.

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:

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
<b><i>Impairment reserve: General</i></b>		
General provisions under Circular 28/2010 of CBUAE	<b>634,000</b>	571,951
Less: Stage 1 and Stage 2 provisions under IFRS 9	<b>1,156,925</b>	1,178,094
<b>General provision transferred to the regulatory impairment reserve*</b>	<b>-</b>	<b>-</b>
<b><i>Impairment reserve: Specific</i></b>		
Specific provisions under Circular 28/2010 of CBUAE	<b>691,633</b>	914,424
Less: Stage 3 provisions under IFRS 9	<b>627,065</b>	864,446
<b>Opening balance regulatory impairment reserve 1 January 2019</b>	<b>49,978</b>	
<b>Specific provision transferred to the regulatory impairment reserve*</b>	<b>14,590</b>	49,978
<b>Total provision transferred to the regulatory impairment reserve</b>	<b>64,568</b>	49,978

\*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 2019**  
**(continued)**

**20. Non-controlling interests**

	2019 AED'000	2018 AED'000 (Restated)
Balance at the beginning of the year	38,979	51,109
Impact of adopting IFRS 9	-	(6,054)
Profit for the year	186	4,894
Dividends paid	(2,285)	(3,427)
Change in other comprehensive income for the year	948	(654)
Prior year adjustment related to insurance business	-	(6,889)
<b>Balance at the end of the year</b>	<b>37,828</b>	<b>38,979</b>

**21. Interest income and interest expense**

	2019 AED'000	2018 AED'000
<b><i>Interest income</i></b>		
Personal loans	370,468	365,575
Mortgage loans	197,046	180,592
Credit cards	630,001	672,306
Auto loans	57,376	93,770
RAK business loans	561,844	638,830
Wholesale banking loans	382,121	327,376
Business banking loans	288,054	275,681
Other retail loans	73,726	66,173
Investment securities	344,372	276,907
Deposits with the U.A.E. Central Bank	16,580	9,842
Other banks	225,159	141,783
	<b>3,146,747</b>	<b>3,048,835</b>
<b><i>Interest expense</i></b>		
Deposits from customers	376,864	329,574
Debt securities issued and other long term borrowings	207,190	186,395
Borrowings from other banks	96,269	75,443
	<b>680,323</b>	<b>591,412</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**22. Income from Islamic Financing and distribution to depositors**

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
<b><i>Income from Islamic financing</i></b>		
Islamic salam personal finance	<b>216,689</b>	160,224
Islamic auto Murabaha	<b>14,716</b>	32,295
Islamic business banking finance	<b>195,329</b>	154,909
Islamic wholesale banking finance	<b>44,714</b>	26,607
Islamic Investment Income	<b>1,336</b>	-
Islamic ijara property finance	<b>38,239</b>	32,998
	<b>511,023</b>	407,033
<b><i>Distribution to depositors</i></b>		
Distribution of profit on Islamic term investment deposits	<b>157,460</b>	88,733
Bilateral long term borrowing	<b>15,332</b>	-
Distribution of profit on Islamic demand deposits	<b>2,581</b>	7,021
	<b>175,373</b>	95,754

**23. Net fees and commission income**

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Personal loans	<b>57,200</b>	52,363
Mortgage loans	<b>21,975</b>	26,019
Credit cards	<b>268,068</b>	260,511
Auto loans	<b>11,594</b>	16,792
RAK Finance business loans	<b>46,826</b>	52,155
Wholesale banking	<b>60,632</b>	51,578
Other business banking	<b>160,356</b>	146,699
Fiduciary income	<b>46,248</b>	29,853
Bancassurance	<b>56,032</b>	46,508
Other	<b>43,829</b>	47,220
	<b>772,760</b>	729,698

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**24. Gross insurance underwriting profit**

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Gross insurance premium	<b>570,079</b>	503,304
Less: insurance premium ceded to reinsurers	<b>(234,132)</b>	(201,950)
<b>Net retained premium</b>	<b>335,947</b>	301,354
Net change in unearned premium reserve	-	(14,428)
<b>Net insurance premium</b>	<b>335,947</b>	286,926
Gross claims incurred	<b>(468,683)</b>	(338,306)
Insurance claims recovered from reinsurers	<b>213,906</b>	147,304
<b>Net claims incurred</b>	<b>(254,777)</b>	(191,002)
Gross commission earned	<b>22,269</b>	17,613
Less: commission incurred	<b>(72,479)</b>	(55,383)
<b>Net commission incurred</b>	<b>(50,210)</b>	(37,770)
<b>Gross underwriting profit</b>	<b>30,960</b>	58,154

**25. Investment income**

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Dividend and other income	<b>15,202</b>	18,082
Net gain on disposal of investments	<b>33,878</b>	10,324
Fair value gain/( loss), net	<b>382</b>	(1,681)
	<b>49,462</b>	26,725

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**26. General and administrative expenses**

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Staff cost (Note 28)	<b>898,566</b>	926,608
Outsourced staff cost	<b>35,771</b>	586
Depreciation and amortization	<b>113,897</b>	103,445
Information and technology expenses	<b>113,941</b>	102,721
Occupancy costs	<b>99,808</b>	99,529
Legal and collections charges	<b>50,900</b>	67,756
Communication costs	<b>57,297</b>	44,622
Marketing expenses	<b>38,227</b>	24,721
Other	<b>162,028</b>	118,332
	<b>1,570,435</b>	<b>1,488,320</b>

**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:

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Profit for the year (AED'000) [attributed to owners of the Bank]	<b>1,095,076</b>	912,626
Weighted average number of shares in issue (in 000's)	<b>1,676,245</b>	1,676,245
Basic earnings per share (AED)	<b>0.65</b>	0.54

**28. Staff costs**

	<b>2019</b> <b>AED'000</b>	<b>2018</b> <b>AED'000</b>
Salaries, allowances and bonus	<b>775,612</b>	797,739
Pension	<b>11,895</b>	11,205
End-of-service benefits	<b>24,044</b>	22,883
Other	<b>87,015</b>	94,781
	<b>898,566</b>	<b>926,608</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**29. Provision for staff end-of-service benefits**

	<b>2019</b> <b>AED'000</b>	2018 AED'000
Balance at 1 January	<b>113,402</b>	122,891
(Payment)/net charge during the year	<b>1,867</b>	(9,489)
<b>Balance at 31 December</b>	<b>115,269</b>	113,402

Provision for employees' end of service indemnity is made in accordance with the Company's policy which meets the requirements of U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the reporting date.

**30. Provision for credit loss, net**

	<b>2019</b> <b>AED'000</b>	2018 AED'000
Net impairment charge on loans and advances [Note 6(d)]	<b>1,310,270</b>	1,392,194
Net impairment charge / ( release) on due from other banks	<b>(2,060)</b>	11,447
Net impairment charge / (release) on investment securities	<b>(324)</b>	18,065
Net impairment charge / (release )on insurance contracts	<b>2,056</b>	(5,553)
Net impairment charge on commitments and customer acceptances, guarantees and letter of credits	<b>3,276</b>	4,993
<b>Net impairment charge for the year</b>	<b>1,313,218</b>	1,421,146

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**31. Contingencies and commitments**

	<b>2019</b>	2018
	<b>AED'000</b>	AED'000
Irrevocable commitments to extend credit	<b>2,597,848</b>	2,020,404
Letters of guarantee - Financial	<b>363,087</b>	874,010
Letters of guarantee – Non Financial	<b>467,512</b>	500,073
Letters of credit	<b>328,514</b>	157,350
Capital commitments and other contingencies	<b>33,379</b>	27,549
	<b>3,790,340</b>	3,579,386

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 7,661 million (2018: AED 6,708 million) are revocable at the option of the Bank and not included in the above table.

The Group is holding AED 10.72 million (31 December 2018: AED 7.61 million) provision for expected credit loss on financial guarantee contracts and letter of credits as per IFRS 9, out of which AED 6.7 million (31 December 2018: AED 5.95 million) of provision relates to irrevocable commitments.

### **32. Derivative contracts**

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 2019 (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
<b>Derivatives held for trading:</b>								
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
<b>Derivatives held as fair value hedge</b>								
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
<b>Derivative held as cash flow hedge:</b>								
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
<b>Total Derivatives</b>	<b>338,403</b>	<b>(377,378)</b>	<b>27,899,666</b>	<b>5,572,580</b>	<b>3,300,480</b>	<b>4,340,538</b>	<b>6,604,616</b>	<b>8,081,452</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 32 Derivative contracts (continued)

31 December 2018

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity				
				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	35,758	(32,655)	9,796,637	3,778,618	1,486,130	4,105,252	426,637	-
Foreign exchange options (bought)	785	-	51,422	47,749	-	3,673	-	-
Foreign exchange options (sold)	-	(787)	51,422	47,749	-	3,673	-	-
Interest rate swaps	7,334	(8,768)	1,582,756	-	-	24,487	531,328	1,026,941
Cross currency swap	2,943	(1,389)	2,147,543	-	-	-	2,147,543	-
Commodity swap	11	-	5,439	-	-	-	5,439	-
MCRA	3,330	-	833,650	-	-	-	550,000	283,650
Futures contracts purchased (Customer)	-	-	-	-	-	-	-	-
Futures contracts sold (Customer)	-	-	-	-	-	-	-	-
Futures contracts sold (Bank)	-	-	-	-	-	-	-	-
Futures contracts purchased (Bank)	-	-	-	-	-	-	-	-
Sub total	50,161	(43,599)	14,468,869	3,874,116	1,486,130	4,137,085	3,660,947	1,310,591
Derivatives held as fair value hedge								
Interest rate swap	1,720	(38,974)	4,014,633	-	2,758,621	47,029	441,326	767,657
Cross-currency swap	-	-	-	-	-	-	-	-
Sub total	1,720	(38,974)	4,014,633	-	2,758,621	47,029	441,326	767,657
Derivative held as cash flow hedge:								
Forward foreign exchange contract	80	(13,331)	979,557	296,044	224,163	459,350	-	-
Interest rate swap	3,774	(1,285)	475,475	-	-	-	275,475	200,000
Cross-currency swap	1,290	(2,517)	514,220	-	-	367,300	146,920	-
Coupon only swap	480	(774)	532,585	-	-	-	-	532,585
Sub total	5,624	(17,907)	2,501,837	296,044	224,163	826,650	422,395	732,585
Total Derivative contracts	57,505	(100,480)	20,985,339	4,170,160	4,468,914	5,010,764	4,524,668	2,810,833

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**33 Cash and cash equivalents**

	<b>2019</b>	2018
	<b>AED'000</b>	AED'000
Cash in hand and current account with UAE Central Bank	<b>1,146,597</b>	1,306,497
Due from other banks	<b>6,622,313</b>	4,786,682
	<b>7,768,910</b>	6,093,179
Less: Due from other banks with original maturity of greater than Three months	<b>(5,865,486)</b>	(3,670,487)
	<b>1,903,424</b>	2,422,692

**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 2019**  
**(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 2019 and 2018 is as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (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
<b>31 December 2019</b>								
Net external interest income	1,201,309	337,677	794,711	121,420	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	-	-
<b>Net interest income and net income from Islamic financing</b>	<b>1,135,589</b>	<b>236,616</b>	<b>1,015,313</b>	<b>180,695</b>	<b>9,820</b>	<b>221,423</b>	<b>2,618</b>	<b>2,802,074</b>
Non-interest income	586,648	64,645	274,025	218,093	44,408	139	(11,117)	1,176,841
<b>Operating income</b>	<b>1,722,237</b>	<b>301,261</b>	<b>1,289,338</b>	<b>398,788</b>	<b>54,228</b>	<b>221,562</b>	<b>(8,499)</b>	<b>3,978,915</b>
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)
<b>Total operating expense</b>	<b>(818,307)</b>	<b>(47,629)</b>	<b>(205,528)</b>	<b>(20,755)</b>	<b>(50,661)</b>	<b>(433,227)</b>	<b>5,672</b>	<b>(1,570,435)</b>
Impairment charge, net	(738,221)	(59,454)	(517,986)	3,625	(1,182)	-	-	(1,313,218)
<b>Net profit/(loss)</b>	<b>165,709</b>	<b>194,178</b>	<b>565,824</b>	<b>381,658</b>	<b>2,385</b>	<b>(211,665)</b>	<b>(2,827)</b>	<b>1,095,262</b>
Segment assets	18,657,674	15,189,811	7,875,634	13,169,569	823,743	1,619,527	(216,399)	57,119,559
<b>Total assets</b>	<b>18,657,674</b>	<b>15,189,811</b>	<b>7,875,634</b>	<b>13,169,569</b>	<b>823,743</b>	<b>1,619,527</b>	<b>(216,399)</b>	<b>57,119,559</b>
Segment liabilities	11,778,531	12,411,930	14,230,793	9,455,469	634,726	824,504	(57,951)	49,278,002
<b>Total liabilities</b>	<b>11,778,531</b>	<b>12,411,930</b>	<b>14,230,793</b>	<b>9,455,469</b>	<b>634,726</b>	<b>824,504</b>	<b>(57,951)</b>	<b>49,278,002</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (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 elimination AED'000	Total AED'000
<b>31 December 2018</b>								
Net external interest income	1,289,950	226,635	865,596	66,743	9,718	-	(1,219)	2,457,423
Income from Islamic financing net of distribution to depositors	199,298	(21,544)	137,425	(3,900)	-	-	-	311,279
Internal revenue / (costs)	(296,899)	(678)	63,817	35,800	-	197,960	-	-
Net interest income and net income from Islamic financing	1,192,349	204,413	1,066,838	98,643	9,718	197,960	(1,219)	2,768,702
Non-interest income	551,092	56,449	257,655	134,095	66,338	1,907	(9,252)	1,058,284
Operating income	1,743,441	260,862	1,324,493	232,738	76,056	199,867	(10,471)	3,826,986
Operating expense excluding depreciation and amortisation	(785,654)	(41,239)	(186,926)	(16,838)	(52,851)	(310,377)	9,010	(1,384,875)
Depreciation and amortisation	(32,675)	(1,699)	(1,271)	(896)	(3,813)	(59,883)	(3,208.00)	(103,445)
Total operating expense	(818,329)	(42,938)	(188,197)	(17,734)	(56,664)	(370,260)	5,802	(1,488,320)
Impairment charge, net	(666,240)	(78,319)	(661,365)	(20,853)	5,631	-	-	(1,421,146)
Net profit / (loss)	258,872	139,605	474,931	194,151	25,023	(170,393)	(4,669)	917,520
Segment assets	18,518,607	11,273,491	8,713,151	12,341,885	831,899	1,292,756	(296,549)	52,675,240
Total assets	18,518,607	11,273,491	8,713,151	12,341,885	831,899	1,292,756	(296,549)	52,675,240
Segment liabilities	10,717,873	12,419,583	13,350,217	7,996,057	637,346	567,511	(140,152)	45,548,435
Total liabilities	10,717,873	12,419,583	13,350,217	7,996,057	637,346	567,511	(140,152)	45,548,435

Comparative figures of 31 December 2018 were reclassified between operating segments due to movement of accounts among segments and restatements due to correction in prior year number related to insurance business.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**35. Related parties 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:

	2019 AED'000	2018 AED'000
<b><i>Transactions during the period</i></b>		
Interest income	16,676	7,522
Interest expense	32,314	55,755
Commission income	1,137	564
Directors' and key management personnel's remuneration, sitting and other expenses	24,720	28,487
<b><i>Balances</i></b>		
<b><i>Loans and advances:</i></b>		
- Shareholders and their related companies	376,207	276,457
- Directors and their related companies	6,312	8,076
- Key management personnel	6,549	3,692
	389,068	288,225
<b><i>Deposits</i></b>		
- Shareholders and their related companies	2,218,798	2,047,914
- Directors and their related companies	10,712	5,344
- Key management personnel	16,882	16,525
	2,246,392	2,069,783
<b><i>Irrevocable commitments and contingent liabilities and forward contracts</i></b>		
- Shareholders and their related companies	182,520	190,373
- Directors and their related companies	40	40
	182,560	190,413
<b><i>Insurance related receivables</i></b>		
Due from policy holders	10,351	12,580
<b><i>Insurance related payables</i></b>		
Due to policy holders	134	199

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**36. Right-of-use assets**

	2019 AED'000	2018 AED'000
Balance at the beginning of the year	-	-
Impact of adoption of IFRS 16 1 January 2019	225,191	-
Decrease due changes in lease liability	(10,333)	-
Depreciation for the year	(37,919)	-
	176,939	-

**37. Lease liabilities**

	2019 AED'000	2018 AED'000
Balance at the beginning of the year	-	-
Impact of adoption of IFRS 16 1 January 2019	195,885	-
Decrease due changes in lease contract amount	(10,511)	-
Interest cost on lease liability for the year	7,520	-
Payments made during the year	(41,184)	-
	151,710	-

**38. Fiduciary activities**

The Bank holds assets in a fiduciary capacity for its customers without recourse. At 31 December 2019, the market value of such assets amounted to AED 2,178 million (2018: AED 1,945 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 Bank'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 2019 and 2018.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**41. Comparative figures**

The comparative amounts for the year ended 2018 have been restated due to correction of prior period error relating to inaccurate codification and accounting of certain transactions of Ras Al Khaimah National Insurance Company PSC which resulted in a reduction in retained earnings of AED 26.3 million of the Bank as at 31 December 2018.

In accordance with the requirements of IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, certain items have been restated in the consolidated statement of financial position for the prior year ended 31 December 2018, as previously reported:

**Extract of consolidated statement of financial position:**

	As previously Reported AED'000	Increase / (Decrease) AED'000	As restated AED'000
<b>Assets</b>			
Insurance contract assets and receivables	388,594	11,845	400,439
Other assets	952,644	(20,545)	932,099
	<b>1,341,238</b>	<b>(8,700)</b>	<b>1,332,538</b>
<b>Liabilities</b>			
Insurance contract liabilities and payables	511,395	(3,457)	507,938
Other liabilities	1,103,515	27,927	1,131,442
	<b>1,614,910</b>	<b>24,470</b>	<b>1,639,380</b>
<b>Equity attributable to owners of the Bank</b>			
Retained earnings	1,479,856	(26,281)	1,453,575
	<b>1,479,856</b>	<b>(26,281)</b>	<b>1,453,575</b>
<b>Non-controlling interests</b>			
Non-controlling interests	45,868	(6,889)	38,979
	<b>45,868</b>	<b>(6,889)</b>	<b>38,979</b>

## **42. 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.

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 defence.

"The Group has a Board approved Enterprise Risk 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 six 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 Review and approve the Credit proposals which are above the its credit approval authority delegated/delegated limits given to management.

by the Chairman/Board. Approve the Product Program Guidelines (PPGs) for Asset BCC/Chairman/Board will thereafter products of Business Banking and Wholesale Banking.

sub-delegate or approve delegated Review and approve Credit grading methodology for the Bank.

authorities of MCC. BCC will also have Approve investments within the delegated lending authority as stated in the Investment Policy of the Bank.

authority to ratify approvals made by Review any breach in the Investment Policy of the Bank and any other officers of the bank beyond/wherever required escalate the same to the Board of Directors. their delegated authority; (typically in an emergency situation).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42. Financial risk management (continued)**

***Risk management review (continued)***

**Committee**

**Roles & Responsibilities**

**Board Nomination & Remuneration**

**Committee (BNRC):**

The BNRC of RAK Bank has been established by the Board of Directors of the Bank to assist them to oversee, monitor and review matters relating to the composition of the Board including appointment of new directors, executive and senior managers' remuneration and rewards in addition to strategic HR issues.

Regularly review the structure, size and composition (including the skills knowledge and experience) required of the Board and make recommendation to the Board with regard to any changes.

Identify and nominate new Board member candidates that demonstrate the ability and oversight to make sound decisions on behalf of the Bank and its shareholders. Ensure that nominations and appointment of Board members are made according to formal, rigorous and transparent procedures.

Review Remuneration of Senior Management and other matters relating to Compensation, Remuneration, and people performance of the Bank.

**Board Audit Committee (BAC):**

The BAC of RAKBANK has been established by the Board of Directors of the Bank to monitor the appropriateness and integrity of the interim and published financial statements and annual report of the Bank and its subsidiaries including significant financial reporting judgments contained in them.

Consider and approve the bank's Internal Audit annual program and ensure that the audit function is adequately resourced

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. Other Matters relating to Audit, Controls, Financials etc.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019  
(continued)**

**42 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 & Legal Risks 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, liquidity 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 Insider Trading Committee (BITC):**

The Board Insider Trading Committee (BITC) of RAK Bank has been established by the Board of Directors of the Bank to assist the Board of Directors in prohibiting insiders' trading and setting measures to maintain the confidentiality of the Bank's information and data, in addition to overseeing the maintenance of the insiders register and submission of periodic statements and reports to the Market.

The scope of the BITC will cover the Bank's activities.

**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 2019 (continued)**

### **42 Financial risk management (continued)**

#### ***Risk management review (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 to regulatory requirements;
- Compliance to internal policy dictates
- Compliance to internal controls embedded in operating procedures of the Group

The Regulatory & Compliance function is managed by Director – Compliance & Operational Risk reporting to the CRO. The Group has an established Compliance function, as its second line of defense. 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 Director – Compliance & Operational Risk reporting to the Chief Risk Officer. The Group 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 - i.e. Business, Operations & Support Units
- Second Line of Defence - i.e. Risk Management & Compliance
- Third Line of Defence - i.e. Internal Audit

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019  
(continued)**

**42 Financial risk management (continued)**

***Risk management review (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 Information Security unit managed by Director – Information Security 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 Bank's information security 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 focused units to address, prevent, detect and respond to all aspects of fraud.

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 2019 (continued)

### 42 Financial risk management (continued)

#### *Risk management review (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, Credit circulars and comply with regulatory norms. The Credit risk management is managed by the team within the Chief Risk Officer.

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 performing portfolio.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

### **42 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 and 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 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); 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 Finance Loans. According to their degree of risk of default. The Group's credit risk grading framework comprises ten categories. The credit rating information is based on a range of data 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 2019**  
**(continued)**

**42 Financial risk management (continued)**

*Credit risk (continued)*

*Internal credit risk ratings (continued)*

<b>Group's Credit Risk Grades</b>	<b>Moody's Rating</b>	<b>Internal Description</b>
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 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 Oil Price, Economic Composite Indicator (ECI), inflation, real estate prices and vacancy rates, hotel occupancy rates and so on. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn & Downturn. The bank then computes the probability weighted average PD of different scenarios viz. baseline, adverse and upturn.

## **42 Financial risk management (continued)**

### ***Credit risk (continued)***

#### ***Internal credit risk ratings (continued)***

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative, qualitative criteria includes but not limited to:

- Lag PD
- Average Oil prices and change in oil prices
- Abu Dhabi hotel room occupancy
- Change in economic composite indicator.

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.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

#### ***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. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities. Additionally the Group 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 2019**  
**(continued)**

**42. Financial risk management (continued)**

*Credit risk (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 2019, 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
	As expected	3.64%	42.98%	83.2%	34,003
Non-Oil ECI (year-on-year % change)- First Difference	+ [5]%	3.64%	42.90%	82.98%	33,963
	- [5]%	3.65%	43.06%	83.43%	34,043
	As expected	3.64%	42.98%	83.2%	34,003
Interpolated annual UAE exports (AED billion 2010 prices)- Log- First Difference	+ [5]%	3.62%	42.74%	82.59%	33,883
	- [5]%	3.66%	43.22%	83.82%	34,123
	As expected	3.64%	42.98%	83.2%	34,003
<b>Credit Cards</b>					
Real estate Dubai (calculated quarterly year-on-year % change) - First Difference- 2 Quarter Lag	As expected	4.38%	-	83.1%	279,701
	+ [5]%	4.37%	-	83.06%	279,638
	- [5]%	4.38%	-	83.15%	279,765
Average oil price per barrel (\$) - Log	As expected	4.38%	-	83.1%	279,701
	+ [5]%	3.82%	-	74.03%	259,896
	- [5]%	5.00%	-	93.26%	301,806
<b>Personal Loans</b>					
Oil production (thousand barrels per day)- Quarter on Quarter Growth	As expected	4.06%	38.21%	81.47%	419,478
	+ [5]%	4.06%	38.20%	81.44%	419,376
	- [5]%	4.06%	38.23%	81.49%	419,581
Average oil price per barrel (\$) - Log- Quarter on Quarter Growth- 3 Quarter Lag	As expected	4.06%	38.21%	81.47%	419,478
	+ [5]%	4.07%	38.32%	81.56%	420,234
	- [5]%	4.05%	38.11%	81.38%	418,722
Interpolated annual UAE real investment (AED billion 2010 prices)- Quarter on Quarter Growth- 3 Quarter Lag	As expected	4.06%	38.21%	81.47%	419,478
	+ [5]%	4.05%	38.08%	81.15%	418,315
	- [5]%	4.08%	38.35%	81.78%	420,642

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019  
(continued)**

**42. Financial risk management (continued)**

*Credit risk (continued)*

*Incorporation of forward-looking information (continued)*

Mortgage Loans		PD(Bucket 0)	PD(Bucket 1)	PD (Stage 2 Life time)	ECL AED'000
Real estate Dubai (calculated quarterly year-on-year % change) - First Difference	As expected +[5]% -[5]%	0.75% 0.75% 0.76%	14.85% 14.82% 14.89%	39.45% 39.34% 39.55%	82,453 82,408 82,497
Dubai hotel room occupancy (average quarterly occupancy rate)- Log- First Difference- 2 Quarter Lag	As expected +[5]% -[5]%	0.75% 0.75% 0.75%	14.85% 14.86% 14.85%	39.45% 39.47% 39.43%	82,453 82,461 82,444
Interpolated annual UAE imports (AED billion 2010 prices)- Log- Quarter on Quarter Growth- 2 Quarter Lag	As expected +[5]% -[5]%	0.75% 0.75% 0.76%	14.85% 14.68% 15.03%	39.45% 38.99% 39.91%	82,453 82,255 82,653
<b>RAK Finance Loans</b>					
ECI (year-on-year % change)	As expected	8.93%	65.60%	87.95%	507,393
	+[5]%	8.90%	65.38%	87.56%	506,090
	-[5]%	8.96%	65.82%	88.34%	508,697
Emirates interbank offer rate: EIBOR- Quarter on Quarter Growth- 3 Quarter Lag	As expected	8.93%	65.60%	87.95%	507,393
	+[5]%	8.94%	65.68%	88.02%	507,796
	-[5]%	8.92%	65.52%	87.88%	506,990
Interpolated annual UAE imports (AED billion 2010 prices)- Quarter on Quarter Growth- 3 Quarter Lag	As expected	8.93%	65.60%	87.95%	507,393
	+[5]%	8.91%	65.48%	87.76%	506,695
	-[5]%	8.95%	65.72%	88.14%	508,091

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

## **42 Financial risk management (continued)**

### ***Credit risk (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 generally 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 and low default portfolios.

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 contact 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.

**42. Financial risk management (continued)**

***Credit risk (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)**

**42. Financial risk management (continued)**

*Credit risk (continued)*

*Maximum exposure to credit risk before collateral held or other credit enhancements:*

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
<b>Total</b>	<b>5,824,760</b>	<b>797,553</b>	<b>-</b>	<b>6,622,313</b>
<b>Loans and Advances</b>				
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
<b>Total</b>	<b>32,600,836</b>	<b>2,268,213</b>	<b>1,393,079</b>	<b>36,262,128</b>
<b>Investment securities (at amortized costs and FVOCI)</b>				
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
<b>Total Amount</b>	<b>7,049,202</b>	<b>610,332</b>	<b>12,801</b>	<b>7,672,335</b>
<b>Customer Acceptances</b>				
1 to 4-	344,669	-	-	344,669
5+ to 6-	76,703	2,893	-	79,596
<b>Total</b>	<b>421,372</b>	<b>2,893</b>	<b>-</b>	<b>424,265</b>
<b>Off balance sheet items</b>				
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
Unrated	879,359	-	-	879,359
<b>Total</b>	<b>3,091,360</b>	<b>254,733</b>	<b>50</b>	<b>3,346,143</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

***Credit risk (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 an analysis of debt securities by rating agency designation at 31 December 2019 and 2018, based on Moody's, Standard and Poor's and Fitch ratings or their equivalent:

	<b>2019</b>	2018
	<b>AED'000</b>	AED'000
AA to AA-	<b>761,646</b>	756,441
A+ to A-	<b>1,273,612</b>	1,114,229
BBB+ to BBB-	<b>2,307,894</b>	2,033,557
BB+ to BB	<b>912,380</b>	779,922
B+ to B-	<b>2,215,825</b>	1,534,960
CCC	-	14,546
Unrated	<b>454,230</b>	718,999
	<b>7,925,587</b>	6,952,654

*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 2019**  
**(continued)**

**42 Financial risk management (continued)**

***Credit risk (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 2019 and 2018.

For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties:

*On balance sheet items*

	<b>UAE</b> <b>AED'000</b>	<b>OECD</b> <b>AED'000</b>	<b>Others</b> <b>AED'000</b>	<b>Provision for</b> <b>credit loss</b> <b>AED'000</b>	<b>Total</b> <b>AED'000</b>
<b>31 December 2019</b>					
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, net	2,871,003	378,244	4,920,452	(28,266)	8,141,433
<b>Total</b>	<b>37,469,050</b>	<b>2,109,514</b>	<b>12,274,311</b>	<b>(1,807,948)</b>	<b>50,044,927</b>
<b>31 December 2018</b>					
Due from other banks	715,691	1,318,707	2,752,284	(31,140)	4,755,542
Loans and advances, net	32,905,212	179,359	1,742,703	(1,966,612)	32,860,662
Insurance contract assets	335,331	1,662	5,910	(38,235)	304,668
Customer acceptances	537,545	-	24,159	-	561,704
Investment securities	2,893,266	288,534	4,045,358	(38,025)	7,189,133
<b>Total</b>	<b>37,387,045</b>	<b>1,788,262</b>	<b>8,570,414</b>	<b>(2,074,012)</b>	<b>45,671,709</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

***Credit risk (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 2019 and 2018:

	On balance sheet items				Off balance sheet Items AED'000	Total AED'000
	Loans and advances	Investment securities	Due from other banks	Total funded		
	AED'000	AED'000	AED'000	AED'000		
<b>31 December 2019</b>						
Agriculture, fishing & related activities	6,788	-	-	6,788	135	6,923
Crude oil, gas, mining & quarrying	7,687	-	-	7,687	-	7,687
Manufacturing	1,097,744	453,110	-	1,550,854	72,398	1,623,252
Electricity & water	11,232	476,220	-	487,452	2,700	490,152
Construction and real estate	2,719,724	620,606	-	3,340,330	885,719	4,226,049
Trading	4,311,431	-	-	4,311,431	646,450	4,957,881
Transport, storage & communication	722,145	584,757	-	1,306,902	9,807	1,316,709
Financial institutions	2,099,629	2,439,096	6,622,313	11,161,038	598,108	11,759,146
Services	3,269,708	426,468	-	3,696,176	279,626	3,975,802
Government	2,468,890	3,169,442	-	5,638,332	432,721	6,071,053
Retail and consumer banking	19,547,150	-	-	19,547,150	829,297	20,376,447
<b>Total exposures</b>	<b>36,262,128</b>	<b>8,169,699</b>	<b>6,622,313</b>	<b>51,054,140</b>	<b>3,756,961</b>	<b>54,811,101</b>
Provision for credit loss	(1,711,565)	(28,266)	(29,080)	(1,768,911)	(11,138)	(1,780,049)
<b>Net exposures</b>	<b>34,550,563</b>	<b>8,141,433</b>	<b>6,593,233</b>	<b>49,285,229</b>	<b>3,745,823</b>	<b>53,031,052</b>
	On balance sheet items				Off balance sheet Items AED'000	Total AED'000
	Loans and advances	Investment securities	Due from other banks	Total funded		
	AED'000	AED'000	AED'000	AED'000		
<b>31 December 2018</b>						
Agriculture, fishing & related activities	6,732	-	-	6,732	156	6,888
Crude oil, gas, mining & quarrying	4,779	-	-	4,779	221,517	226,296
Manufacturing	1,124,634	390,579	-	1,515,213	1,000	1,516,213
Electricity & water	14,192	520,087	-	534,279	125	534,404
Construction and real estate	1,905,946	661,087	-	2,567,033	691,514	3,258,547
Trading	4,924,691	-	-	4,924,691	568,337	5,493,028
Transport, storage & communication	905,915	589,169	-	1,495,084	20,116	1,515,200
Financial institutions	1,164,144	1,863,935	4,786,682	7,814,761	695,811	8,510,572
Services	3,661,688	456,244	-	4,117,932	15,749	4,133,681
Government	2,644,447	2,746,057	-	5,390,504	377,105	5,767,609
Retail and consumer banking	18,470,106	-	-	18,470,106	960,407	19,430,513
<b>Total exposures</b>	<b>34,827,274</b>	<b>7,227,158</b>	<b>4,786,682</b>	<b>46,841,114</b>	<b>3,551,837</b>	<b>50,392,951</b>
Provision for credit loss	(1,966,612)	(38,025)	(31,140)	(2,035,777)	(7,862)	(2,043,639)
<b>Net exposures</b>	<b>32,860,662</b>	<b>7,189,133</b>	<b>4,755,542</b>	<b>44,805,337</b>	<b>3,543,975</b>	<b>48,349,312</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

***Credit risk (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:

<b><i>Class of financial instrument</i></b>	<b><i>Notes</i></b>
Due from other banks	5
Loans and advances	6
Investment securities	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 2019**  
**(continued)**

**42 Financial risk management (continued)**

*Credit risk (continued)*

*Exposure stage transitions*

<b>Loans and advances</b>	<b>AED '000</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening Balance 1 January 2019</b>	<b>30,196,339</b>	<b>3,055,710</b>	<b>1,575,225</b>	<b>34,827,274</b>
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)
<b>Closing Balance 31 December 2019</b>	<b>32,600,836</b>	<b>2,268,213</b>	<b>1,393,079</b>	<b>36,262,128</b>

<b>Loans and Advances</b>	<b>AED' 000</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2018</b>	<b>29,744,447</b>	<b>2,189,371</b>	<b>1,301,546</b>	<b>33,235,364</b>
Stage transfer				
Stage 1 to Stage 2 Transfer	(2,199,135)	2,199,135	-	-
Stage 1 to Stage 3 Transfer	(1,284,062)	-	1,284,062	-
Stage 2 to Stage 3 Transfer	-	(588,725)	588,725	-
Stage 2 to Stage 1 Transfer	128,602	(128,602)	-	-
Stage 3 to Stage 2 Transfer	-	16,959	(16,959)	-
Change in Exposures during the year	(7,870,574)	(632,428)	(133,125)	(8,636,127)
New Financial Assets Originated	11,677,061	-	-	11,677,061
Write offs year 2018	-	-	(1,449,024)	(1,449,024)
<b>Closing Balance 31 December 2018</b>	<b>30,196,339</b>	<b>3,055,710</b>	<b>1,575,225</b>	<b>34,827,274</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019  
(continued)**

**42 Financial risk management (continued)**

***Credit risk (continued)***

***Exposure stage transitions (continued)***

<b>Investments</b>				<b>AED'000</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening Balance 1 January 2019</b>	<b>5,940,272</b>	<b>1,012,382</b>	<b>-</b>	<b>6,952,654</b>
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

<b>Closing Balance 31 December 2019</b>	<b>7,049,202</b>	<b>610,332</b>	<b>12,801</b>	<b>7,672,335</b>
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<b>Investments</b>				<b>AED'000</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
Opening Balance 1 January 2018	4,698,477	763,230	-	5,461,707
Stage Transfers				
Stage 1 to Stage 2 Transfer	(316,964)	316,964	-	-
Change in Exposures	118,873	(67,812)	-	51,061
New Financial Assets Originated	1,439,886	-	-	1,439,886
Closing Balance 31 December 2019	5,940,272	1,012,382	-	6,952,654

<b>Due from banks</b>				<b>AED '000</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2019</b>	<b>4,429,270</b>	<b>357,412</b>	<b>-</b>	<b>4,786,682</b>
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
<b>Closing Balance 31 December 2019</b>	<b>5,824,760</b>	<b>797,553</b>	<b>-</b>	<b>6,622,313</b>

<b>Due from banks</b>				<b>AED '000</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
Opening Balance 1 January 2018	3,462,810	336,429	-	3,799,239
Stage Transfers				
Stage 1 to Stage 2 transfer	(244,175)	244,175	-	-
Change in Exposures	(718,610)	(223,192)	-	(941,802)
New Financial Assets Originated	1,929,245	-	-	1,929,245
<b>Closing Balance 31 December 2019</b>	<b>4,429,270</b>	<b>357,412</b>	<b>-</b>	<b>4,786,682</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

***Credit risk (continued)***

***Exposure stage transitions (continued)***

<b>Customer Acceptances</b>	<b>AED 000</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2019</b>	<b>559,019</b>	<b>2,685</b>	<b>-</b>	<b>561,704</b>
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
<b>Closing Balance 31 December 2019</b>	<b>421,372</b>	<b>2,893</b>	<b>-</b>	<b>424,265</b>

<b>Customer Acceptances</b>	<b>AED'000</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2018</b>	<b>169,831</b>	<b>1,476</b>	<b>-</b>	<b>171,307</b>
Stage transfer				
Stage 1 to Stage 2 Transfer	(2,348)	2,348	-	-
Change in Exposures during the year	259,745	(1,139)	-	258,606
New Financial Assets Originated	131,791	-	-	131,791
<b>Closing Balance 31 December 2018</b>	<b>559,019</b>	<b>2,685</b>	<b>-</b>	<b>561,704</b>

**Off balance sheet items and irrevocable Commitments**

	<b>AED'000</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening Balance 1 January 2019</b>	<b>2,908,360</b>	<b>285,219</b>	<b>450</b>	<b>3,194,029</b>
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
<b>Closing Balance 31 December 2019</b>	<b>3,091,360</b>	<b>254,733</b>	<b>50</b>	<b>3,346,143</b>

**Off balance sheet items and irrevocable Commitments**

	<b>AED'000</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2018</b>	<b>1,274,822</b>	<b>17,674</b>	<b>474</b>	<b>1,292,970</b>
Stage transfer				
Stage 1 to Stage 2 Transfer	(275,322)	275,322	-	-
Stage 1 to Stage 3 Transfer	(100)	-	100	-
Stage 2 to Stage 3 Transfer	-	(300)	300	-
Change in Exposures during the year	1,230,052	(7,477)	(424)	1,222,151
New Financial Assets Originated	678,908	-	-	678,908
<b>Closing Balance 31 December 2018</b>	<b>2,908,360</b>	<b>285,219</b>	<b>450</b>	<b>3,194,029</b>

**Insurance contract assets and other receivables**

	<b>AED '000</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2019</b>	<b>229,129</b>	<b>-</b>	<b>-</b>	<b>229,129</b>
Change in Exposures	34,233	-	-	34,233
<b>Closing Balance 31 December 2019</b>	<b>263,362</b>	<b>-</b>	<b>-</b>	<b>263,362</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

***Credit risk (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	AED '000			
	1 January 2019	Net Change during the year	Other Movement	31 December 2019
Due from other banks	31,140	(2,060)	-	29,080
Loans and Advances	1,966,612	1,399,022	(1,654,069)	1,711,565
Investment Securities	38,025	(324)	(5,269)	32,432
Insurance contract assets and receivables	36,345	2,292	-	38,637
Customer Acceptances	251	170	-	421
Off balance sheet items	7,611	3,106	-	10,717
<b>Total</b>	<b>2,079,984</b>	<b>1,402,206</b>	<b>(1,659,338)</b>	<b>1,822,852</b>

The tables below analyse the movement of the provision for credit loss during the year per class of financial assets:

**Due from banks**

	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
<b>Opening balance 1 January 2019</b>	<b>28,863</b>	<b>2,277</b>	<b>-</b>	<b>31,140</b>
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
<b>Closing Balance 31 December 2019</b>	<b>19,437</b>	<b>9,643</b>	<b>-</b>	<b>29,080</b>

**Due from banks**

	AED'000			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance 1 January 2018	18,651	1,042	-	19,693
Stage Transfers				-
Stage 1 to Stage 2 Transfer	(724)	724	-	-
Due to changes in PD's/LGD's/EAD	3,934	511	-	4,445
New Financial Assets Originated	7,002	-	-	7,002
Closing Balance 31 December 2018	28,863	2,277	-	31,140

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

*Credit risk (continued)*

*Movement of the provision for credit loss (continued)*

Loans and advances	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
<b>Opening Balance 1 January 2019</b>	<b>588,936</b>	<b>513,322</b>	<b>864,354</b>	<b>1,966,612</b>
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)
<b>Closing Balance 31 December 2019</b>	<b>658,857</b>	<b>425,666</b>	<b>627,042</b>	<b>1,711,565</b>

Loans and Advances	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
<b>Opening balance 1 January 2018</b>	<b>602,130</b>	<b>631,335</b>	<b>674,181</b>	<b>1,907,646</b>
Stage transfer				
Stage 1 to Stage 2 Transfer	(283,270)	283,270	-	-
Stage 1 to Stage 3 Transfer	(182,511)	-	182,511	-
Stage 2 to Stage 3 Transfer	-	(274,026)	274,026	-
Stage 2 to Stage 1 Transfer	59,219	(59,219)	-	-
Stage 3 to Stage 2 Transfer	-	4,420	(4,420)	-
Due to changes in PD's/ LGD's/ EAD	(312,810)	(72,458)	1,187,080	801,812
New Financial Assets Originated	706,178	-	-	706,178
Write off year 2019	-	-	(1,449,024)	(1,449,024)
<b>Closing Balance 31 December 2018</b>	<b>588,936</b>	<b>513,322</b>	<b>864,354</b>	<b>1,966,612</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019  
(continued)**

**42 Financial risk management (continued)**

***Credit risk (continued)***

***Movement of the provision for credit loss (continued)***

**Investments**

				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
<b>Opening Balance 1 January 2019</b>	<b>17,443</b>	<b>20,582</b>	<b>-</b>	<b>38,025</b>
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: Write offs	-	-	(5,269)	(5,269)
<b>Closing Balance 31 December 2019</b>	<b>17,406</b>	<b>15,026</b>	<b>-</b>	<b>32,432</b>

**Investments**

				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
<b>Opening Balance 1 January 2018</b>	<b>10,391</b>	<b>9,569</b>	<b>-</b>	<b>19,960</b>
Stage Transfer				-
Stage 1 to Stage 2 Transfer	(1,529)	1,529	-	-
Due to Change in PD's/LGD's / EAD's	(2,979)	9,484	-	6,505
New Financial Assets Originated	11,560	-	-	11,560
<b>Closing Balance as at 31 December 2018</b>	<b>17,443</b>	<b>20,582</b>	<b>-</b>	<b>38,025</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
(continued)

**42 Financial risk management (continued)**

*Credit risk (continued)*

*Movement of the provision for credit loss (continued)*

<b>Customer Acceptances</b>				<b>AED '000</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2019</b>	<b>234</b>	<b>17</b>	<b>-</b>	<b>251</b>
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
<b>Closing Balance as at 31 December 2019</b>	<b>413</b>	<b>8</b>	<b>-</b>	<b>421</b>

<b>Customer Acceptances</b>				<b>AED '000</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2018</b>	<b>1,121</b>	<b>105</b>	<b>-</b>	<b>1,226</b>
Stage transfer				-
Stage 1 to Stage 2 Transfer	(11)	11	-	-
Due to change in PD's/LGD's/EAD	(1,039)	(99)	-	(1,138)
New Financial Assets Originated	163	-	-	163
<b>Closing Balance 31 December 2018</b>	<b>234</b>	<b>17</b>	<b>-</b>	<b>251</b>

**Off balance sheet items and irrevocable Commitments**

				<b>AED '000</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening Balance 1 January 2019</b>	<b>5,369</b>	<b>2,151</b>	<b>91</b>	<b>7,611</b>
Stage Transfer				-
Stage 1 to Stage 2 Transfer	(780)	780	-	-
Stage 2 to Stage 1 Transfer	1,084	(1,084)	-	-
Due to changes in PD's/ LGD's/ EAD	(1,931)	(35)	(68)	(2,034)
New Financial Assets Originated	5,140	-	-	5,140
<b>Closing Balance 31 December 2019</b>	<b>8,882</b>	<b>1,812</b>	<b>23</b>	<b>10,717</b>

**Off balance sheet items and irrevocable Commitments**

				<b>AED '000</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2018</b>	<b>1,437</b>	<b>146</b>	<b>60</b>	<b>1,643</b>
Stage transfer				-
Stage 1 to Stage 2 Transfer	(1,338)	1,338	-	-
Stage 1 to Stage 3 Transfer	(1)	-	1	-
Stage 2 to Stage 3 Transfer	-	(17)	17	-
Due to change in PD's/LGD's/EAD	3,642	684	13	4,339
New Financial Assets Originated	1,629	-	-	1,629
<b>Closing Balance 31 December 2018</b>	<b>5,369</b>	<b>2,151</b>	<b>91</b>	<b>7,611</b>

**Insurance Contract Assets and other receivables**

				<b>AED '000</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Grand Total</b>
<b>Opening balance 1 January 2019</b>	<b>36,345</b>	<b>-</b>	<b>-</b>	<b>36,345</b>
Due to changes in PD's/ LGD's/ EAD	2,292	-	-	2,292
<b>Closing Balance 31 December 2019</b>	<b>38,637</b>	<b>-</b>	<b>-</b>	<b>38,637</b>

## 42 Financial risk management (continued)

### Credit risk (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.

	<i>Type of collateral held</i>
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.

<b>Credit Impaired Loans and Advances</b>	<b>AED '000</b>
Stage 3 Loans and Advances	1,393,079
Less: Provisions held	(627,042)
<b>Net Exposures</b>	<b>766,037</b>
<b>Market value of Collaterals held</b>	
Property	518,494
Vehicles & others	105,219
Securities	94,368
<b>Total value of Collateral values</b>	<b>718,081</b>

#### Off-setting of collateral

	<b>2019</b>	<b>2018</b>
	<b>AED '000</b>	<b>AED '000</b>
Loan outstanding that can be set-off against cash collateral	<b>1,050,828</b>	1,262,310

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

*Credit risk (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. 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 2019 and 2018.

*Restructured loans during the year:*

Product	2019		2018	
	No of accounts	Loan amount AED'000	No of accounts	Loan amount AED'000
Personal loans	612	255,718	715	325,597
Mortgage loans	13	36,661	10	28,790
Credit cards	3082	114,557	4,503	170,758
Auto loans	96	7,923	425	26,613
Other business banking loans	136	116,219	153	100,393
Wholesale banking loans	11	174,270	21	162,651
RAK business loans	418	251,215	671	418,687
<b>Total</b>	<b>4,368</b>	<b>956,563</b>	<b>6,498</b>	<b>1,233,489</b>

The table below presents restructured loan portfolio outstanding as at 31 December:

Product	2019		2018	
	No of accounts	Loan amount AED'000	No of accounts	Loan amount AED'000
Personal loans	2091	919,197	2,157	1,008,303
Mortgage loans	80	175,806	75	160,072
Credit cards	7661	206,304	9,526	280,347
Auto loans	910	33,778	1,549	77,630
Small and medium business loans	362	226,538	305	183,581
Wholesale banking loans	31	296,499	54	283,124
RAK finance business loans	990	493,654	1,185	594,743
<b>Total</b>	<b>12,125</b>	<b>2,351,776</b>	<b>14,851</b>	<b>2,587,800</b>

## **42 Financial risk management (continued)**

### ***Credit risk (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 and 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".

#### *Reposessed collateral*

The Group occasionally takes possession of mortgaged property which is held as collateral for loans. During the year 2018, the Group did not acquire of any mortgaged property. The Group had directly auctioned mortgaged properties without taking possession of the property, the realised amount of auctioned properties during the year 2019 was AED 27.7 million (2018: AED 20.5 million). In the case of retail auto loans and wholesale banking asset based finance where the underlying asset is reposessed as a part of recovery process, these are disposed of in an auction by authorised third parties and the Bank does not carry any such assets in its books.

### ***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.

## **42 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.

The sensitivity analysis for price risk illustrates how changes in the fair value of securities 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.

### *Interest rate risk*

Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Group monitors interest rate risk through the use of a detailed Interest Reprice gap report and Net Interest Income (NII) and Economic Value of Equity (EVE) based sensitivity analysis to analyze the impact of anticipated movements in interest rates. The Group has Risk Appetite limits for Interest rate risk shocks on the Group's Net Interest Income. The bank have a well-defined Enterprise Risk, Market Risk, Investment & Trading Policies that covers the Interest Rate Risk framework & risk appetite limits for Interest Rate Risk, the bank risk governance framework includes the escalation mechanism in case limits are in breach & the reporting required at the management or board level risk committees, the bank annual ICAAP process includes a complete stress testing exercise to assess the impact of interest rate shocks on the banking book with a management mitigation plan to maintain the risk within the acceptable risk appetite.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
(continued)

**42 Financial risk management (continued)**

**Market risk (continued)**

*Interest rate risk (continued)*

Also the bank has a Hedging framework which includes the hedging strategies & the governance process for both fair value & 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	3 months to 1 year	1 – 3 years	3 – 5 years	Over 5 years	Non - interest bearing	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>At 31 December 2019</b>							
<b>Assets</b>							
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
Investment securities, net	611,354	1,481,461	1,299,129	1,853,285	2,680,359	215,845	8,141,433
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
<b>Total</b>	<b>22,210,585</b>	<b>11,069,505</b>	<b>8,819,934</b>	<b>3,950,376</b>	<b>5,369,283</b>	<b>5,699,876</b>	<b>57,119,559</b>
<b>Liabilities and shareholders' equity</b>							
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
<b>Total</b>	<b>24,845,207</b>	<b>9,416,019</b>	<b>1,146,093</b>	<b>1,821,264</b>		<b>19,890,976</b>	<b>57,119,559</b>
<b>Interest rate sensitivity gap</b>	<b>(2,634,622)</b>	<b>1,653,486</b>	<b>7,673,841</b>	<b>2,129,112</b>	<b>5,369,283</b>	<b>(14,191,100)</b>	<b>-</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

**Market risk (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
<b>At 31 December 2018</b>							
<b>Assets</b>							
Cash and balances with the UAE Central Bank	450,000	100,000	-	-	-	4,397,996	4,947,996
Due from other banks, net	2,825,791	1,849,721	65,000	25,000	-	(9,970)	4,755,542
Loans and advances, net	17,327,706	5,406,828	7,136,267	2,205,456	3,018,261	(2,233,856)	32,860,662
Investment securities, net	455,205	531,231	1,046,102	1,813,618	3,106,498	236,479	7,189,133
Insurance contract assets and receivables, net	-	-	-	-	-	400,439	400,439
Goodwill and other intangible assets, Right of use assets, Property and equipment, Customer acceptances and other assets	-	-	-	-	-	2,521,468	2,521,468
<b>Total</b>	<b>21,058,702</b>	<b>7,887,780</b>	<b>8,247,369</b>	<b>4,044,074</b>	<b>6,124,759</b>	<b>5,312,556</b>	<b>52,675,240</b>
<b>Liabilities and shareholders' equity</b>							
Due to other banks	3,278,332	1,103,130	-	-	-	-	4,381,462
Deposits from customers	18,437,905	5,652,749	740,611	171	-	9,308,348	34,139,784
Debt securities issued and other long term borrowings <sup>1</sup>	1,985,012	2,841,093	-	-	-	-	4,826,105
Insurance contract liabilities and payables	-	-	-	-	-	507,938	507,938
Other liabilities and customer acceptances	-	-	-	-	-	1,693,146	1,693,146
Shareholders' equity	-	-	-	-	-	7,126,805	7,126,805
<b>Total</b>	<b>23,701,249</b>	<b>9,596,972</b>	<b>740,611</b>	<b>171</b>	<b>-</b>	<b>18,636,237</b>	<b>52,675,240</b>
<b>Interest rate sensitivity gap</b>	<b>(2,642,547)</b>	<b>(1,709,192)</b>	<b>7,506,758</b>	<b>4,043,903</b>	<b>6,124,759</b>	<b>(13,323,681)</b>	<b>-</b>

\* 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:

	<b>2019 AED'000</b>	<b>2018 AED'000</b>
Fluctuation in interest rates by 25 bps	<b>29,825</b>	<b>34,829</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

**Market risk (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 33,280 million (2018: AED 28,946 million) of interest bearing assets with maturities within one year and AED 43,725 million (2018: AED 42,607 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.

*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 2019, the Bank had the following net exposures denominated in AED and foreign currencies:

*On balance sheet items*

	AED AED'000	USD AED'000	Others AED'000	Total AED'000
<b>At 31 December 2019</b>				
<b>Assets</b>				
Cash and balances with the UAE Central Bank	4,139,552	645,371	581	4,785,504
Due from other banks	203,367	5,592,249	797,617	6,593,233
Loans and advances	27,650,755	6,815,562	84,246	34,550,563
Insurance contract assets	335,433	-	-	335,433
Investment securities	139,406	6,871,423	1,130,604	8,141,433
Customer acceptances	35,577	384,807	3,881	424,265
<b>Total assets</b>	<b>32,504,090</b>	<b>20,309,412</b>	<b>2,016,929</b>	<b>54,830,431</b>
<b>Liabilities</b>				
Due to other banks	1,762,300	3,107,168	107,587	4,977,055
Deposits from customers	26,440,151	7,499,289	2,886,920	36,826,360
Debt securities in issue and other long term borrowings	-	4,105,579	783,302	4,888,881
Insurance contract liabilities and payables	556,374	-	-	556,374
Customer acceptances	35,577	384,807	3,881	424,265
<b>Total liabilities</b>	<b>28,794,402</b>	<b>15,096,843</b>	<b>3,781,690</b>	<b>47,672,935</b>
<b>Net position of financial instruments</b>	<b>3,709,688</b>	<b>5,212,569</b>	<b>(1,764,761)</b>	<b>7,157,496</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019  
(continued)**

**42 Financial risk management (continued)**

**Market risk (continued)**

*Currency risk (continued)*

*On balance sheet items (continued)*

	AED AED'000	USD AED'000	Others AED'000	Total AED'000
<i>At 31 December 2018</i>				
<b>Assets</b>				
Cash and balances with the UAE Central Bank	4,222,931	724,223	842	4,947,996
Due from other banks	456,876	3,903,932	394,734	4,755,542
Loans and advances	27,568,227	5,281,679	10,756	32,860,662
Insurance contract assets	304,668	-	-	304,668
Investment securities	178,487	6,401,711	608,935	7,189,133
Customer acceptances	40,965	515,379	5,360	561,704
<b>Total assets</b>	<b>32,772,154</b>	<b>16,826,924</b>	<b>1,020,627</b>	<b>50,619,705</b>
<b>Liabilities</b>				
Due to other banks	1,166,300	2,534,411	680,751	4,381,462
Deposits from customers	25,675,510	5,886,821	2,577,453	34,139,784
Debt securities in issue and other long term borrowings	-	4,826,105	-	4,826,105
Insurance contract liabilities and payables	507,938	-	-	507,938
Customer acceptances	40,965	515,379	5,360	561,704
<b>Total liabilities</b>	<b>27,390,713</b>	<b>13,762,716</b>	<b>3,263,564</b>	<b>44,416,453</b>
<b>Net position of financial instruments</b>	<b>5,381,981</b>	<b>3,064,208</b>	<b>(2,242,937)</b>	<b>6,202,712</b>

The Group has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the Bank has the largest net open position at 31 December 2019 and 2018. All currency positions are within limits laid down by ALCO.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

**Market risk (continued)**

*Currency risk (continued)*

*Off-balance sheet items*

	AED AED'000	USD AED'000	Others AED'000	Total AED'000
<b>At 31 December 2019</b>				
Credit commitments	1,474,396	1,072,850	50,602	2,597,848
Letter of credit and guarantees	623,518	510,323	25,272	1,159,113
<b>Total</b>	<b>2,097,914</b>	<b>1,583,173</b>	<b>75,874</b>	<b>3,756,961</b>

*At 31 December 2018*

Credit commitments	1,545,526	474,878	-	2,020,404
Letter of credit and guarantees	782,530	713,226	35,677	1,531,433
<b>Total</b>	<b>2,328,056</b>	<b>1,188,104</b>	<b>35,677</b>	<b>3,551,837</b>

*Foreign exchange contracts*

	AED AED'000	USD AED'000	Others AED'000	Total AED'000
<b>At 31 December 2019</b>				
Foreign exchange contracts	3,619,524	4,417,230	4,435,332	12,472,086
Interest rate swaps	1,218,384	6,441,659	2,182,239	9,842,282
Other derivatives	900,000	4,163,341	521,957	5,585,298
<b>Total</b>	<b>5,737,908</b>	<b>15,022,230</b>	<b>7,139,528</b>	<b>27,899,666</b>

*At 31 December 2018*

Foreign exchange contracts	1,968,392	4,050,403	4,757,399	10,776,194
Interest rate swaps	755,903	5,316,961	-	6,072,864
Other derivatives	650,000	3,486,281	-	4,136,281
<b>Total</b>	<b>3,374,295</b>	<b>12,853,645</b>	<b>4,757,399</b>	<b>20,985,339</b>

*Impact of fluctuation in market rate on open currency position*

	2019 AED'000	2018 AED'000
Net open currency position	1,656,276	1,542,183
Impact of 1 % change in currency rate	16,563	15,422

## **42 Financial risk management (continued)**

### ***Market risk (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. Based on the directives of the ALCO, the Treasury manages the liquidity of the Bank.

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.

The USD 500 million Euro Medium Term Notes (EMTN) issued in June 2014 and the second tranche of USD 300 million issued in March 2015 matured and was repaid in full during June 2019. 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 maturing in October 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. As a contingency funding plan, the Group evaluates and keeps ready debt financing plans which can be quickly executed if required.

**42 Financial risk management (continued)**

***Market risk (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. ALCO monitors loans to stable resources ratios on a daily basis. The Group 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 to take suitable corrective actions once the internal thresholds have been reached.

The LSRR as at 31 December 2019, stood at 89.1 % (2018: 94.5%) which is significantly lower than the maximum requirement of 100%. Similarly, the Eligible Liquid Assets Ratio of the Group stood at 12.9% (2018: 14.5%) as at 31 December 2019, 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 2019 (continued)**

**42 Financial risk management (continued)**

*Market risk (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
<b>At 31 December 2019</b>							
Assets							
Cash and balances with the UAE Central Bank	4,485,504	300,000	-	-	-	-	4,785,504
Due from other banks	1,817,141	3,210,391	1,572,853	21,929	-	(29,081)	6,593,233
Loans and advances	7,507,057	5,862,491	8,653,526	6,841,976	7,397,078	(1,711,565)	34,550,563
Investment securities	795,765	1,541,163	1,334,519	1,791,611	2,706,641	(28,266)	8,141,433
Insurance contract assets and receivables	240,172	31,026	191,797	3,913	12,610	(39,037)	440,481
Customer acceptances	68,952	355,313	-	-	-	-	424,265
Goodwill and other intangible assets	-	-	-	-	166,386	-	166,386
Property and equipment, Right of use asset and other assets	1,018,614	28,466	113,865	25,119	831,630	-	2,017,694
<b>Total</b>	<b>15,933,205</b>	<b>11,328,850</b>	<b>11,866,560</b>	<b>8,684,548</b>	<b>11,114,345</b>	<b>(1,807,949)</b>	<b>57,119,559</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42 Financial risk management (continued)**

*Market risk (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
<b>At 31 December 2019</b>							
Liabilities and shareholders' equity							
Due to other banks	2,770,215	2,148,798	58,042	-	-	-	4,977,055
Deposit from customers	28,712,828	7,761,399	352,133	-	-	-	36,826,360
Debts securities issue and other long term borrowing	-	1,282,752	1,260,158	2,345,971	-	-	4,888,881
Insurance contract liabilities and payables	-	556,374	-	-	-	-	556,374
Customer acceptances	68,952	355,313	-	-	-	-	424,265
Other liabilities and lease liabilities	1,455,243	5,658	22,634	121,532	-	-	1,605,067
Shareholders' equity	-	-	-	-	7,841,557	-	7,841,557
<b>Total</b>	<b>33,007,238</b>	<b>12,110,294</b>	<b>1,692,967</b>	<b>2,467,503</b>	<b>7,841,557</b>	<b>-</b>	<b>57,119,559</b>
Net cumulative liquidity gap	(17,074,033)	(17,855,477)	(7,681,884)	(1,464,839)	1,807,949	-	-
<b>At 31 December 2018</b>							
Total assets	16,153,903	8,870,987	10,536,363	8,298,235	10,890,567	(2,074,815)	52,675,240
Total liabilities and equity	30,798,586	11,266,322	2,960,453	523,074	7,126,805	-	52,675,240
Net cumulative liquidity gap	(14,644,683)	(17,040,018)	(9,464,108)	(1,688,947)	2,074,815	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
(continued)

**42 Financial risk management (continued)**

**Market risk (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
<b>At 31 December 2019</b>				
Credit commitments	2,597,848	-	-	2,597,848
Letter of credits and guarantees	888,008	271,105	-	1,159,113
<b>Total</b>	<b>3,485,856</b>	<b>271,105</b>	<b>-</b>	<b>3,756,961</b>
<b>At 31 December 2018</b>				
Credit commitments	2,020,404	-	-	2,020,404
Letter of credits and guarantees	1,412,623	118,210	600	1,531,433
<b>Total</b>	<b>3,433,027</b>	<b>118,210</b>	<b>600</b>	<b>3,551,837</b>

**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
<b>At 31 December 2019</b>					
<b>Assets</b>					
Investment securities	5,186,139	2,618,152	-	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
<b>Total financial assets</b>	<b>51,875,137</b>	<b>2,618,152</b>	<b>26,905</b>	<b>648,640</b>	<b>55,168,834</b>
<b>Liabilities</b>					
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
<b>Total financial liabilities</b>	<b>47,672,935</b>	<b>-</b>	<b>90,734</b>	<b>286,644</b>	<b>48,050,313</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

**Market risk (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
<i>At 31 December 2018</i>					
<i>Assets</i>					
Investment securities	4,718,248	2,409,917	-	60,968	7,189,133
Derivative financial instruments	-	-	7,344	50,161	57,505
Cash and balances with the UAE central Bank	4,947,996	-	-	-	4,947,996
Due from other banks	4,755,542	-	-	-	4,755,542
Loans and advances	32,860,662	-	-	-	32,860,662
Insurance contract assets and receivables	304,668	-	-	-	304,668
Customer acceptances	561,704	-	-	-	561,704
Total financial assets	48,148,820	2,409,917	7,344	111,129	50,677,210
<i>Liabilities</i>					
Due to other banks	4,381,462	-	-	-	4,381,462
Deposits from customers	34,139,784	-	-	-	34,139,784
Debt securities issued and other long term borrowings	4,826,105	-	-	-	4,826,105
Insurance contract liabilities and payables	507,938	-	-	-	507,938
Derivative financial instruments	-	-	56,881	43,599	100,480
Customer acceptances	561,704	-	-	-	561,704
Total financial liabilities	44,416,993	-	56,881	43,599	44,517,473

**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 2019**  
**(continued)**

**42 Financial risk management (continued)**

**Market risk (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.

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
<b>31 December 2019</b>				
<b>Asset at fair value</b>				
<i>(Through other comprehensive income)</i>				
Investment securities - debt	2,453,870	-	-	2,453,870
Investment securities - equity	161,776		2,612	164,388
Foreign exchange contracts	-	127,052	-	127,052
Derivative financial instruments	-	211,351	-	211,351
<i>(Through profit and loss)</i>				
Investment market fund	295,059	-	42,083	337,142
<i>(Held at amortised cost)</i>				
Investment securities - debt	4,865,024	-	463,653	5,328,677
	<b>7,775,729</b>	<b>338,403</b>	<b>508,348</b>	<b>8,622,480</b>
<b>Liabilities at fair value</b>				
Foreign exchange contracts	-	(109,746)	-	(109,746)
Derivative financial instruments	-	(267,632)	-	(267,632)
	<b>-</b>	<b>(377,378)</b>	<b>-</b>	<b>(377,378)</b>

There are no transfers between levels during the period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

**Market risk (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
<i>31 December 2018</i>				
<i>Asset at fair value</i>				
<i>(Through other comprehensive income)</i>				
Investment securities - debt	2,196,564	-	-	2,196,564
Investment securities - equity	210,924	-	2,612	213,536
Foreign exchange contracts	-	35,838	-	35,838
Derivative financial instruments	-	21,667	-	21,667
<i>(Through profit and loss)</i>	22,964	-	38,004	60,968
<i>(Held-for-trading)</i>				
Investment market fund	4,209,013	-	336,702	4,545,715
	<b>6,639,465</b>	<b>57,505</b>	<b>377,318</b>	<b>7,074,288</b>
<i>Liabilities at fair value</i>				
Foreign exchange contracts	-	45,986	-	45,986
Derivative financial instruments	-	54,494	-	54,494
	<b>-</b>	<b>100,480</b>	<b>-</b>	<b>100,480</b>

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**

	<b>2019 AED'000</b>	<b>2018 AED'000</b>
At 1 January	<b>2,612</b>	1,694
Purchases	-	918
Disposals/matured	-	-
Change in fair value	-	-
<b>At 31 December</b>	<b>2,612</b>	<b>2,612</b>

**Reconciliation of Level 3 fair value measurement of financial assets measured at FVPL**

	<b>2019 AED'000</b>	<b>2018 AED'000</b>
At 1 January	<b>38,004</b>	19,153
Purchases	-	18,369
Disposals/matured	-	-
Change in fair value	<b>4,079</b>	482
<b>At 31 December</b>	<b>42,083</b>	<b>38,004</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

**Market risk (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 2019, 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 2019 AED'000	31 December 2018 AED'000	31 December 2019 AED'000	31 December 2018 AED'000
<b>Assets</b>				
Loans and advances	34,906,646	33,050,411	34,550,563	32,860,662
Investment securities	8,284,077	7,016,783	8,141,433	7,189,133
Cash and balances with the UAE central Bank	4,789,244	4,948,723	4,785,504	4,947,996
Due from other banks	6,530,790	4,725,694	6,593,233	4,755,542
<b>Total financial assets</b>	<b>54,510,757</b>	<b>49,741,611</b>	<b>54,070,733</b>	<b>49,753,333</b>
<b>Liabilities</b>				
Due to other banks	4,973,965	4,418,479	4,977,055	4,381,462
Deposits from customers	36,843,560	34,102,734	36,826,360	34,139,784
Debt securities issued and other long term borrowings	4,895,514	4,821,560	4,888,881	4,826,105
<b>Total financial liabilities</b>	<b>46,713,039</b>	<b>43,342,773</b>	<b>46,692,296</b>	<b>43,347,351</b>

**42 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 2019***

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 2019 and 31 December 2018 is given below:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**42 Financial risk management (continued)**

***Capital Management (continued)***

	<b>31 December 2019 AED'000</b>	<b>31 December 2018 AED'000</b>
<b><i>Tier 1 capital</i></b>		
Ordinary share capital	<b>1,676,245</b>	1,676,245
Legal and other reserves	<b>4,077,839</b>	3,953,624
Retained earnings	<b>919,100</b>	542,158
Current year profit	<b>1,104,419</b>	910,239
Dividend	<b>(502,874)</b>	(502,874)
<b>Tier 1 capital base</b>	<b>7,274,729</b>	6,579,392
<b>Tier 2 capital base</b>	<b>526,496</b>	476,626
<b>Total capital base</b>	<b>7,801,225</b>	7,056,018
<b><i>Risk weighted assets</i></b>		
Credit risk	<b>42,119,704</b>	38,130,054
Market risk	<b>1,178,301</b>	464,985
Operational risk	<b>3,044,186</b>	2,451,565
<b>Total risk weighted assets</b>	<b>46,342,191</b>	41,046,604
Capital adequacy ratio on Tier 1 capital	<b>15.70%</b>	16.03%
Capital adequacy ratio on Tier 2 capital	<b>1.13%</b>	1.16%
<b>Total Capital adequacy ratio</b>	<b>16.83%</b>	17.19%

**43 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.

### **43 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 2019**  
**(continued)**

**43 Insurance risk (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.

*Concentration of insurance risk*

The insurance risk arising from insurance contracts is concentrated mainly in the United Arab Emirates.

The geographical risk profile is similar to last year.



#### **43 Insurance risk (continued)**

##### ***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.

#### **44 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:

**44 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 is evaluated and their performance measured, the risks that affect the performance of the assets and how these 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 and so 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.

**44 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, 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
- (ii) 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. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 44 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 achieving a stabilized level of performance based on the approved business plan of the cash generating unit for the next five years.

##### **(iii) Discount rates**

Management has used the discount rate of 10.52% 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 2019 (continued)

### 44 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.

#### *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.

### 45 Social contributions

The social contributions made (including donations and charity) during the year to various beneficiaries amounted to AED 0.66 million (2018: AED 1.1 million).

### 46 Subsequent Events

The Board of Directors have proposed a cash dividend of 30% per share at their meeting held on 5 February 2020.

### 47 Approval of the consolidated financial statements

The consolidated financial statements were approved on **5 February 2020**