Consolidated financial statements
For the year end 31 December 2020

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AAFAQ
islamic finance الإسلامية للتمويل

Towards the Future

AAFAQ ISLAMIC FINANCE P.S.C.

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

DIRECTOR'S REPORT

Dear Valued Shareholders,

Assalamualaikum Warahmatullahi Wabarakatuh,

On behalf of the Board of Directors of aafaq Islamic Finance P.S.C. ("aafaq" or the "Company"), I am pleased to present the Directors' Report and audited consolidated financial statements for the year ended 31 December 2020, a year where on one hand Aafaq delivered outstanding results whilst on the other the COVID 19 pandemic created a world crisis that has changed the dynamics of the global economy.

To begin with, I would like to thank and express our utmost appreciation to the remarkable leadership of the United Arab Emirates who guided the nation throughout this pandemic and strived tirelessly to keep us safe and help us with our recovery. The combined efforts of our visionary leadership, the front liners, and the entire nation have played a pivotal role to safeguard us through these difficult times and we are confident that we will come out of this pandemic a stronger, unified, and more stable nation.

Despite the COVID 19 head wind in 2020, aafaq achieved a net profit of AED 170.1 million, an increase of 68% compared to 2019. This exemplifies our robust business strategies, constant guidance from the Board of Directors and continuous efforts of our team at aafaq. Our operating income in 2020 increased to AED 291 million, growing by 11.7% compared to 2019. The growth is well-balanced between financing, fees, income from investments, and treasury activities. I would particularly like to highlight the strong growth in our financing portfolio during the 2020's challenging market conditions. Simultaneously, our customer accounts and wakala portfolio also crossed the AED 320 million mark, which is more than two times the 2019 levels. This shows that our visibility in the market has improved and we have been able to build trust among both SME's and corporate clients.

We continue to focus on our core objective to increase shareholder returns. We paid out 7% cash dividend per share for each of the past two years and this year, for 2020, we recommend to pay out 15% subject to the UAE Central Bank approval.

aafaq successfully launched several new innovative products and services in 2020. We introduced Sahobat investment deposit program and Osool SME Finance. These programs specifically target Emirati owned businesses in partnership with "Mohamed Bin Rashid Establishment for SME development". We also launched a new credit card product called the "HOPE PROBE" to celebrate the UAE Mars Mission as per His Highness Sheikh Khalifa bin Zayed al Nahyan's vision. We also launched Ladies credit card and an Internet card. Furthermore, we signed up with new strategic partnerships Ajman DED, National Bond, and E-dirham Generation-3 services launched by the UAE Ministry of Finance.

As part of our strategic plan to diversify our sources of income, aafaq obtained the necessary initial approvals to enter into the money exchange business by acquiring an existing exchange company in the UAE. In addition, aafaq is also opening a new branch in Dubai to enhance both its corporate and individual customer experience. In 2020 aafaq also won several awards such as, the "Best Service Performance Brand Award" and the "Best Adoption of Tools & Governance Award".

We approached the COVID 19 pandemic proactively and engaged our strategic partners during this challenging period. We took several measures to ensure that we are able to provide continuous services to our customers through our outlets and offices. We also developed new ways to communicate, transact and deliver service to our customers using various electronic channels. Meanwhile, we adopted the highest standards of health and safety in all our offices and business locations to protect both our employees and our customers.

Lastly, I would like to extend my gratitude to aafaq's Board of Directors for their support and commitment, senior aafaq management team, and all the staff, for their exceptional performance and hard work in 2020. We look forward to a prosperous 2021 and aim to achieve even better results. I wish you all a good health and well-being. Thank you.

Sheikh Sultan Bin Mohammed Bin Khalid Al Nahyan

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AAFAQ ISLAMIC FINANCE P.S.C.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Aafaq Islamic Finance P.S.C. (the "Company") and its subsidiary (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Other Information

The Board of Directors are responsible for the other information. The other information comprises the Director's Report, which we obtained prior to the date of this auditor's report, The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not 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 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.

Akbar Ahmad (1141), Cynthia Corby (995), Georges Najem (809), Mohammad Jallad (1164), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem M. Dajani (726), Obada Alkowatly (1056), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practicing auditors with the UAE Ministry of Economy.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AAFAQ ISLAMIC FINANCE P.S.C. (continued)

Other Information (continued)

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.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those 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;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AAFAQ ISLAMIC FINANCE P.S.C. (continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management' 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 auditors' 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; and
- 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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AAFAQ ISLAMIC FINANCE P.S.C. (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The 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;
- The Company has maintained proper books of account;
- The financial information included in the Directors' Report is consistent with the books of account and records of the Group;
- Note 8 to the consolidated financial statements of the Group disclose purchase or investments in shares during the financial year ended 31 December 2020;
- Note 21 reflects the disclosures relating to social contributions made during the year;
- Note 24 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and
- For the year ended 31 December 2020, the Company was not compliant with the following provisions of UAE Federal Law No. 2 of 2015:
  - Article 152 which restricts entering into transactions with related parties exceeding 5% of the total share capital of the Company without consent of the General Assembly and those transactions shall be assessed by an assessor approved by the by the Ministry of Economy; and
  - Article 153 restricts a joint stock company from providing loans to its directors.

In pursuance of Clause 21 of Finance Companies Regulation Circular No. 112/2018 dated 24 April 2018 (the "Regulation"), the Company will have to adjust their provisions in accordance with the Articles of this Regulation until 30 June 2023, for which the Company has provided the Central Bank with a detailed adjustment plan to comply with the Regulation.

Based on the information that has been made available to us, except for the matters described in the preceding paragraph, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or the Company's Articles of Association which would materially affect its activities or its financial position as at 31 December 2020.

Deloitte & Touche (M.E.)

Obada Alkowatly
Registration No. 1056
8 March 2021
Abu Dhabi
United Arab Emirates

Consolidated Statement of financial position
as at 31 December 2020

	Notes	2020 AED'000	2019 AED'000
ASSETS			
Cash and cash equivalents	4	316,812	248,841
Wakala deposits with Islamic financial institutions	5	273,130	1,320,181
Islamic financing assets	6	973,794	827,726
Investment securities	8	1,059,220	953,269
Investment properties	9	208,192	222,000
Other assets	10	82,355	53,869
Property and equipment	11	31,025	35,916
Total assets		2,944,528	3,661,802
LIABILITIES AND EQUITY			
Margins against letters of guarantee	12	1,316,227	2,372,472
Customer accounts and deposits	13	323,489	110,380
Other liabilities	14	378,570	364,785
Total liabilities		2,018,286	2,847,637
Equity			
Share capital	15	275,000	275,000
Legal reserve	16	139,384	138,371
Investment revaluation reserve	16	9,834	4,150
Translation reserve	16	(19,385)	6,968
Retained earnings		482,321	350,461
Equity attributable to shareholders of the Group		887,154	774,950
Non-controlling interests	26	39,088	39,215
Total equity		926,242	814,165
Total liabilities and equity		2,944,528	3,661,802

Chairman | **Chief Executive Officer** | **Finance and Treasury Director**

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

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

	Notes	2020 AED'000	2019 AED'000
Operating income			
Profit from Islamic financing assets from customers		**74,022**	69,016
Profit from wakala deposits and bank balances	**17**	**21,859**	57,582
Profit from sukuk		**31,420**	32,320
Net fair value gain on investments	**18**	**9,131**	13,811
Net fees and commission income	**19**	**87,083**	57,109
Other operating income	**20**	**67,693**	30,910
Total operating income		**291,208**	260,748
Depositors share of profit		**(8,973)**	(4,180)
Net operating income		**282,235**	256,568
Operating expenses			
General and administrative expenses	**21**	**(86,213)**	(84,450)
Loss on fair valuation of investment properties	**9**	**(20,000)**	(30,500)
Reversal/(charge) of impairment loss on financial assets	**22**	**1,308**	(34,890)
Tax and zakat		**(7,254)**	(5,336)
Profit for the year		**170,076**	101,392
Profit for the year attributable to:			
Shareholders of the Group		**162,274**	102,512
Non-controlling interests		**7,802**	(1,120)
		170,076	101,392

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

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

	2020 AED'000	2019 AED'000
Profit for the year	**170,076**	101,392
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Movement in investment revaluation reserve for debt instrument at FVTOCI		
- fair value gains/(losses) arising during the year	**6,090**	28,048
- net impairment loss	**(364)**	905
- reclassification of (gains)/losses included in profit or loss	-	(477)
Exchange difference arising on translation of foreign operations	**(34,235)**	9,101
Items that will not be reclassified to profit or loss		
Movement in investment revaluation reserve for equity instrument at FVTOCI	**(42)**	(7,000)
Total other comprehensive (loss)/income for the year	**(28,551)**	30,577
Total comprehensive income for the year	**141,525**	131,969
Total comprehensive income for the year attributable to:		
Shareholders of the Group	**141,606**	130,956
Non-controlling interests	**(81)**	1,013
	141,525	131,969

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

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

	Share capital AED'000	Legal reserve AED'000	Investment revaluation reserve AED'000	Translation reserve AED'000	Retained earnings AED'000	Equity attributable to shareholders of the Group AED'000	Non controlling interests AED'000	Total equity AED'000
At 1 January 2020	**275,000**	**138,371**	**4,150**	**6,968**	**350,461**	**774,950**	**39,215**	**814,165**
Profit for the year	-	-	-	-	162,274	**162,274**	7,802	**170,076**
Other comprehensive income	-	-	5,684	(26,353)	-	**(20,669)**	(7,882)	**(28,551)**
Total comprehensive income	-	-	5,684	(26,353)	162,274	**141,605**	(80)	**141,525**
Directors' remuneration	-	-	-	-	(10,151)	**(10,151)**	(47)	**(10,198)**
Dividends paid	-	-	-	-	(19,250)	**(19,250)**	-	**(19,250)**
Transfer to legal reserve	-	1,013	-	-	(1,013)	-	-	-
At 31 December 2020	**275,000**	**139,384**	**9,834**	**(19,385)**	**482,321**	**887,154**	**39,088**	**926,242**
At 1 January 2019	**275,000**	**132,536**	**(17,326)**	**-**	**280,534**	**670,744**	**38,641**	**709,385**
Profit for the year	-	-	-	-	102,512	**102,512**	(1,120)	**101,392**
Other comprehensive income	-	-	21,476	6,968	-	**28,444**	2,133	**30,577**
Total comprehensive income	-	-	21,476	6,968	102,512	**130,956**	1,013	**131,969**
Directors' remuneration	-	-	-	-	(7,500)	**(7,500)**	-	**(7,500)**
Dividends paid	-	-	-	-	(19,250)	**(19,250)**	(439)	**(19,689)**
Transfer to legal reserve	-	5,835	-	-	(5,835)	-	-	-
At 31 December 2019	**275,000**	**138,371**	**4,150**	**6,968**	**350,461**	**774,950**	**39,215**	**814,165**

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

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

	Notes	2020 AED'000	2019 AED'000
Cash flows from operating activities			
Profit for the year before tax and zakat		**177,330**	106,728
Adjustments for:			
Depreciation on property and equipment	**21**	**7,647**	7,126
Gain on disposal of property and equipment		**(52)**	(13)
Provision for end of service benefit	**14**	**915**	1,193
Fair value gain on revaluation of investments		**(9,131)**	(13,334)
Fair value loss on revaluation of investment properties	**9**	**20,000**	30,500
(Reversal)/charge of impairment of financial assets	**22**	**(1,308)**	44,890
Profit expense on lease finance	**14**	**19**	79
Foreign currency translation adjustment		**(33,927)**	9,043
Operating cash flow		**161,493**	186,212
(Increase)/decrease in assets			
Islamic financing assets		**(152,566)**	(155,028)
Other assets		**(30,152)**	19,210
Increase/(decrease) in liabilities			
Margins against letters of guarantee		**(1,056,245)**	(931,065)
Customer accounts and deposits		**213,109**	88,446
Other liabilities		**13,704**	50,202
Cash generated from operations		**(850,657)**	(742,023)
Overseas income tax and zakat		**(7,254)**	(5,336)
End of service benefit paid	**14**	**(829)**	(704)
Net cash used in operating activities		**(858,740)**	(748,063)
Cash flows from investing activities			
Acquisition of property and equipment		**(2,081)**	(1,712)
Proceeds from disposal of property and equipment		**52**	19
Net (purchases)/disposals of investments securities		**(90,772)**	165,195
Acquisition of investment properties		**(531)**	-
Net movement of Wakala deposits		**1,050,498**	546,783
Net cash generated from investing activities		**957,166**	710,285
Cash flows from financing activities			
Lease payments	**14**	**(1,007)**	(2,080)
Directors' remuneration		**(10,198)**	(7,500)
Dividend paid		**(19,250)**	(19,689)
Net cash used in financing activities		**(30,455)**	(29,269)
Net increase/(decrease) in cash and cash equivalents		**67,971**	(67,047)
Cash and cash equivalents at beginning of year		**248,841**	315,888
Cash and cash equivalents at end of year		**316,812**	248,841

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

1 Legal status and principal activities

Aafaq Islamic Finance P.S.C. (the "Company") is a Private Joint Stock Company incorporated in the Emirate of Dubai on November 8, 2006 with limited liability in accordance with the provisions of United Arab Emirates (UAE) Commercial Companies Law No. (8) of 1984 which was replaced by (UAE) Federal Law No. (2) of 2015 (concerning the commercial companies) from July 2017.

The Company is licensed by the Dubai Economy (formerly Department of Economic Development of Government of Dubai) and by the Central Bank of the UAE as an Islamic finance company and is primarily engaged in financing and investing activities that are conducted in accordance with Islamic Shari'a Laws, which prohibits usury, and within the provisions of its Memorandum and Articles of Association.

As at 31 December 2020, the Company was 79.8% owned by Mawarid Holding Investment LLC (the "Parent"). The Company is ultimately controlled by Emirates Business Group LLC. The registered office of the Company is located at Single Business Tower, Business Bay, Sheikh Zayed Road, P.O. Box 282400, Dubai, UAE.

2 Summary of significant accounting policies

(a) Statement of compliance

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

(b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income and investment properties.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:

- Level 1 input are quoted price (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (together referred to as the "Group"). Control is achieved when the Company:

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

The Company 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.

2 Summary of significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or 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 at previous shareholders' meetings.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests 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 and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group’s equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests’ share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount 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 the owners of the Group.

2 Summary of significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss 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), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). 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 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

The details of the Group's subsidiary is as follows:

Name of subsidiary	Place of incorporation	Proportion of ownership interest		Principal activity
		31 Dec 2020	31 Dec 2019	
National Bank of Sudan	Republic of Sudan	**76.6%**	76.6%	Banking operations

(d) Business combinations

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 assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are 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 at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 Share-Based Payments at the acquisition date (see below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any on-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 acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

2 Summary of significant accounting policies *(continued)*

(d) Business combinations *(continued)*

When the consideration transferred by the Group in a business combination includes 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 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 the 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. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to its acquisition-date fair value 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 other 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, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

(e) Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, 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 recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(f) Functional and presentation currency

The functional currency of the Group is United Arab Emirates Dirham ("AED"). These consolidated financial statements are presented in AED and amounts have been rounded to the nearest thousand except when otherwise indicated.

2 Summary of significant accounting policies *(continued)*

(g) New and revised IFRS and interpretations

The following table reflects new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2020 that have been adopted in these consolidated financial statements and forthcoming IFRS and interpretations that are not yet effective.

The amendments that are effective from 1 January 2020 had no material impact on the Group's consolidated financial statements except for IFRS 16 which is explained below.

IFRS	Title	Nature	Effective Date	As at 31 December 2020
IAS 1 [1] IAS 8	Presentation of Financial Statements Accounting Policies, Changes in Accounting Estimates and Errors	Amendments to IFRS	01/01/2020	Effective
IFRS 3[2]	Business Combinations	Amendments to IFRS	01/01/2020	Effective
IFRS 7[3] IFRS9	Financial Instruments: Disclosures Financial Instruments	Amendments to IFRS	01/01/2020	Effective
Various[5]	Conceptual Framework in IFRS	Amendments to IFRS	01/01/2020	Effective
IFRS 17	Insurance Contracts	Amendments to IFRS	01/01/2023	**
IFRS 10[4] IAS 28	Consolidated Financial Statements Investments in Associates and Joint Ventures	Amendments to IFRS	Deferred indefinitely	**

*** Not yet effective – forthcoming standards, amendments or interpretations*

[1] Definition of Material - The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity

[2] Definition of a Business - The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

[3] Amendments regarding pre-replacement issues in the context of the IBOR reform.

[4] Amendments relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

[5] Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.

These new IFRSs and amendments will be adopted in these consolidated financial statements when they become mandatorily effective. These standards and amendments will not have any material impact on these consolidated financial statements.

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2 Summary of significant accounting policies *(continued)*

(h) Financial instruments

The Group classifies its financial instruments in the following categories: financial assets or financial liabilities and measures them at fair value through profit or loss ("FVTPL"), amortised cost and fair value through other comprehensive income ("FVTOCI"). Management determines the classification of financial instruments at the time of initial recognition based on the requirements of IFRS 9.

Recognition and derecognition
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or is sold to another party. On derecognition of a financial asset (except for equity investments designated as FVTOCI), the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized through other comprehensive income and accumulated in equity is recognized in the statement of profit or loss.

Upon derecognition of equity instruments where the Group had elected FVTOCI option, gains or losses are not recognised in the statement of profit or loss. Correspondingly, the Group transfers such gains or losses including their respective accumulated balance in reserves directly to retained earnings.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of profit or loss.

Measurement
Upon recognition, financial assets and financial liabilities are initially measured at fair value plus (in the case of a financial asset or financial liability not classified as FVTPL) transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

Financial assets that are classified as FVTPL, the transaction costs are taken directly to the statement of profit or loss.

Financial assets at amortised cost
A financial asset is measured at amortised cost 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 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 profit on the principal amount outstanding.

These include cash and cash equivalents, wakala deposits, due from related parties, financing assets and other financial assets.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments *(continued)*

Financial assets (continued)
Financial assets at FVTOCI
A **debt instrument** is measured at FVTOCI 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 profit on the principal amount outstanding.

These include Group's sukuk portfolio.

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 investment-by-investment basis.

Financial assets at FVTPL
All financial assets other than those mentioned above are classified as measured at FVTPL. These includes Group's portfolio of investment securities and unquoted equity instruments

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

Financial liabilities
Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Financial liabilities are subsequently measured at amortised cost, except for financial liabilities at FVTPL. These includes margin deposits and other liabilities.

FVTPL classification is applied 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) and partially in profit or loss (the remaining amount of change in the fair value of the liability). The Group has not designated any liability as FVTPL

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Business model assessment

Financial assets at amortised cost or at FVTOCI

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how group of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and
- reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in
- particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

Financial assets at FVTPL

These are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 25 (g).

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Business model assessment *(continued)*

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' 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 costs and profit margin.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets and
- features that modify consideration of the time value of money

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets.

Modifications of financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms.

In case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine net carrying amount of the asset at that date. The difference between the revised carrying amount and the fair value of the new financial asset with the new terms is transferred to profit or loss as a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except where the new finance is considered to be originated credit impaired. This occurs only in the case where the fair value of the new finance is significantly discounted to its revised carrying value due to high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amounts reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously. Income and expenses are offset in the statement of profit or loss where it reflects the substance of the transaction or other event.

Impairment of financial assets

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- deposits and balances due from banks;
- sukuk;
- financing to customers; and
- finance commitments issued;

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month 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 that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are explained in Credit risk policy under risk management note 25.

Expected credit losses ("ECL") 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 EPR. However, for unfunded exposures, ECL is measured as 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 finance and the cash flows that the Group expects to receive if the finance is drawn down;

The Group measures ECL on an individual basis, or on a collective basis for portfolios of finances 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 EPR, regardless of whether it is measured on an individual basis or a collective basis.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Impairment of financial assets (continued)

Measurement of ECL

Credit loss allowances are categorised and measured using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1

Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, the expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2

When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3

Financial instruments that are considered impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

A financial asset or a group of financial assets are **"impaired"** when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets and that the loss event has an impact on the future cash flow of the assets.

At each reporting date, the bank assesses whether there is an objective evidence that financial assets not carried at FVTPL are impaired. Objective evidence that financial assets are impaired includes, but not limited to:

- Significant financial difficulty of a borrower or issuer
- Decrease in the risk rating
- Non-payment of obligations to other banks
- Default or delinquency by a borrower
- Restructuring of a facility by the Group on terms that the bank would not consider otherwise
- Indication that a borrower or issuer would enter bankruptcy
- Disappearance of an active market for a security

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

Probability of default (PD)

The probability of default is an estimate of the likelihood of default over a given time horizon.

Loss given default (LGD)

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

Exposure at default (EAD)

The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Impairment of financial assets (continued)

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due for more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. The decision to use cross-default is based on case by case assessment of borrower and facility conditions such as collateral and materiality of exposure.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk (SICR)
While determining whether the risk of default on a financial instrument has increased significantly since its origination, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on historical experience and expert credit assessment and including forward-looking information. For retail financing SICR is measure based on days past due.

The following are indicators to be considered for determination of SICR:

- internal risk grade;
- external credit rating (where available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or the quality of third-party
- guarantees or credit enhancements;
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macroeconomic information is incorporated as part of the internal rating model.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

Classification of financial instrument	Presentation in consolidated financial statements
Financial assets measured at amortised cost	Deducted from the gross carrying amount of the assets.
Debt instruments measured at FVTOCI	No loss allowance is recognised in the statement of financial position as the carrying amount of these assets is at their fair value. Correspondingly, the loss allowance is recognised in the other comprehensive income of these instrument.
Off balance sheet obligations	As a provision.

(i) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2 Summary of significant accounting policies *(continued)*

(j) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the statement of profit or loss in the period they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the statement of profit or loss in the year of retirement or disposal.

(k) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and provisions for impairment. Depreciation is provided for on a straight-line basis on all property and equipment. Where the carrying value 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 of and are taken into account in determining operating income. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	up to 10 years
Furniture and fixtures	up to 5 years
Office equipment	up to 10 years
Systems	up to 7 years
Motor vehicles	4 years
Right of use asset	3.5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(l) Staff termination and other benefits

In compliance with UAE Labour Law, the Group has a gratuity benefit scheme for all of its expatriate salaried employees. The Group is also a participant in a pension scheme in respect of eligible UAE national employees in compliance with applicable law.

Obligations for contributions to pension and gratuity schemes are recognised as an expense in the statement of profit or loss on an accrual basis.

(m) Income recognition

Profit income on investments, deposits and bank balances are recognised in profit or loss as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Profit income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of a profit generating instrument and its amount at maturity calculated on an effective profit rate basis.

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

2 Summary of significant accounting policies *(continued)*

(m) Income recognition *(continued)*

Fees and commission income and expenses that are integral to the effective profit rate on a financial asset or liability are included in the measurement of the effective profit rate. Other fees and commission income are recognised as the related services are performed.

Revaluation gains on investments include unrealised gains and losses due to changes in the fair value of financial assets designated at fair value through profit or loss and realised gains or losses on financial assets (debt investments) at fair value through other comprehensive income.

Dividend income is recognised in the profit or loss when the Group's right to receive payment is established.

Rental income arising from investment properties is accounted for on a straight-line basis over the lease terms and is presented as a part of other operating income.

(n) Provisions

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

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

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

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and balances with banks. However, for the purpose of the statement of cash flows, it includes wakala deposits and marketable investments with an original maturity up to three months.

(p) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates of exchange ruling at the statement of financial position date. Any resultant gains and losses are recognised in the statement of profit or loss.

2 Summary of significant accounting policies *(continued)*

(q) Islamic financing and investments – products, definitions and income recognition

Shari'a is the Islamic law which is essentially derived from the Quran and Sunnah that governs beliefs and conducts of human beings. The Group incorporates the Shari'a rules and principles in its activities.

Wakala deposits
Wakala deposit is an agreement whereby the Group (the Muwakkil) provides certain amount of funds (the Wakala Capital) to an agent (the Wakeel) to invest it in a Shari'a compliant manner and in accordance with the feasibility study/investment plan submitted to the Muwakkil by the Wakeel, who is entitled to a fixed fee (the Wakala Fee) as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. The Muwakkil bears the loss unless caused by the default, negligence or violation of any of the terms and conditions of the Wakala by the Wakeel. Wakala deposits are stated at amortised cost of the Wakala assets net of provision for impairment, if any, and Wakala capital amounts settled.

Estimated income from Wakala deposits is amortized on a time-apportioned basis over the period, adjusted by actual income when declared by the Wakeel, whereas the losses are charged to profit or loss on their declaration by the Wakeel.

Istisna'a
Istisna'a is a sale contract between two parties whereby one party (Sani' or seller) undertakes to construct, for the other party (Mustasni' or buyer), a specific asset or property according to certain pre-agreed specifications in consideration of a pre-determined price to be delivered during a pre-agreed period of time. The work undertaken is not restricted to be accomplished by the Sani' alone and the whole or part of the construction can be undertaken by third parties under the control and responsibility of the Sani'. Under an Istisna'a contract, the Group could be the Sani' or the Mustasni'.

Murabaha
A Murabaha Contract whereby the Group (the Seller) sells an asset to the Client (the Purchaser), on a deferred payment basis, after purchasing the asset, which the Seller has purchased and acquired, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha purchase price, payable by the Purchaser, comprises the cost of the asset and an agreed profit amount. The Purchaser usually pays the Murabaha Sale price on an instalment basis over the period of the Murabaha contract. Where the income is quantifiable, it is recognised on a time-apportioned basis over the period of the Murabaha contract.

Ijara
Ijara is an agreement whereby the Group (Lessor) leases an asset to the customer (Lessee) (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease), against certain rental payments for specific lease term/periods, payable on a fixed or variable rental basis. Leased assets are usually residential properties or commercial real estate.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as the basis for rental calculation, the timing of rental payments and responsibilities of both parties during the lease term. The customer provides the Group with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Group retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfilment of all the obligations by the customer under the Ijara agreement, the Group will sell the leased asset to the customer at a nominal value based on a sale undertaking given by the Group.

2 Summary of significant accounting policies *(continued)*

(q) Islamic financing and investments – products, definitions and income recognition *(continued)*

Income is recognized on an accrual basis over the lease term based on the fixed rental amount outstanding (which predominantly represents the cost of the leased asset).

Musharaka

Musharaka is used to provide venture capital or project finance. The Group and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne according to the capital contributions. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Estimated profit is amortized on a time-apportioned basis over the period, adjusted by actual profit when received, whereas the losses are charged to profit or loss on their declaration.

(r) Foreign operations

The activities of subsidiaries based outside the UAE are not deemed an integral part of the head office operations, as they are financially and operationally independent of the head office. The assets and liabilities of the foreign operations are translated into UAE Dirhams at rates of exchange at the reporting date. The income and expense of foreign operations are translated at average rates, as appropriate. Exchange differences arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income.

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest NCI.

(s) Leases

The Group assesses whether contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liabilities are included in other liabilities line in the statement of financial position.

2 Summary of significant accounting policies *(continued)*

(s) Leases *(continued)*

The lease liability is subsequently measured by increasing the carrying amount to reflect profit on the lease liability (using effective profit method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are included in property and equipment line in the statement of financial position.

The Group applies IAS36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'General and administrative expenses' in the statement of profit or loss.

As a practical expedient, IFRS16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

(t) Taxation and Zakat

Provision is made for Taxes and Zakat at rates enacted or substantively enacted as at statement of financial position date on taxable profits and net Zakatable assets of overseas subsidiary in accordance with the regulations of the respective country in which the subsidiary operates.

3 Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are continually evaluated and are based on historical experience and other factors. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows in order to determine the level of impairment provisions required for financing as well as for non-trading investments. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

Classification and measurement of financial assets (Business model assessment)

Classification and measurement of financial assets depends on the results of the SPPI 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 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.

Expected credit losses

Significant increase of credit risk

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

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 (e.g. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the borrower, etc.). 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.

3 Critical accounting judgments and key sources of estimation uncertainty *(continued)*

Expected credit losses

ECL Model and assumptions

The Group uses various models and assumptions in measuring ECL of financial assets. 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.

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 the 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.

Probability of default (PD)

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)

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.

Fair value measurement of investment properties

The fair value of investment properties is determined by independent real estate valuation experts using the Comparable Method and the Income Capitalisation Method. The Comparable Method utilizes the evidence of transactions or current asking prices of similar sites in the immediate vicinity and, if appropriate, applies adjustments to the sales figures based on market research and discussion with independent agents. Under the Income Capitalisation Method the income receivable under existing lease agreements and projected future rental streams are capitalised at appropriate rates to reflect the investment market conditions at the valuation dates. Information about the valuation techniques and inputs used in determining the fair value of investment properties are disclosed in note 9.

Fair value measurement of financial assets and valuation process

Some of the Group's financial assets are measured at fair value for financial reporting purposes. The Board of Directors of the Group are responsible to determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of a financial asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Management reports their findings to the Board of Directors to explain the cause of fluctuations in the fair value of the financial assets.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed in note 25 (g).

4 Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash in hand	**2,066**	3,987
Balances with Central bank	**40,467**	32,795
Balances with banks		
Current accounts	**88,164**	60,526
Call and savings accounts	**193,739**	159,147
	324,436	256,455
Loss allowances	**(7,624)**	(7,614)
	316,812	248,841

As at 31 December 2020, AED 248.7 million (2019: AED 223.2 million) of cash and cash equivalents are held with banks and other financial institutions based in the UAE.

See note 7 for movement in impairment for financial assets.

5 Wakala deposits with Islamic financial institutions

Wakala deposits include AED 281.5 million mainly invested in financial institutions in UAE (2019: AED 1,332 million). These deposits carry profit rates ranging from 1.0% to 5.50% (2019: 1.65% to 5.50%) per annum. The impairment allowance on such Wakala placement amounts to AED 8.4 million (2019: AED 11.9 million).

See note 7 for movement in impairment for wakala deposits.

6 Islamic financing assets

	2020 AED'000	2019 AED'000
Murabaha financing	**1,215,857**	1,119,501
Ijarah financing	**75,782**	39,278
Istisna'a financing	**2,462**	3,000
Other financing	**27,252**	32,809
Gross financing assets	**1,321,353**	1,194,588
Deferred income	**(211,489)**	(202,602)
Profit in suspense	**(5,413)**	(9,628)
Net financing assets before impairment	**1,104,451**	982,358
Impairment allowances	**(130,657)**	(154,632)
	973,794	827,726

In accordance with Shari'a principles, Islamic financing are provided for the activities that are entirely Sharia' compliant. As at 31 December 2020, AED 1,032 million (2019: AED 918 million) of Islamic financing assets are provided to customers based in the UAE.

Gross Ijara and related present value of the minimum Ijara payments

	2020 AED'000	2019 AED'000
Not later than one year	**18,460**	25,713
Later than one year but not later than five years	**26,890**	15,932
Later than five years	**53,189**	3,584
Gross Ijara	**98,539**	45,229
Less: Deferred income	**(22,757)**	(5,951)
Net Ijara	**75,782**	39,278
Net present value		
Not later than one year	**15,331**	22,890
Later than one year but not later than five years	**15,199**	13,703
Later than five years	**45,252**	2,685
Total net present value	**75,782**	39,278

See note 7 for movement in impairment for Islamic financing assets.

7 Impairment allowances

The movements in impairment allowance on financial assets, during the year are as follows:

	Cash and cash equivalents AED'000	Wakala deposits AED'000	Islamic financing assets AED'000	Sukuk AED'000	Other assets AED'000	Total AED'000
As at 1 January 2019	**8,114**	**14,836**	**110,322**	**6,256**	**4,542**	**144,070**
(Reversal)/charge for the year	(500)	(2,981)	44,310	905	(1,102)	40,632
As at 31 December 2019	**7,614**	**11,855**	**154,632**	**7,161**	**3,440**	**184,702**
Charge/(reversal) for the year	10	(3,447)	837	(364)	1,361	(1,603)
Other adjustments*	-	-	(266)	-	-	(266)
Amounts written off	-	-	(24,546)	-	-	(24,546)
As at 31 December 2020	**7,624**	**8,408**	**130,657**	**6,797**	**4,801**	**158,287**

** Includes foreign exchange translation impact.*

ECL impairment on sukuk is included in revaluation reserve for debt investments carried at FVTOCI and recognised in other comprehensive income.

8 Investment securities

	2020 AED'000 Quoted	Unquoted	Total
FVTPL investments			
Equity instruments	**84,064**	**280,000**	**364,064**
Investment in funds	**7,715**	**-**	**7,715**
	91,779	**280,000**	**371,779**
Debt instruments carried at amortised cost			
Cost	**-**	**6,575**	**6,575**
Loss allowances	**-**	**(1,848)**	**(1,848)**
	-	**4,727**	**4,727**
FVTOCI investments:			
Equity instruments	**9,958**	**716**	**10,674**
Sukuk	**672,040**	**-**	**672,040**
	681,998	**716**	**682,714**
	773,777	**285,443**	**1,059,220**

ECL impairment on FVTOCI sukuk is included in revaluation reserve for debt investments carried at FVTOCI and recognised in other comprehensive income.

See note 7 for movement in impairment for debt securities classified as FVTOCI.

8 Investment securities *(continued)*

Investment securities as of 31 December 2019 were classified as following:

	2019 AED'000 Quoted	Unquoted	Total
FVTPL investments			
Equity instruments	71,114	280,000	351,114
Investment in funds	7,639	-	7,639
	78,753	280,000	358,753
Debt instruments carried at amortised cost			
Cost	-	8,865	8,865
Loss allowances	-	(1,848)	(1,848)
	-	7,017	7,017
FVTOCI investments:			
Equity instruments	-	10,669	10,669
Sukuk	576,830	-	576,830
	576,830	10,669	587,499
	655,583	297,686	953,269

9 Investment properties

The below table shows the movements in investment properties. The valuations of these properties are based on significant unobservable inputs and as a result are classified as Level 3 under the fair value hierarchy.

	2020 AED'000	2019 AED'000
At 1 January	**222,000**	252,500
Additions during the year	**6,192**	-
Loss on fair valuation of investment properties	**(20,000)**	(30,500)
At 31 December	**208,192**	222,000

The fair values of the investment properties are arrived at on the basis of a valuation carried out by accredited independent valuers not connected with the Company. The valuers are members of professional valuers' associations and have appropriate qualifications and experience in the valuation of properties at the relevant locations. In estimating the fair value of the investment properties, the highest and best use of the properties is their current use. There has been no change to the valuation techniques during the year. Refer to note 3 for the key assumptions used in determination of fair value of investment properties and significant estimation uncertainty related to determination of the fair value.

9 Investment properties *(continued)*

The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. The investment properties are categorised under Level 3 in the fair value hierarchy. There were no transfers between Levels 1, 2 or 3 during 2020 or 2019.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

A description of the valuation techniques used and key inputs to the valuations of investment properties as at 31 December 2020 and 2019 is as follows:

Property	Valuation technique	Significant unobservable inputs	Sensitivity
Plots of land	Comparable Method	Comparable transactions Current market prices of similar assets	Change in micro and macro-economic conditions would cause a significant impact
Apartments/ buildings	Income Capitalisation Method	Capitalisation rate, void rate, annual market rent, discount rate	A slight change in one of the inputs may not have a significant impact, however, a change in multiple inputs could result in a significant impact on the value.

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

	2020 AED'000	2019 AED'000
Rental income	**2,241**	3,359
Direct operating costs	**290**	479

10 Other assets

	2020 AED'000	2019 AED'000
Accrued profit	**11,397**	22,782
Advances, deposits and prepayments	**27,112**	28,516
Other assets	**47,532**	4,949
Staff advances	**1,115**	1,062
	87,156	57,309
Impairment allowances	**(4,801)**	(3,440)
	82,355	53,869

See note 7 for movement in impairment of other assets.

11 Property and equipment

	Land and Buildings AED'000	Furniture and fixtures AED'000	Office and computer equipment AED'000	Motor Vehicles AED'000	Right of use Asset* AED'000	Total AED'000
Cost						
1 January 2020	25,822	3,365	15,620	1,518	5,501	51,826
Additions	137	361	696	887	2,923	5,004
Disposals	-	-	(5)	(819)	(5,501)	(6,325)
Other adjustments[1]	(257)	-	(210)	(88)	-	(555)
At 31 December 2020	25,702	3,726	16,101	1,498	2,923	49,950
Accumulated depreciation						
At 1 January 2020	3,068	1,568	8,149	1,124	2,001	15,910
Charge for the year	2,503	1,321	1,718	301	1,804	7,647
Disposals	-	-	(5)	(819)	(3,561)	(4,385)
Other Adjustment[1]	(120)	-	(93)	(34)	-	(247)
At 31 December 2020	5,451	2,889	9,769	572	244	18,925
Net book value	20,251	837	6,332	926	2,679	31,025
Cost						
At 1 January 2019	25,569	3,260	14,302	1,422	-	44,553
IFRS 16 adjustment	-	-	-	-	5,501	5,501
1 January 2019 (restated)	25,569	3,260	14,302	1,422	5,501	50,054
Additions	185	105	1,288	134	-	1,712
Disposals	-	-	-	(57)	-	(57)
Other adjustments[1]	68	-	30	19	-	117
At 31 December 2019	25,822	3,365	15,620	1,518	5,501	51,826
Accumulated depreciation						
At 1 January 2019	544	920	6,387	925	-	8,776
Charge for the year	2,492	648	1,740	245	2,001	7,126
Disposals		-	-	(51)	-	(51)
Other adjustment[1]	32	-	22	5	-	59
At 31 December 2019	3,068	1,568	8,149	1,124	2,001	15,910
Net book value	22,754	1,797	7,471	394	3,500	35,916

*Right of use asset pertains to office space occupied in a building which is used as head office premises by the Group.

[1] pertains to foreign currency translation adjustment on property and equipment.

12 Margins against letters of guarantee

	2020 AED'000	2019 AED'000
Labour guarantees [1]	**1,302,683**	2,346,420
Corporate guarantees[2]	**13,544**	26,052
	1,316,227	2,372,472

[1] These are 100% margins collected by the Company on issuance of letters of guarantee in favour of the Ministry of Human Resources and Emiratisation (MOHRE) on behalf of its customers.
[2] These represent varying margins against corporate letters of guarantee (Note 23).

13 Customer accounts and deposits

	2020 AED'000	2019 AED'000
Savings accounts	**2,413**	370
Current accounts	**48,891**	31,899
Wakala deposits	**272,185**	78,111
	323,489	110,380

Wakala deposits amounting to AED 272.2million placed by UAE based corporate customers (2019: AED 78.1 million) and AED Nil by non-UAE financial institutions (2019: AED Nil). These deposits carry profit rates ranging from 0.50% to 4.55% per annum (2019: 0.50% to 4.55% per annum) having fixed maturity term which ranges up to 48 months.

14 Other liabilities

	2020 AED'000	2019 AED'000
Collections payable[1]	**90,528**	138,907
Outstanding cheques[2]	**93,671**	94,598
End of service benefits	**5,651**	5,565
Lease Liability	**1,935**	1,940
Others[3]	**186,785**	123,775
	378,570	364,785

[1] These represent collections made on behalf of Government organisations and subsequently payable to them.
[2] Outstanding cheques pertains to the amounts held by the Company on behalf of the customers.
[3] Others includes deferred income of AED 57.4 million (2019: Nil) collected in advance from customers, payable to unrestricted investment account holders of AED 34.5 million (2019: AED 42.4 million) and bills payable for trade finance to suppliers of AED 10.8 million (2019: AED 14.5 million).

14 Other liabilities *(continued)*

Lease Liabilities

	2020 AED'000	2019 AED'000
1 January	**1,940**	3,941
Additions	**2,923**	-
Deletions	**(1,940)**	-
Profit accretion	**19**	79
Lease payment during the year	**(1,007)**	(2,080)
	1,935	1,940

The remaining lease liabilities are payable within two years.

The Group provides gratuity benefits to its eligible employees. The movement in the employees' gratuity payable obligation was as follows:

	2020 AED'000	2019 AED'000
Balance at 1 January	**5,565**	5,076
Charge for the year	**915**	1,193
Payments during the year	**(829)**	(704)
Balance at 31 December	**5,651**	5,565

15 Share capital

The authorised, issued and fully paid-up share capital of the Company is 275 million shares of AED 1 each (2019: 275 million shares of AED 1 each).

16 Reserves

Legal reserve
In accordance with Article 239 of the Commercial Companies Federal Law No. 2 of 2015 (as amended), the Company is required to transfer 10% of its net profit for the year to a non-distributable legal reserve until the amount of the legal reserve is equal to 50% of the Company's share capital. The share premium of AED 125 million has been included in legal reserve as directed by Article 19 of the Company's Articles of Association.

Investment revaluation reserves
As at 31 December 2020, investment revaluation reserve represents cumulative gains or losses arising on revaluation of FVTOCI debt, equity investments and the impact of ECL on FVTOCI debt investments.

Translation reserve
As at 31 December 2020, translation reserve represents cumulative gains or losses arising on translation on the exchange differences arising from translation of the net investment in foreign operations.

17 Income from wakala deposits and bank balances

	2020 AED'000	2019 AED'000
Profit on wakala deposits	**18,481**	55,182
Profit on bank balances	**3,378**	2,400
	21,859	57,582

18 Net fair value gain/(loss) on investments

	2020 AED'000	2019 AED'000
Net fair value gain reclassified to profit or loss on disposal of debt securities classified as FVTOCI	-	477
Net fair value gain on quoted investments classified as FVTPL	**9,131**	13,334
	9,131	13,811

19 Net fees and commission income

	2020 AED'000	2019 AED'000
Fees and commission income:		
Fees	**25,010**	4,708
Commissions	**68,006**	57,852
	93,016	62,560
Fees and commissions expenses:		
Cash collection charges	**(2,366)**	(1,990)
Labour guarantees expenses	**(105)**	(231)
Bank fees and commissions	**(1,521)**	(1,642)
Credit card expenses	**(1,245)**	(979)
Others	**(696)**	(609)
	(5,933)	(5,451)
Net fees and commission income	**87,083**	57,109

20 Other operating income

	2020 AED'000	2019 AED'000
Dividend income	**35,082**	35,208
Others*	**32,611**	(4,298)
	67,693	30,910

* Others include gain / (loss) translation of foreign currency balances.

21 General and administrative expenses

	2020 AED'000	2019 AED'000
Salaries and related benefits	**53,395**	54,559
Sponsorship and marketing expenses	**7,376**	6,335
Legal and professional expenses	**5,918**	4,328
Depreciation (Note 11)	**7,647**	7,126
Other general and administrative expenses*	**11,877**	12,102
	86,213	84,450

*Other general and administrative expenses include social contributions amounting to AED 4,000 thousand (2019: AED Nil).

22 Net impairment loss on financial assets

	2020 AED'000	2019 AED'000
(Reversal) / Charge for the year (net of write backs)		
Financing assets at amortised cost	**(1,239)**	39,643
Financial assets at FVTOCI	**(364)**	905
Others	**-**	4,342
Write off / Bad debt recovered	**295**	(10,000)
	(1,308)	34,890

23 Contingencies and commitments

The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognized at the statement of financial position date.

	2020 AED'000	2019 AED'000
Guarantee given to the Central Bank of the UAE[1]	**200,000**	300,000
Guarantee to Government and other organisations	**12,886**	12,886
Labour guarantees issued	**1,400,846**	2,370,407
Corporate guarantees issued	**79,453**	66,834
Trade related contingencies	**97,700**	89,405
	1,790,885	2,839,532
Margin collected against guarantees	**(1,316,227)**	(2,372,472)
Wakalas encumbered against guarantees	**(82,918)**	(21,981)
	391,740	445,079

[1] Financial assets with a fair value of AED 253.7 million (2019: AED 477.3 million million) had been pledged as at 31 December 2020 relating to the guarantee given to the Central Bank of the UAE.

24 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personnel of the Group. Key management personnel comprise those who are involved in the strategic planning and decision making of the Group. The terms of these transactions are approved by the management and are made on terms agreed by the Board of Directors or management.

Remuneration of key management personnel and the Board of Directors remuneration during the year are as follows:

	2020 AED'000	2019 AED'000
Short term benefits	**6,567**	5,691
Post-employment benefits	**517**	520
Directors' remuneration	**10,198**	7,500

24 Related party transactions *(continued)*

The significant balances and transactions included in the consolidated financial statements are as follows:

	Parent[1] / Major Shareholder AED'000	Directors AED'000	Key Management Personnel AED'000	Total AED'000
At 31 December 2020				
Financing assets	**37,689**	**310,776**	**-**	**348,465**
Other assets / (liability)	**(185)**	**-**	**-**	**(185)**
Profit income	**2,289**	**12,683**	**-**	**14,972**
At 31 December 2019				
Financing assets	42,001	311,789	-	353,790
Other assets	1,217	-	-	1,217
Profit income	2,475	20,428	-	22,903

[1] Parent includes the Ultimate Parent of the Group and its subsidiaries.

25 Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the identification, evaluation, acceptance and management of risks or a combination of risks. Taking risk is core to the Group's business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise the potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. The key risks are credit, liquidity, market and operational risks. Market risk includes currency, profit rate and other price risks.

Risk Management Framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by two board committees (Risk and Compliance Committee ("BRCC') and Board Audit Committee ("BAC").

Board risk and Compliance Committee ("BRCC")
BRCC comprising of members from the Board, is responsible for recommending and setting the Group's risk strategy and policy guidelines, and subsequently monitoring adherence. BRCC takes credit decisions above management's discretionary powers, defines risk limits within which the Group's management operates and also monitors the overall risks for the Group. BRCC also has a responsibility to oversight the compliance with applicable laws and regulation. BRCC receives regular reports from Head of Risk and compliance summarising developments in the risk environment, alignment of business strategy with risk appetite, performance trends in the key Portfolios and actual or potential non-compliance with applicable laws and regulations.

The BRCC is assisted by two Management Level Committees in order to carry out reviews and make recommendations to the BRCC. These are the Management Risk and Compliance Committee (MRCC) and Assets and Liability Committee (ALCO).

25 Financial risk management *(continued)*

Risk Management Framework

Management Risk and Compliance Committee (MRCC)
The MRCC reviews and recommends the risk policies, risk appetite limits, potential credit and investment proposal recommendations to the BRCC and also ensures effective management of credit, market, operational, business continuity and reputational risks.

Asset Liability Committee (ALCO)
The ALCO reviews and advise to the BRCC for the Group's balance sheet structure and quality, management of liquidity and funding plans including profit rates on deposits and lending's.

Board Audit Committee (BAC)
The Board Audit Committee (BAC), assisted by the internal audit division, is charged with directly supporting the Board in fulfilling its responsibilities in safeguarding shareholders' funds. The BAC provides assurances to the Board that the policies and procedures and the objectives set by the Board, are being complied with. The BAC comprises three Board members and the Head of Audit, as its secretary, and meets at least four times a year.

The Group manages risks using three lines of defence comprising of business units, control units and Internal Audit. Business units, as the first line of defence, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and are in compliance with all relevant internal policies and processes. Risk, Legal and Compliance division, as the second line of defence, establishes risk controls comprising of policies and processes while also providing oversight and independent challenge to the first line of defence. The Head of Risk has a direct reporting line to the BRCC to ensure the independence of Risk from business. Internal audit, headed by Head of Audit, as the third line of defence, provides assurance to management and the Board of the effectiveness of risk management practices employed by the first two lines of defence. The Head of Audit has a direct reporting line to the BAC.

In broad terms, the structure enables the establishment of risk management policies, and monitoring and review of compliance with those policies. Significant risk issues are escalated to the appropriate committee for information and/or action. The identification, assessment, measurement and management of specific risks is further discussed below:

(a) Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to a financial instrument, to meet its obligations under a contract. It arises principally from financing, trade finance and non-trading investment activities. For risk management purposes, credit risk arising on trading investments is reported as a component of market risk exposure. The Group has policies and procedures dedicated to controlling and monitoring risk from all such activities.

The Group's primary exposure to credit risk arises from financing and receivables, due from banks, and investments. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Group is exposed to credit risk through commitments to extend financing and financial guarantees.

25 Financial risk management *(continued)*

(a) Credit risk

The maximum exposure to credit risk at the reporting date is shown below:

	Gross maximum exposure	
	2020 AED'000	2019 AED'000
Assets		
Cash and cash equivalents	**324,436**	256,455
Wakala deposits	**281,538**	1,332,036
Financing assets	**1,104,451**	982,358
Investment securities	**678,615**	585,695
Other assets	**80,259**	48,157
Contingencies and commitments	**1,890,885**	2,839,532
	4,360,184	6,044,233

Credit risk management

Credit risk is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counter party is evaluated, and appropriate credit limits are established. To reduce individual counterparty credit risk, the Group ensures that established limits and actual levels of exposure are regularly reviewed and updated by management. In addition, the Group's credit review procedures are designed to identify, at an early stage, exposures that require more detailed monitoring and review.

The Group uses an internal risk rating system to assess the credit quality of corporate borrowers having exposure above AED 1 million. Each corporate borrower is assigned a rating, including classified accounts. The risk rating system has 10 grades. Grades 1-7 are performing, and Grades 8 -10 are non– performing.

Exposures to Government and related entities, banks and non-banking financial institutions are evaluated using external ratings (where available). For sukuk, issue ratings is used, where available. Where issue rating is not available, issuer ratings considered for risk evaluation.

Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 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"). As per the guidance note, where provisions under IFRS 9 exceed provisions under circular 28/10 of the CBUAE, no amount is required to be transferred to the impairment reserve.

Impact of Covid-19

World Health Organization ("WHO") officially declared COVID-19 a global pandemic on 11 March 2020. Considering the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty and governments and authorities have instigated a host of measures to contain or delay the spread of the virus.

25 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Impact of Covid-19

On 27th March 2020, the IASB issued a guidance note, advising that both the assessment of Significant Increase in Credit risk ("SICR") and the measurement of expected credit loss ("ECL") are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. It is difficult currently to incorporate the specific effects of COVID-19 and government support measures on a reasonable and supportable basis.

In line with other global regulators, the Central Bank of UAE ("CBUAE") issued the Targeted Economic Support Scheme ("TESS") standards effective from 15th March 2020 followed by further guidance and circulars from time to time, to introduce the provision of temporary deferment of principal and/or profit on outstanding financing for all affected individuals and businesses with specific conditions. CBUAE also provided guidelines for assessment of SICR and related Credit Losses in line with IASB Guidelines.

Though the guidelines restricts movement of accounts from Stage 1 to Stage 2 or Stage 3 merely on the basis of deferment of instalments, it does provides a provision of appropriate ECL overlay based on the available information and assessment of COVID – 19 impact of particular customers.

Considering the notices issue by IASB and CBUAE as mentioned above, the Group has considered the potential impact (based on the best available information) of the uncertainties caused by the Covid-19 pandemic and taken in to account the economic support and relief measures of governments and central banks to support the economy.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or longer term.

The Group believes that allowing temporary deferments or providing extension of certain payments do not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the Covid-19 outbreak to resume regular payments. At this stage sufficient information is not available to enable the Group to individually differentiate between a borrowers' short-term liquidity constraints and a change in its lifetime credit risk.

Any changes made to ECL to estimate the overall impact of Covid-19 is subject to very high levels of uncertainty as limited forward-looking information is currently available on which to base those changes. Accordingly, detailed individual assessments can be reconducted for the significant facilities after the expiry of the relief period granted to certain customers.

The Group has recognized an additional ECL of AED 7 million of management overlays on a collective basis, based on the assessment of possible outcome of payment reliefs and impact of downturn weighting of macroeconomic parameters. This impact assessment is highly judgmental, and the Group will continue to reassess its position and the related impact on a regular basis for changes in macroeconomic environment as well as individual assessment of significant exposures.

25 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit risk management (continued)

Analysis of customers benefiting from payment deferrals.
The table below contains analysis of the deferral amount, Exposure at Default (EAD) and Expected Credit Losses (ECL) benefiting from deferrals under CBUAE TESS program as of 31 December 2020:

		Number of clients	Payment Deferrals AED'000	Exposure at default AED'000	Impairment allowance AED'000
Retail banking					
Stage 1	Group 1	121	695	12,624	511
	Group 2	-	-	-	-
		121	695	12,624	511
Stage 2	Group 1	-	-	-	-
	Group 2	19	54	1,160	189
		19	54	1,160	189
Wholesale banking					
Stage 1	Group 1	68	17,049	188,634	11,977
	Group 2	-	-	-	-
		68	17,049	188,634	11,977
Stage 2	Group 1	-	-	-	-
	Group 2	31	1,401	9,705	1,262
		31	1,401	9,705	1,262

As per the requirements of the Central Bank of UAE, the Company has divided its customers benefitting from payment deferrals into two groups as follows:

Group 1: includes those customers that are not expected to face substantial changes in their creditworthiness, beyond liquidity issues and are temporarily and mildly impacted by the Covid-19 crisis.

For these clients, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers will remain in their current IFRS 9 stage, at least for the duration of the crisis, or their distress, whichever is shorter.

Group 2: includes those customers that are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals.

For these customers, there is sufficient deterioration in credit risk to trigger IFRS 9 stage migration. The Company continues to monitor the creditworthiness of these customers, particularly indications of potential inability to pay any of their obligations as and when they become due.

25 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit risk management (continued)

Analysis of stage migrations of EAD and ECL for customers benefiting from payment deferrals.

	Non Credit impaired		Credit impaired		
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**POCI AED'000**	**Total AED'000**
Retail banking (EAD)					
As of 1 January, 2020	15,726	1,540	-	-	17,266
Transfers from stage 1 to stage 2	(1,160)	1,160	-	-	-
Transfers from stage 2 to stage 1	832	(832)	-	-	-
Transfers from 1 and 2 to stage 3	(779)	(387)	1,166	-	-
Other movements	(1,995)	(321)	30	-	(2,286)
	12,624	1,160	1,196	-	14,980
Wholesale banking (EAD)					
As of 1 January, 2020	216,775	2,409	-	-	219,184
Transfers from stage 1 to stage 2	(9,531)	9,531	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-
Transfers from 1 and 2 to stage 3	(22,603)	(1,664)	24,267	-	-
Other movements	3,993	(571)	-	-	3,422
	188,634	9,705	24,267	-	222,606
Retail banking (ECL)					
As of 1 January, 2020	603	186	-	-	789
Transfers from stage 1 to stage 2	(189)	189	-	-	-
Transfers from stage 2 to stage 1	33	(33)	-	-	-
Transfers from 1 and 2 to stage 3	(332)	(329)	661	-	-
Other movements	396	176	357	-	929
	511	189	1,018	-	1,718
Wholesale banking (ECL)					
As of 1 January, 2020	8,569	1,522	-	-	10,091
Transfers from stage 1 to stage 2	(1,259)	1,259	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-
Transfers from 1 and 2 to stage 3	(718)	(1,414)	2,132	-	-
Other movements	5,385	(105)	-	-	5,280
	11,977	1,262	2,132	-	15,371

25 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit risk management (continued)

ECL change (flow) since beginning of year to date

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Retail banking				
At I January 2020	**603**	**186**	**-**	**789**
Credit Cards	**-**	**-**	**-**	**-**
Housing Loans	**(113)**			**(113)**
Personal Loans	**10**	**21**	**1,018**	**1,049**
Auto Loans	**11**	**(18)**	**-**	**(7)**
	511	**189**	**1,018**	**1,718**
Wholesale banking				
	8,569	**1,522**	**-**	**10,091**
Other Corporates	**(60)**	**88**	**-**	**28**
SMEs	**3,468**	**(348)**	**2,132**	**5,252**
	11,977	**1,262**	**2,132**	**15,371**

External credit risk ratings

The table below presents the external credit ratings as at December 31 of the Group's deposits and balances due from banks, gross, and sukuk securities designated at FVTOCI based on Moody's rating scale. Bond issuer level ratings are used in case ratings are not available at issuance level. Wherever Moody's ratings are not available, comparable Fitch or S&P's equivalent ratings scale is used.

	Balances with banks		Wakala deposits		Sukuk at FVTOCI	
	2020	2019	2020	2019	2020	2019
Ratings	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Aaa to Aa3	**10,549**	8,475	**-**	-	**19,443**	19,000
A1 to A3	**236,045**	205,539	**241,372**	901,269	**253,077**	201,162
Baa1 to Baa3	**4**	427	**40,000**	340,982	**112,686**	98,558
Ba1 to B3	**35,305**	22	**-**	501	**235,208**	177,213
Caa to C	**-**	-	**-**	-	**17,952**	-
Unrated	**40,467**	38,005	**166**	89,284	**40,249**	89,762
	322,370	252,468	**281,538**	1,332,036	**678,615**	585,695

Internal credit risk ratings

The tables below presents the internal credit ratings as at December 31 of the Group's Islamic financing assets and net balance due from customers:

	Islamic financing assets 2020 AED'000	2019 AED'000
Ratings		
1 to 5	**235,122**	117,717
6 to 7	**822,476**	828,434
8 to 10	**46,853**	36,207
Impairment allowances	**(130,657)**	(154,632)
	973,794	827,726

25 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit risk management *(continued)*

Credit quality per class of financial assets
The credit exposures categorised and measured using a three-stage approach at the reporting date is shown below:

As at 31 December 2020

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	ECL provision AED'000	Net amount AED'000
Assets					
Cash and cash equivalents	**324,436**	**-**	**-**	**(7,624)**	**316,812**
Wakala deposits	**281,538**	**-**	**-**	**(8,408)**	**273,130**
Islamic financing assets	**954,471**	**82,304**	**67,676**	**(130,657)**	**973,794**
Investment securities	**678,615**	**-**	**-**	**(6,797)**	**671,818**
Other assets	**80,259**	**-**	**-**	**(4,801)**	**75,458**
	2,319,319	**82,304**	**67,676**	**(158,287)**	**2,311,012**

As at 31 December 2019

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	ECL provision AED'000	Net amount AED'000
Assets					
Cash and cash equivalents	256,455	-	-	(7,614)	248,841
Wakala deposits	1,332,036	-	-	(11,855)	1,320,181
Islamic financing assets	856,062	33,967	92,329	(154,632)	827,726
Investment securities	585,695	-	-	(7,161)	578,534
Other assets	48,157	-	-	(3,440)	44,717
	3,078,405	33,967	92,329	(184,702)	3,019,999

During 2020, there were transfers in staging of certain Islamic financing assets. These movements are from stage 1 to stage 2 amounting to AED 59.8 million (2019: AED 27.8 million), from Stage 1 to stage 3 amounting to AED 28.4 million (2019: AED 7.1 million), from stage 2 to stage 3 amounting to AED 3.2 million (2019: AED Nil) and stage 3 to stage 2 amounting to AED 2.0 million (2019: AED 4.2 million).

The concentrations of credit risk by industry sector at the reporting date is shown below:

As at 31 December 2020

	Cash and bank balances AED'000	Wakala deposits AED'000	Financing assets AED'000	Investment Securitie AED'000
Financial institutions	**322,370**	**281,538**	**75,301**	**328,732**
Construction	**-**	**-**	**195,700**	**-**
Transport, Storage & Communication	**-**	**-**	**3,293**	**76,294**
Services	**-**	**-**	**72,458**	**-**
Trade	**-**	**-**	**160,668**	**-**
Consumers	**-**	**-**	**301,527**	**-**
Healthcare	**-**	**-**	**102,224**	**-**
Government	**-**	**-**	**-**	**82,350**
Others	**-**	**-**	**193,280**	**191,239**
	322,370	**281,538**	**1,104,451**	**678,615**

25 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit risk management *(continued)*

Credit quality per class of financial assets (continued)

As at 31 December 2019

	Cash and bank balances AED'000	Wakala deposits AED'000	Financing assets AED'000	Investments Securities AED'000
Financial institutions	252,468	1,332,036	42,010	268,768
Construction	-	-	182,493	-
Transport, Storage & Communication	-	-	6,179	63,417
Services	-	-	90,525	-
Trade	-	-	62,883	-
Consumers	-	-	303,115	-
Healthcare	-	-	120,596	-
Government	-	-	-	76,122
Others	-	-	174,557	177,388
	252,468	1,332,036	982,358	585,695

Impaired financing assets and debt investments

Impaired financing assets and debt investments are financial assets for which the Group determines that there is objective evidence that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The classification and measurement of ECL is further explained in note 2(h) of these consolidated financial statements.

Financing with renegotiated terms

Financing with renegotiated terms are financing that have been restructured due to deterioration in the borrower's financial position and where the Group has made material concessions that it would not otherwise consider. Once a financing is restructured, it remains in this category for a minimum period of twelve months, in order to establish a satisfactory track record of performance under the restructuring agreement. The twelve-month period commences from the date of signing of the agreement for restructuring.

Write-off policy

The Group writes off a financing or investment balance (and any related allowances for impairment losses) when it determines that the financing or investments are uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.

Collaterals and other credit enhancements

The Group has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible securities wherever possible. The Group ensures that all documentation used in collateralized transactions is binding on all parties and is legally enforceable in relevant jurisdictions. In addition, if the finance provided by the Group is asset backed (in accordance with the principles of Shari'a), the properties are funded based on the Group's appraised value. The appraised value is based on the internal assessment and a report from an independent valuer.

25 Financial risk management *(continued)*

(b) Liquidity risk

Liquidity or funding risk is the risk that the Group will encounter difficulty in meeting all foreseeable funding commitments and deposits / margins withdrawal that may arise. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time-frame in order to meet the funding requirements.

Management of liquidity risk

Management monitors the maturity profiles to ensure that adequate liquidity is maintained. This enhances funding flexibility, limits dependence on one source of funds. The ALCO is responsible for review and approval of liquidity policies and procedures.

Maturity profile of financial assets and liabilities:
The following table reflects the contractual maturities of assets and liabilities which have been determined based on the remaining period to maturity as at the statement of financial position date. It does not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

The maturity profiles of financial assets (gross) and liabilities are as follows:

As at 31 December 2020

	Profit Bearing			Non Profit bearing			
	Up to three months AED'000	From three months to 1 year AED'000	Over 1 year AED'000	Up to three months AED'000	From three months to 1 year AED'000	Unspecified maturity AED'000	Total AED'000
ASSETS							
Cash and cash equivalents	276,949	-	-	47,487	-	-	324,436
Wakala deposits	165,000	116,538	-	-	-	-	281,538
Islamic financing assets	5,596	4,476	1,094,379	-	-	-	1,104,451
Investments securities	110,385	79,855	488,374	-	-	382,454	1,061,068
Other assets	-	-	-	-	80,259	-	80,259
	557,930	200,869	1,582,753	47,487	80,259	382,454	2,851,752
LIABILITIES							
Margins against letters of guarantee	-	-	-	1,316,227	-	-	1,316,227
Customer accounts and deposits	134,720	137,427	38	51,304	-	-	323,489
Other liabilities	-	-	-	320,992	145	-	321,137
	134,720	137,427	38	1,688,523	145	-	1,960,853
Undiscounted Cash flow of liabilities*							
Customer accounts and deposits	136,330	193,775	41	51,304	-	-	381,450

*undiscounted cashflows of liabilities except for customer accounts and deposits (shown separately above) are same as their maturity profiles.

25 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

Management of liquidity risk *(continued)*

As at 31 December 2019

	Profit Bearing			Non Profit bearing			
	Up to three months AED'000	From three months to 1 year AED'000	Over 1 year AED'000	Up to three months AED'000	From three months to 1 year AED'000	Unspecified maturity AED'000	Total AED'000
ASSETS							
Cash and cash equivalents	199,934	-	-	56,521	-	-	256,455
Wakala deposits	546,697	785,339	-	-	-	-	1,332,036
Islamic financing assets	17,937	22,483	941,938	-	-	-	982,358
Investments securities	-	43,067	542,627	-	-	369,423	955,117
Other assets	-	-	-	-	48,157	-	48,157
	764,568	850,889	1,484,565	56,521	48,157	369,423	3,574,123
LIABILITIES							
Margins against letters of guarantee	-	-	-	2,372,472	-	-	2,372,472
Customer accounts and deposits	655	46,035	31,421	32,269	-	-	110,380
Other liabilities	-	-	-	364,680	105	-	364,785
	655	46,035	31,421	2,769,421	105	-	2,847,637
Undiscounted cash flow of liabilities*							
Customer accounts and deposits	1,269	56,675	36,144	32,269	-	-	126,357

Analysis of financial liabilities by contractual undiscounted payment obligation

The table above also represents the maturity profile of the Goups's financial liabilities as at 31 December 2020 and 2019 as the contractual undiscounted payment obligations are same as their carrying values except for Wakala deposits in other liabilities.

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

(c) Market risk

Market risk is the risk that movement in market risk factors e.g. profit rates, foreign exchange rates, credit spreads and equity prices, will affect the Group's income or the value of its financial instruments.

Management of market risk

The Group separates its exposure for market risk purposes into trading and non-trading portfolios. All trading instruments are recognised at fair value, and changes in fair value are directly shown in the statement of profit or loss. Exposure to market risk is managed in accordance with risk limits set by senior management in response to changing market conditions.

25 Financial risk management *(continued)*

(c) Market risk *(continued)*

Management of market risk *(continued)*

Profit rate risk
Profit rate risk arises from profit bearing financial instruments and reflects the possibility that changes in profit rates will adversely affect the value of the financial instruments and the related income. Repricing mismatches expose the Group to unanticipated fluctuations in profit income or underlying economic value.

The Group manages the profit rate risk by monitoring profit rate mismatches. The Group is not materially exposed to profit rate risk (except for FVTOCI debt instruments) due to regular profit rate fluctuations, as almost all its profit generating assets are at a fixed rate and liabilities are either fixed rated or not profit bearing.

A change in the price by 1% would have immaterial (2019: Nil) impact on the profit or loss. As the Group is not exposed to any material floating rate instrument, the maturity dates and contractual repricing dates would be the same and thus the profit rate mismatch is the same as the maturity mismatches disclosed in Note 25(b).

(d) Foreign currency risk

The Group does not have any significant foreign currency dealings except for USD which is pegged with AED.

(e) Equity price risk

Equity price risk arises from changes in the value of investments at fair value through profit or loss and FVTOCI equity investments. A change in the price by 1% would have AED 3,718 thousand (2019: AED 3,588 thousand) impact on the profit or loss and AED 107 thousand (2019: AED 107 thousand) impact on other comprehensive income.

(f) Operational risk

Operational risk is the risk of direct or indirect losses arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all the Group's operations and are faced by all business entities.

The primary responsibility related to operational risk rests with the Board, however, the board has delegated such responsibility to BRCC, supported by MRCC and Head of Risk, as detailed in the risk framework above. The operational risk management process includes risk identification, assessment, measurement and the development and implementation of controls to mitigate or minimise potential impacts due to failure of such controls.

The Group has established standard policies, procedures, processes and controls in order to appropriately identify and manage operational risks. The key features of the Group's operational risk management process include but not limited to:

- segregation of duties, including the independent authorisation of transactions;
- reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- periodic assessment of operational risks faced, and the adequacy of control procedures to address the risks identified;

25 Financial risk management *(continued)*

(f) Operational risk *(continued)*

- incidence reporting and management process
- whistle blowing and fraud risk management policy
- reporting of operational losses and proposed remedial action;
- development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation through risk transfer strategy such as insurance, where effective.

Compliance with Group standards is supported by periodic reviews undertaken by the Internal Audit function and results are submitted to the Audit Committee and senior management of the Group. Periodic reviews are also conducted by compliance department and any breaches or non-compliance is reported to the BRCC and senior management.

(g) Fair value measurement

The Group's consolidated financial statements are prepared on a fair value basis for investment properties and available for sale investments except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortised cost or historical cost.

The fair value of the Group's assets and liabilities is not materially different from the carrying value at 31 December 2020.

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

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Carrying amount AED'000
At 31 December 2020				
Cash and cash equivalents	-	-	324,436	324,436
Wakala deposits	-	-	281,538	281,538
Islamic financing assets	-	-	1,104,451	1,104,451
Investment securities	371,779	682,714	6,575	1,061,068
Other assets	-	-	80,259	80,259
	371,779	682,714	1,797,259	2,851,752
Liabilities				
Margins against letters of guarantee	-	-	1,316,227	1,316,227
Customer accounts and deposits	-	-	323,489	323,489
Other liabilities	-	-	321,137	321,137
	-	-	1,960,853	1,960,853

25 Financial risk management *(continued)*

(g) Fair value measurement *(continued)*

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Carrying amount AED'000
At 31 December 2019				
Cash and cash equivalents	-	-	256,455	256,455
Wakala deposits	-	-	1,332,036	1,332,036
Islamic financing assets	-	-	982,358	982,358
Investment securities	358,753	587,499	8,865	955,117
Other assets	-	-	48,157	48,157
	358,753	587,499	2,627,871	3,574,123
Liabilities				
Margins against letters of guarantee	-	-	2,372,472	2,372,472
Customer accounts and deposits			110,380	110,380
Other liabilities	-	-	364,785	364,785
	-	-	2,847,637	2,847,637

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

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 bid prices for identical assets or unadjusted quoted offer prices for identical 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 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 transactions 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 category mainly includes private equity instruments. The carrying values of these investments are based on the latest available valuations performed by independent valuers.

25 Financial risk management *(continued)*

(g) Fair value measurement *(continued)*

Valuation techniques using significant unobservable inputs – Level 3 *(continued)*

Investment properties classified as Level 3 are stated at fair value, which has been determined based on valuations performed by independent professional valuers. The valuation methodologies considered by external valuers include the Income Capitalisation Method and Comparable Method.

Under the Income Capitalisation Method, the income receivable under existing lease agreements and projected future rental streams are capitalised at appropriate rates to reflect the investment market conditions at the valuation dates.

The Comparable Method utilizes the evidence of transactions or current asking prices of similar sites in the immediate vicinity and, if appropriate, applies adjustments to the sales figures based on market research, and discussions with independent agents.

Such estimations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The table below shows the hierarchy used by the Group for the assets and liabilities that are measured at fair value or for which fair value information is disclosed as at:

31 December 2020

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Assets				
Investment securities	**773,777**	**-**	**280,716**	**1,054,493**
Investment properties	**-**	**-**	**208,192**	**208,192**
	773,777	**-**	**488,908**	**1,262,685**

31 December 2019

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets				
Investment securities	665,583	-	280,669	946,252
Investment properties	-	-	222,000	222,000
	665,583	-	502,669	1,168,252

During the year ended 31 December 2020, there were no transfers between Levels (2019: nil).

Movement in investments securities that are measured based on the Level 3 hierarchy are as follows:

	2020 AED'000	2019 AED'000
At 1 January	**280,669**	297,516
(Reclassification)/purchases	**170**	(10,000)
Fair value adjustments	**-**	(7,000)
Other adjustments	**(123)**	153
At 31 December	**280,716**	280,669

26 Non-controlling interests

The table below shows details of the non-controlling interests of the National Bank of Sudan:

Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Total comprehensive income/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2020	2019	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Republic of Sudan	**76.6%**	76.6%	**(81)**	1,013	**39,088**	39,215

Summarised financial information in respect of the Group's subsidiary National Bank of Sudan that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2020 AED'000	2019 AED'000
Assets	**133,780**	166,244
Liabilities	**(69,431)**	(99,300)
	64,349	66,944
Revenue	**49,884**	10,568
Expenses	**(16,601)**	(15,346)
Other comprehensive (loss)/income	**(33,628)**	9,101
Total comprehensive (loss)/income for the year	**(345)**	4,323
Total comprehensive (loss)/income for the year attributable to owners	**(264)**	1,943
Total comprehensive (loss)/income for the year attributable to the non-controlling interests	**(81)**	2,380
Total comprehensive (loss)/income for the year	**(345)**	4,323
Dividends paid to non-controlling interests	**-**	-
Net cash inflows from operating activities	**12,185**	10,413
Net cash outflows from investing activities	**(10,942)**	(38,359)
Net cash inflows from financing activities	**54,263**	32,180
At 31 December	**55,506**	4,234

27 Non-cash transaction

Following non-cash transaction has been excluded from statement of cash flows:

	2020 AED'000	2019 AED'000
Settlement of Islamic financing asset against acquisition of investment property	**5,661**	-

28 Approval of consolidated financial statements

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 8 March 2021.