Noor Bank PJSC

Directors' report and consolidated financial statements for the year ended 31 December 2019

Noor Bank PJSC

Directors' report and consolidated financial statements for the year ended 31 December 2019

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Directors' report for the year ended 31 December 2019

The Board of Directors are pleased to submit their report on the activities of Noor Bank PJSC ("the Bank") together with the audited consolidated financial statements for the year ended 31 December 2019.

Principal activities

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Mudarabah, Wakalah, Istisna, Sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Shari'ah principles and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

Results

The consolidated statement of financial position of the Bank as at 31 December 2019, together with its consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended are set out in the accompanying consolidated financial statements.

Dividends

The Board of Directors do not propose any dividends for the year ended 31 December 2019.

Composition of the Board of Directors

The Board of Directors of the Bank comprised of the following individuals during the year ended 31 December 2019:

H.H. Sheikh Ahmed bin Mohd bin Rashed Al Maktoum (Chairman)
Mr. Essa Abdulfattah Kazim Al Mulla (Vice Chairman)
Dr. Mohammed Ahmed Al Zarooni
Mr. Raed Mohammed Khalifa Kajoor Al Nuaimi
Mr. Rashid Mohamed Rashid Al Mutawa
Mr. Mohamed Sulaiman Abdulaziz Al Mulla
Ms. Maha Abbas Mohammad Jabr (*Appointed effective 21 March 2019*)
Mr. Khalid Abdulkarim Hussain Almalik (*Appointed effective 3 February 2019*)
Mr. Edris Mohammad Rafi Mohammad Saeed Alrafi (*Resigned effective 10 February 2019*)
Mr. Narayanan Rajagopalan Yegna (*Resigned effective 15 April 2019*)

Pursuant to the change in shareholding of the Bank on 2 January 2020, which is after the reporting date of the accompanying financial statements, there was a change in the composition of the Board of Directors, effective 8 January 2020. The newly appointed Board of Directors are as follows:

Mr. Yahya Saeed Ahmed Nasser Lootah (Chairman)
Mr. Hamad Buamim (Vice Chairman)
Mr. Ahmad Mohammad Saeed Bin Humaidan
Mr. Abdulla Ali Obaid Al Hamli
Dr. Adnan Chilwan

Auditors

In compliance with stipulations of the Financial Reporting and External Audit Regulation 162/2018 issued by Central Bank of the UAE, the Bank will seek approval for reappointment of its current External Auditor, Deloitte and Touche, at the Annual General Meeting (AGM).

Signed on behalf of the Board of Directors on 12 February 2020:

....
Chairman

Deloitte & Touche (M.E.)
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Dubai
United Arab Emirates

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Noor Bank PJSC
Dubai
United Arab Emirates

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of **Noor Bank PJSC** (the "Bank") and its subsidiaries (together as the "Group"), **Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 12 February 2019.

Key audit matters

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

Cont'd...

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><th colspan="2">Impairment of carrying value of Islamic financing and investing assets as per IFRS 9</th></tr>
<tr><td>The audit of impairment of Islamic financing instruments is a key area of focus because of its size (representing 66% of total assets) and due to the significance and complexity of the estimates and judgments used in classifying Islamic financing instruments and determining related provision requirements.

The Bank recognises loss allowances for expected credit losses (ECLs) at an amount equal to 12-month ECL (Stage 1) or full lifetime ECL (Stage 2). 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.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective profit rate. The Bank employs statistical models for ECL calculations and the key variables used in these calculations are probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 3 to the consolidated financial statements.

In determining the ECL provisions for loans and advances, the Bank applies significant judgements and estimates, as disclosed in Note 4 to the consolidated financial statements, of the following areas:
• Identification of significant increase in credit risk and credit impaired loans;
• Qualitative and quantitative reasonable and supportable forward-looking information;
• Overrides in staging model applied to reflect current or future external factors that are not necessarily covered in the ECL model; and
• Assumptions used in determining financial condition of the counterparty and expected future cash flows.</td><td>We obtained a detailed understanding of the Bank's Islamic financing instruments business processes and the accounting policies on IFRS 9 including the critical accounting estimates and judgments used. We have involved our subject matter experts to assist us in auditing the IFRS 9 ECL models as of 31 December 2019.

We tested the design, implementation and operating effectiveness of the relevant controls which included testing:
• System-based and manual controls over the timely recognition of impaired Islamic financing and investing assets and advances;
• Controls over the ECL calculation models;
• Controls over collateral valuation estimates;
• Controls over governance and approval process related to impairment provisions and ECL Models including continuous reassessment by the management.

We understood and evaluated the theoretical soundness of the ECL model by involving our subject matter experts to ensure its compliance with the minimum requirements of the standard. We tested the mathematical integrity of the ECL model by performing recalculations. We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment.

For provision against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Bank's provisioning methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. We assessed the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we checked the appropriateness of the Bank's staging.

For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Impairment of carrying value of Islamic financing and investing assets as per IFRS 9 (continued)	
The measurement of ECL amounts for retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention, however, it is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period. Retail exposures are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Group in accordance with the original contractual terms. Individually assessed Islamic financing instruments represent mainly, corporate and retail Islamic financing instruments which are assessed in order to determine whether there exists any objective evidence that Islamic financing and investing assets is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms and are classified as Stage 3 as per IFRS 9. Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral. The impairment loss is calculated based on the shortfall in the Islamic financing and investing assets carrying value compared to the net present value of future cash flows using original effective profit rate. The factors considered when determining impairment losses on individually assessed accounts include the customer's aggregate borrowings, risk rating, value of the collateral and probability of successful repossession and the costs involved to recover the debts.	We selected a sample of Islamic financing and investing assets and checked the accuracy of the Exposure at Default (EAD), appropriateness of the Probability of Default (PD) and calculations of the Loss Given Default (LGD) used by the management in their ECL calculations. We assessed the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we assessed the appropriateness of the Group's staging and challenged a sample of manual staging overrides undertaken by management. For exposures determined to be individually impaired, we tested a sample of Islamic financing and examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculations. Further, we focused our attention on individually significant exposures, where we tested the estimates and assumptions used by management underlying the impairment identification and quantification, valuation of underlying collateral by external experts and estimated recovery on default.

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
IT systems and controls over financial reporting	
We identified IT systems and controls over the Bank's financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Bank and rely on the effective operation of automated and IT dependent manual controls. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.	Our audit approach relies on automated controls and therefore the following procedures were designed to test access and control over IT systems: We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications. We tested IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations. We examined computer generated information used in financial reports from relevant applications and key controls over their report logics. We performed testing on the key automated controls on significant IT systems relevant to business processes.

Other information

The Board of Directors and management are responsible for the other information. The other information comprises the Board of Directors' report of the Bank, 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 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.

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 the 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 UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors and Board Audit Committee are responsible for overseeing the Group's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT (continued)

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 expressing an opinion on the effectiveness of the internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the Group and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

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

- 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 Bank has maintained proper books of account;
- The consolidated financial information included in the Directors' report is consistent with the Bank's books of account;
- Note 7 and Note 9 to the consolidated financial statements of the Bank discloses its investments in equity instruments during the financial year ended 31 December 2019;
- Note 27 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and
- Note 14 to the consolidated financial statements discloses social contributions made during the financial year ended 31 December 2019.

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

Deloitte & Touche (M.E.)

Akbar Ahmad
Registration No.: 1141
12 February 2020
Dubai
United Arab Emirates

Noor Bank PJSC

Consolidated statement of financial position
As at 31 December 2019

	Note	2019 AED'000	2018* AED'000
ASSETS			
Cash and balances with the UAE Central Bank	4	5,771,887	6,876,797
Due from banks	5	3,868,255	2,933,362
Investments in Islamic financing instruments	6	30,802,184	31,998,616
Investments in Sukuk and Equity funds	7	4,612,305	7,114,349
Investment properties	8	1,001,868	1,007,023
Other assets	9	1,151,572	906,382
Property and equipment	10	188,329	189,982
Total assets		47,396,400	51,026,511
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	11	35,287,630	35,357,729
Due to banks	12	529,555	2,751,947
Sukuk financing instruments	13	3,673,150	3,673,150
Other liabilities	14	1,476,863	3,232,858
Total liabilities		40,967,198	45,015,684
EQUITY			
Share capital	15	3,574,895	3,574,895
Tier 1 Sukuk	16	1,836,500	1,836,500
Statutory reserve	17	397,173	346,914
Revaluation surplus on buildings		44,130	40,364
Fair value reserve on Sukuk and Equity funds at FVOCI		(23,095)	(40,096)
Retained earnings		599,599	252,250
Total equity		6,429,202	6,010,827
Total liabilities and equity		47,396,400	51,026,511

Chairman

Chief Operating Officer

Chief Financial Officer

**Restated*

The accompanying notes on pages 13 to 71 form an integral part of these consolidated financial statements

Noor Bank PJSC

Consolidated statement of income
for the year ended 31 December 2019

	Note	2019 AED'000	2018* AED'000
Operating income			
Income from Islamic financing and Sukuk	18	2,079,366	1,950,230
Depositors' and Sukuk holders' share of profit	19	(879,242)	(709,242)
Net income from Islamic financing and Sukuk		1,200,124	1,240,988
Fee and other income, net of charges	20	768,273	694,094
Gain on Islamic investments	21	194,191	81,513
Total operating income		2,162,588	2,016,595
Operating expenses			
Staff costs	22	(521,914)	(515,611)
General and administrative expenses	23	(159,390)	(183,193)
Depreciation on Investment properties	8	(5,155)	(5,021)
Depreciation on property and equipment	10	(30,804)	(27,783)
Total operating expenses		(717,263)	(731,608)
Operating profit before impairment charges on financial assets		1,445,325	1,284,987
Impairment charge on financial assets, net	25	(922,124)	(613,880)
Operating profit after impairment charges on financial assets		523,201	671,107
Impairment charge on properties		(14,000)	(69,763)
Profit after impairment charges		509,201	601,344
Share of loss from joint venture	9	(8,947)	-
Net Profit for the year		500,254	601,344

**Restated*

The accompanying notes on pages 13 to 71 form an integral part of these consolidated financial statements

Consolidated statement of comprehensive income
for the year ended 31 December 2019

	Note	2019 AED'000	2018* AED'000
Profit for the year		500,254	601,344
Other comprehensive income / (loss)			
Items that may be subsequently transferred to income statement			
Fair value reserve on Sukuk at FVOCI			
- Net changes in fair value	7	137,488	(38,307)
- Net realised gain transferred to income statement	21	(70,444)	(14,288)
Fair value reserve on Equity Funds at FVOCI			
- Fair value adjustment on Equity funds		(50,043)	-
Total other comprehensive income / (loss)		17,001	(52,595)
Total comprehensive income for the year		517,255	548,749

**Restated*

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Share capital AED'000	Tier 1 Sukuk AED'000	Statutory reserve AED'000	Revaluation surplus on buildings AED'000	Fair value reserve on Sukuk and Equity Funds at FVOCI AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2018	3,574,895	1,836,500	286,779	118,884	(7,250)	40,450	5,850,258
Cumulative effect of adoption of IFRS 9	-	-	-	-	19,749	(293,155)	(273,406)
Prior periods adjustments (Note 32)	-	-	-	(75,637)	-	75,637	-
Restated balance at 1 January 2018	3,574,895	1,836,500	286,779	43,247	12,499	(177,068)	5,576,852
Total comprehensive income for the year							
Profit for the year*	-	-	-	-	-	601,344	601,344
Other comprehensive income for the year	-	-	-	-	(52,595)	-	(52,595)
Total comprehensive income for the year	-	-	-	-	(52,595)	601,344	548,749
Other equity movements							
Tier 1 Sukuk profit distribution (Note 16)	-	-	-	-	-	(114,774)	(114,774)
Transfer to statutory reserve (Note 17)	-	-	60,135	-	-	(60,135)	-
Transfer from revaluation surplus on buildings to retained earnings	-	-	-	(2,883)	-	2,883	-
At 31 December 2018*	3,574,895	1,836,500	346,914	40,364	(40,096)	252,250	6,010,827
At 1 January 2019	3,574,895	1,836,500	346,914	40,364	(40,096)	252,250	6,010,827
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	500,254	500,254
Other comprehensive income for the year	-	-	-	-	17,001	-	17,001
Total comprehensive income for the year	-	-	-	-	17,001	500,254	517,255
Other equity movements							
Tier 1 Sukuk profit distribution (Note 16)	-	-	-	-	-	(114,775)	(114,775)
Revaluation Surplus on Property	-	-	-	6,650	-	-	6,650
Transfer to statutory reserve	-	-	50,025	-	-	(50,025)	-
Transfer from revaluation surplus on buildings to retained earnings	-	-	-	(2,884)	-	2,884	-
Transfer from acquisition of subsidiaries	-	-	234	-	-	9,011	9,245
At 31 December 2019	3,574,895	1,836,500	397,173	44,130	(23,095)	599,599	6,429,202

**Restated*

The accompanying notes on pages 13 to 71 form an integral part of these consolidated financial statements

Consolidated statement of cash flows
for the year ended 31 December 2019

	Note	2019 AED'000	2018* AED'000
Operating activities			
Profit for the year		500,254	601,344
Adjustments for:			
Impairment charge on financial assets, net	25	922,124	613,880
Impairment charge on properties		14,000	69,763
Share of loss from joint venture	9	8,947	-
Gain on Islamic investments	21	(194,191)	(81,513)
Fees on conversion of financing instrument to Equity funds		29,966	-
Depreciation of property and equipment and investment properties		35,959	32,804
Provision for employee's end of service benefits	24	11,080	8,695
Loss on disposal of properties		961	951
Operating cash flows before changes in operating assets and liabilities		1,329,100	1,245,924
Changes in operating assets and liabilities:			
Statutory deposit with the UAE Central Bank	4	90,012	329,669
Certificate of deposits with Central Bank	4	(1,900,000)	-
Due from banks	4	882,227	(727,036)
Investments in Islamic financing instruments		(43,605)	(5,364,204)
Net proceeds from disposal of Sukuk at FVTPL		469,847	(168,496)
Other assets		(254,822)	(79,016)
Due to banks	4	(926,244)	324,597
Customer deposits	11	(70,099)	5,028,611
Payments of employees' end of service benefits	24	(10,713)	(5,933)
Other liabilities		(1,757,840)	440,168
Net cash (used in)/generated from operating activities		(2,192,137)	1,024,284
Investing activities			
Disposal/(investments in) of Sukuk at amortised cost and FVOCI		2,599,176	(3,238,875)
Proceed of disposal from properties		-	8,149
Investment in joint venture		-	(25,005)
Investment in Equity funds		(168,576)	-
Repayment from equity funds		100,619	-
Consideration paid on acquisition of subsidiaries	31	(4,070)	-
Proceeds from disposal of property and equipment's		-	807
Additions to property and equipment	10	(23,462)	(45,345)
Net cash generated from/(used in) investing activities		2,503,687	(3,300,269)
Financing activities			
Issuance of Sukuk financing instrument	13	-	1,836,700
Tier 1 Sukuk profit distribution	16	(114,775)	(114,774)
Net cash (used in)/generated from financing activities		(114,775)	1,721,926
Net increase / (decrease) in cash and cash equivalents		196,775	(554,059)
Cash and cash equivalents at beginning of the year		3,513,506	4,067,565
Cash and cash equivalents at the end of the year	4	3,710,281	3,513,506

Principal non-cash transactions:

During the year, the Group settled certain investments in Islamic financing instruments by taking possession of collaterals

**Restated*

1 Incorporation and principal activities

Noor Bank PJSC (the "Bank") was incorporated on 26 March 2007 as a Public Joint Stock Company under UAE Federal Law No. (8) of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates ("CBUAE"). The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bank was registered with the Securities and Commodities Authority ("SCA") on 26 April 2007 and commenced its operations thereafter.

UAE Federal Law No. (2) of 2015 ("Companies Law") which is applicable to the Bank came into effect from 1 July 2015. The Bank is in compliance with the provisions of the Companies Law.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Mudarabah, Wakalah, Ijarah, Istisna and Sukuk. The activities of the Bank are conducted in accordance with the Shari'ah rules and principles as applied and interpreted by the Bank's Internal Shari'ah Supervision Committee ('ISSC'), in accordance with the regulations issued by Higher Shari'ah Authority of CBUAE (HSA) and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

On 1 September 2019, the Bank has acquired shares of the below three entities from Noor Investment Group LLC (Ultimate Parent Company). These entities are 100% subsidiaries of the Bank post the acquisition (Note 31):

Name of entity	Activity	Place of incorporation	Date of incorporation
Premium Marketing Services L.L.C	Outsourcing and Marketing services	Dubai, UAE	3 March 2008
Noor BPO L.L.C	Outsourcing and Consultancy services	Dubai, UAE	3 March 2008
Zawaya Realty L.L.C	Real Estate management services	Dubai, UAE	15 January 2014

The Bank has the following fully owned special purpose entities ("SPE"):

Name of entity	Activity	Place of incorporation	Date of incorporation
Noor Sukuk Company Limited (Note 13)	Special purpose entity	Cayman Islands	March 2015
Noor Tier 1 Sukuk Limited (Note 16)	Special purpose entity	Cayman Islands	August 2015
Noor Structured Certificates Ltd.*	Special purpose entity	Cayman Islands	July 2016
Noor Derivatives Limited**	Special purpose entity	Cayman Islands	April 2017

* An entity established to facilitate the issuance of Bank's structured Islamic certificates.

** An entity established to facilitate the Bank's Islamic derivative transactions.

The consolidated financial statements for the year ended 31 December 2019 comprise the Bank, its subsidiaries and its SPEs (together referred to as the "Group").

Noor Investment Group LLC ("NIG"), the ultimate parent company, holds 95.58% of the shareholding in the Bank.

Subsequent to the reporting date (31 December 2019), on 2 January 2020, Dubai Islamic Bank PJSC (DIB) acquired 99.999% of the issued share capital of Noor Bank PJSC from its existing shareholders, after obtaining approvals at its Board of Directors and General meetings (Refer Note 34).

2 Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB).

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for the fair value measurement of following items in the consolidated statement of financial position:

- Financial assets classified as at fair value through other comprehensive income ('FVOCI') and fair value through profit and loss ('FVTPL');
- Buildings classified under property and equipment; and
- Islamic derivatives

2.3 Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham ("AED"), which is the functional currency of the Bank and its subsidiaries, being the currency of primary economic environment in which the entities operate. Except as indicated, the consolidated financial statements have been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described as follows:

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as (also explained in Note 30.1):

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

(b) Classification of financial assets

In accordance with IFRS 9 guidance, the Group classifies its financial assets based on the assessment of the business models in which the assets are held at a portfolio level and whether cash flows generated by assets constitute solely payments of principal and profit ('SPPP'). This requires significant judgement in evaluating how the Group manages its business model and on whether or not a contractual clause for the cash flows in all financial assets of a certain type, breaches SPPP criteria and results in a material portfolio being recorded at fair value through profit or loss. Explanation and further details on business models and cash flow characteristics of financial assets are described in note 3.2.2.

(c) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques including use of models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement and estimates are required to establish fair values. These estimates and judgements are based on historical experience and other factors which management believes are appropriate in determining the fair value of financial instruments. Actual results may differ from these estimates. Key assumptions and disclosures related to fair value of financial instruments are described in note 30.4.

(d) Fair valuation of buildings under property and equipment

The fair valuation of buildings under property and equipment is based on value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). In undertaking the valuation the valuation experts have made a number of assumptions and relied upon various sources of information. Management reviews the assumptions based on their reasonable knowledge and other information available about the properties.

3 Significant accounting policies

The accounting policies applied in these consolidated financial statements are consistent with those applied in the Group's audited consolidated financial statements for the year ended 31 December 2018, except for the change in accounting policy as disclosed in Note 3.1 and Note 8.

3.1 Changes in accounting policies

New standards, amendments to published standards and interpretations effective for the Group's accounting period beginning on 1 January 2019

New standards and significant amendments to standards applicable to the Group	Effective date
IFRS 16, 'Leases' This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. The Group has adopted IFRS 16 as issued by the IASB with a transition date of 1 January 2019. The impact from the adoption of the above new standard on 1 January 2019, is included in the consolidated financial statements of the Group but is considered to be not material.	1 January 2019

There are no other relevant new standards and amendments that have been issued but are not effective as on 1 January 2019, that would be expected to have a material impact on the consolidated financial statements of the Group.

3.2 Financial assets and liabilities

3.2.1 Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortised cost and at FVOCI, which results in accounting loss being recognized in profit or loss when an asset is newly originated.

(a) Measurement methods

Amortised cost and effective profit rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the payment of principal amounts, plus or minus the cumulative amortization, using the effective profit rate method, of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.1 Initial recognition and measurement (continued)

(a) Measurement methods (continued)

Amortised cost and effective profit rate (continued)

The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i-e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective profit rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective profit rate. Any changes are recognized in profit or loss.

(b) Profit Income

Profit income is calculated by applying the effective profit rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which profit income is calculated by applying effective profit rate to their amortised cost (i.e. net of the expected credit loss provision).

3.2.2 Classification and subsequent measurement

(a) Financial assets

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets under the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI);
- Amortised cost

The classification requirement for financial assets and equity instruments are described below:

Financial assets:

Financial assets are those instruments that meet the definition of a financial liability from the issuer's perspective, such as Investments in Islamic financing instruments and Investments in sukuk

Classification and subsequent measurement of financial assets depend on:

(i) The Group's business model for managing the assets; and
(ii) The cash flow characteristics of the asset.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows, i.e. whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification and subsequent measurement (continued)

(a) Financial assets (continued)

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and profit (the 'SPPP test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic financing arrangement i.e. profit includes only consideration for the time value of money, credit risk, other basic financing risks and a profit margin that is consistent with basic financing arrangements. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic financing arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Group classifies its financial assets into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit ('SPPP'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 30.1. Profit income from these financial assets is included in 'Income from Islamic financing and sukuk' using the effective profit rate method.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movement in carrying amount are taken through OCI, except for the recognition of impairment gains and losses, profit income and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Gain / (loss) on investments in sukuk'. Profit income from these financial assets is included in 'Income from Islamic financing and sukuk' using the effective profit rate method.

- **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or investment at FVOCI are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Gain / (loss) on investments at FVTPL' in the period in which it arises. Profit income from these financial assets is included in 'Income from Islamic financing and sukuk' using the effective profit rate method.

The Group reclassifies financial assets when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

(b) Equity instruments:

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares, Tier 1 Sukuk and Investment in Equity Funds.

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification and subsequent measurement (continued)

(b) Equity instruments (continued):

The Group measures all equity investments at FVTPL, except where the Group has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Profit distribution, when representing a return on such investments, continues to be recognized in profit or loss as other income when the Group's right to receive payment is established.

Gains and losses on equity investments are included in the consolidated statement of income.

(c) Financial liabilities

All financial liabilities are measured at amortised cost unless they are financial liabilities held at FVTPL (e.g. derivatives) or other financial liabilities designated as such at initial recognition. Financial Liabilities at amortised cost are measured using the effective profit rate method after taking into account any discount or premium at origination

3.2.3 Impairment of financial assets

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial assets that are not measured at FVTPL:

- Financial assets that are financing instruments and investments in sukuk; and
- Islamic financing commitments

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

No impairment loss is recognised on equity investments.

(a) Expected credit loss impairment model

The Expected Credit Loss (ECL) model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.
- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.
- Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

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

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 Impairment of financial assets (continued)

(b) Measurement of ECL

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios.

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

Details of these statistical parameters/inputs are as follows:

- The probability of default (PD) is an estimate of the likelihood of default over a given time horizon;
- The exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and
- The loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. LGD is expressed as a percentage loss per unit of exposure at the time of default

(c) Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

(d) Assessment of significant increase in credit risk

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

(e) Experienced credit judgement

The Bank's ECL allowance methodology requires the use of experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods. When measuring ECL, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options.

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements. The policy on the write-off of financing transactions remains unchanged.

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 Impairment of financial assets (continued)

(f) Expected life

When measuring expected credit loss, the Bank considers the maximum contractual period over which it is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, as well as extension and rollover options.

The expected life of revolving Islamic financing facilities are considered to be one year for the purpose of measuring expected credit loss.

(g) Definition of default

The Bank considers a financial asset to be in default when:

- it is established that due to financial or non-financial reasons the customer is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realizing security (if any is held);
- or, the customer is past due 90 days or more on any material credit obligation to the Bank.

3.2.4 Derecognition

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

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

3.2.5 Islamic financing commitments and financial guarantees

For Islamic financing commitments and financial guarantees provided by the Group the loss allowance is recognized as a provision and reported separately in other liabilities.

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3.3 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which the control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealized gains on transactions between group entities are eliminated. Unrealized losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

(a) Subsidiaries (continued)

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Group. They are shown separately in the consolidated statements of financial position, comprehensive income and changes in equity. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary.

The acquisition method of accounting is used to account for business combinations entered into by the Group. The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill.

Business combinations involving entities under common control are excluded from the scope of IFRS 3, relating to Business Combinations. The Bank has elected to use the uniting of interest method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interest method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognized as a merger reserve in equity.

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognized. Amounts previously recognized in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings.

Any retained equity interest in the entity is re-measured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognized in profit or loss.

(b) Transactions with the non-controlling interest holders

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

3 Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of income.

(d) Joint arrangements

Under IFRS 11 'Joint Arrangements', investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group only has one joint venture.

Investment in joint venture is accounted for using the equity method (note 3.3(c)) after initially being recognised at cost in the consolidated statement of financial position.

3.4 Foreign currency translation

Foreign currency transactions are translated into the functional currency (UAE Dirham) using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, as part of 'net foreign exchange income' under 'fee and other income, net of charges'.

3.5 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, balances held with the UAE Central Bank, deposits and balance due from banks or due to banks and placements with original maturity of less than three months, excluding statutory deposits required to be maintained with the UAE Central Bank.

3.6 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.2.3).

3.7 Property and equipment

Property and equipment are stated at cost less accumulated depreciation except for buildings, which are carried at fair value based on periodic valuations by an external independent valuer, less subsequent depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

3 Significant accounting policies (continued)

3.7 Property and equipment (continued)

Increase in the carrying amount arising on revaluation of buildings is recognised in the consolidated statement of other comprehensive income under 'Revaluation surplus on buildings'. Increases that offset previous decreases of the same asset are recognised in the consolidated statement of income to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of income. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in the consolidated statement of other comprehensive income; all other decreases are charged to the consolidated statement of income.

Each year, the difference between the depreciation charge based on the revalued carrying amount of the asset and depreciation charge based on the asset's original cost or previous revalued amount is transferred from the revaluation reserve to retained earnings/accumulated losses.

Depreciation on property and equipment is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	25
Leasehold improvements	10
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment and software	3-5

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of income. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings/accumulated losses.

Capital work-in-progress is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital work-in-progress is transferred to the appropriate category of property and equipment and depreciated in accordance with the Group's accounting policies.

3.8 Investment property

Investment property comprises property (owned land and buildings or part thereof) held for rental yields and for capital appreciation. It is not held for purposes of the Group's own business or administrative use as part of property and equipment.

Investment property is accounted for in line with the Cost model under IAS 40. These are initially recognised at cost (including transaction expenses) and subsequently measured at cost less accumulated depreciation and impairment loss, if any, based on impairment testing done periodically. Depreciation on buildings (or part thereof) is charged on a straight line basis over its effective life. Owned land is not depreciated. Any gain or loss on sale or disposal of investment property is recognized in the consolidated statement of income.

3 Significant accounting policies (continued)

3.9 Impairment of non-financial assets

Assets that have an indefinite useful life, not subject to amortisation, are tested regularly for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

3.10 Fiduciary activities

Assets and the income arising on the Group's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognised in accordance with the accounting policy on fees and other income (Note 3.15).

3.11 Employee benefits

(a) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the consolidated statement of income in the periods during which services are rendered by employees.

Pension contributions are made in respect of UAE and GCC national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

(b) Defined benefit plan

The provision for defined benefit obligation for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law is calculated annually using the projected unit credit method in accordance with IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The provision arising is disclosed as 'provision for employee's end of service benefits' in the consolidated statement of financial position under 'other liabilities'.

3.12 Accruals against obligations

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

3 Significant accounting policies (continued)

3.13 Revenue recognition on Islamic financing instruments

Income from Islamic financing and sukuk is recognised in the consolidated statement of income for all profit-bearing Islamic financing instruments below using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financing asset or liability and of allocating the income from Islamic financing and sukuk and depositors' share of profit. The effective profit rate is the rate that exactly discounts the estimated future cash payments (including all fees received that form an integral part of the effective profit rate) over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financing asset or liability.

3.13.1 Murabahah

(a) Definition

An agreement whereby the Group sells to a customer a physical asset, commodity, goods, or shares, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin. The settlement specified in the agreement is normally either on deferred lump sum basis or an instalment basis. In some applications, the roles may be exchanged between the Group and customer, with the customer being the seller and the Group being the buyer.

(b) Revenue recognition

Income on Murabahah financing is recognised on a time apportioned basis over the period of the Murabahah contract, using the effective profit method.

3.13.2 Ijarah

(a) Definition

An agreement whereby the Group (lessor) leases to a customer (lessee) a service or the usufruct of an owned or rented asset for a specific period of time and against certain rental instalments. The Ijarah could end by transferring the ownership of the asset to the lessee through an independent mode at the end of the agreement.

(b) Revenue recognition

Income from Ijarah investments are recognised on a time apportioned basis over the lease term, using the effective profit method.

3.13.3 Mudarabah

(a) Definition

An agreement between the Group and its customer where one party provides the funds and is called Rab-al-Mal and the other provides efforts and expertise and is called the Mudarib. The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. The Mudarib is responsible for all losses arising due to misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

(b) Revenue recognition

Income or losses on Mudarabah investments, where the Group is the Rab-al-Mal are recognised using effective profit method if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib and the losses are recognised upon their declaration by the Mudarib.

3 Significant accounting policies (continued)

3.13 Revenue recognition on Islamic financing instruments (continued)

3.13.4 Wakalah

(a) Definition

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a fee (a lump sum of money or a percentage above the anticipated profits). Similarly, the Group also obtains money to be invested under a Wakalah agreement which is recognized as a liability in its consolidated financial statements.

(b) Revenue recognition

The estimated income or expenses from a Wakalah is recognised using effective profit method over the period of the investment as a liability, adjusted by the actual income or expense when received.

3.13.5 Istisna

(a) Definition

An agreement whereby the Group (Al-Saane') provides funds to a customer (Al-Mustasne) for the development of an asset according to pre-agreed specifications at a specific price and date.

(b) Revenue recognition

Istisna revenue and the associated profit margin (difference between the cash price of the asset sold to the customer and the Group's total Istisna cost) is recognised using effective profit method.

3.14 Depositors' share of profit

Depositors' share of profit is recognised in the consolidated statement of income for all profit-bearing Islamic deposits using the effective profit method.

3.15 Fees and other income

Fees and other income from banking services are recognised on an accrual basis as the service is performed, when it is probable that associated economic benefits will flow to the Group and a reliable estimate of the amount can be made. 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 earned and expense incurred from the provision of services are recognised as revenue and expense, as and when the services are rendered.

Foreign exchange income on foreign exchange transactions undertaken on behalf of customers is recognised as and when these transactions are completed.

3.16 Zakat

Zakat is computed in accordance with the Bank's Internal Shari'ah Supervision Committee ('ISSC') decisions and it is the Bank's shareholders' responsibility to pay the Zakat on their respective share and therefore it is not recorded in the consolidated financial statements of the Group.

3.17 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Group's standard procedures and is approved by the Bank's ISSC.

3 Significant accounting policies (continued)

3.18 Government grants

Non-monetary grants in the form of land received from the government were recognised at fair value at the time of the grants and credited to the consolidated statement of income as there is reasonable assurance that the grant will not be revoked. The plots of land are accounted for in line with the Cost Model under IAS 40.

3.19 Repossessed properties (Assets acquired in settlement of financing instruments)

When the Group acquires and becomes the legal owner of a collateralised property against full and final settlement of an Islamic financing contract, the respective contract is terminated, the related outstanding balance is de-recognised and property is recognised at the carrying amount of the Islamic financing. If the fair value of the repossessed property is lower than the carrying amount of the outstanding Islamic financing balance, the balance is first impaired to the extent of the shortfall.

Subsequently, repossessed property is measured at book value less impairment (based on periodic impairment testing) and reported under 'Other Assets' in the financial statements. Any gain or loss on sale or disposal of repossessed property is recognized in the consolidated statement of income.

3.20 Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments (including Investment in Equity funds) are measured at FVTPL except where the bank elects, at initial recognition, to irrevocably designate an equity instrument at FVOCI, when held for purposes other than to generate investment returns.

In case of buyback of own equity instruments by the Group (Treasury shares/Tier 1 Sukuk), these are recognized and deducted directly in equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Board of Directors and Group shareholders, Dividends on ordinary shares which are approved after the reporting date are disclosed as a non-adjusting event after the reporting date.

3.21 Tier 1 Sukuk

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

3.22 Islamic derivative financial instruments

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

Promises to buy or sell currencies are promises to either buy or sell a specified currency at a specified price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase or sell offers and acceptances between the counterparties. Promises to buy or sell currencies are recognised at fair value with movements taken to the consolidated statement of income from the date of entering into the contract.

3 Significant accounting policies (continued)

3.22 Islamic derivative financial instruments (continued)

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

Islamic derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

Islamic derivatives embedded in hybrid contracts are separated from the host contracts and accounted for separately when the economic risk and characteristics of the embedded derivative are not closely related to those of the host contracts, a separate instrument with the same terms would meet the definition of derivative and the entire instrument is measured at fair value with changes in fair value recognised in the income statement.

3.23 Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and profit rate risk in fair value hedges and cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated statement of profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidated statement of profit or loss from that date.

3 Significant accounting policies (continued)

3.24 Standards issued but not yet adopted

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective date
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures relating to interest rate benchmark reform	The amendment relates to the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. As a result of the interest rate benchmark reforms, contractual cash flows of hedged items and hedging instruments that are based on an existing interest rate benchmark will likely change when the existing interest rate benchmark is replaced with an alternative interest rate. The amendment modifies specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform. The amendments are not intended to provide relief from any other consequences arising from interest rate benchmark reform. Also, if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified in the amendment, then discontinuation of hedge accounting is still required.	1 January 2020
Amendment to IFRS 3 Business Combinations relating to definition of a business.	The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value.	1 January 2020

The above amendments are not envisaged to have a material impact on the consolidated financial statements of the Group as at the reporting date.

4 Cash and balances with the UAE Central Bank

	2019 AED'000	2018 AED'000
Cash in hand	51,321	106,864
Balances with the UAE Central Bank:		
- Current account	727,660	3,537,015
- Certificate of deposits	2,600,000	750,000
- Statutory deposit	2,392,906	2,482,918
	5,771,887	6,876,797

The statutory deposits with the UAE Central Bank is not available to finance the day to day operations of the Group. Cash in hand, current account balances and statutory deposit with the UAE Central Bank are non-profit bearing. Certificate of deposit with the UAE Central Bank carries a profit rate of 1.47% - 2.45% per annum (2018: 2.2% per annum).

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2019 AED'000	2018 AED'000
Cash and balances with the UAE Central Bank	5,771,887	6,876,797
Due from banks (Note 5)	3,876,519	2,943,221
Due to banks (Note 12)	(529,555)	(2,751,947)
	9,118,851	7,068,071
Less: Statutory deposits with the UAE Central Bank	(2,392,906)	(2,482,918)
Less/Add: Balances having original maturity of more than three months:		
- Certificate of deposits with the UAE Central Bank	(1,900,000)	-
- Due from banks	(1,515,427)	(2,397,654)
- Due to banks	399,763	1,326,007
Cash and cash equivalents	3,710,281	3,513,506

5 Due from banks

	2019 AED'000	2018 AED'000
Current account with banks (Qard-e-Hasan)	288,365	336,540
Export bills - Murabahah	1,945,324	1,873,520
Deposits with banks - (Murabahah and Wakalah)	1,642,830	733,161
	3,876,519	2,943,221
Less: impairment loss allowance (Note 30.1)	(8,264)	(9,859)
	3,868,255	2,933,362

Carrying value of due from banks by stage classification under IFRS-9 as follows:

	2019 AED'000	2018 AED'000
Stage 1	3,876,519	2,760,015
Stage 2	-	183,206
	3,876,519	2,943,221

6 Investments in Islamic financing instruments

	2019 AED'000	2018 AED'000
At amortised cost:		
Murabahah	23,044,706	24,653,826
Ijarah	9,863,589	9,231,937
Other financing receivables	171,174	139,003
Gross investments in Islamic financing instruments	33,079,469	34,024,766
Less: allowance for impairment (Note 30.1)	(2,624,814)	(2,303,729)
	30,454,655	31,721,037
At fair value through profit & loss:		
Wakalah	320,168	254,233
Mudarabah	27,361	23,346
Total investments in Islamic financing instruments	30,802,184	31,998,616

Movement in allowance for impairment:

	2019 AED'000	2018 AED'000
At 1 January	2,303,729	2,108,469
Charge for the year, net of recoveries/reversals	909,881	617,845
Written off during the year, net of write backs	(588,796)	(422,585)
At 31 December	2,624,814	2,303,729

The IFRS 9 stage wise classification of the carrying value of Investments in Islamic financing instruments at amortised cost is available in Note 30.1.1

The investments in Islamic financing instruments are further analysed as follows:

Economic sector risk concentration of investments in Islamic financing instruments is as follows:

	2019 AED'000	2018 AED'000
Personal	10,645,926	11,744,238
Real estate	4,399,340	3,992,872
Financial institutions and investment companies	4,159,593	5,840,333
Trade	1,752,744	1,394,928
Transport, storage and communication	2,546,121	1,624,105
Manufacturing	1,452,586	1,519,819
Construction	2,196,402	1,087,107
Retail	1,266,425	1,740,790
Other services	5,007,861	5,358,153
Gross investment in Islamic financing instruments	33,426,998	34,302,345
Less: allowance for impairment (Note 30.1)	(2,624,814)	(2,303,729)
Net investment in Islamic financing instruments	30,802,184	31,998,616

7 Investments in Sukuk and Equity funds

	2019 AED'000	2018 AED'000
Investment in Sukuk		
- At amortised cost	1,889,852	1,961,212
Less: impairment loss allowance (Note 30.1)	(673)	(2,158)
	1,889,179	1,959,054
- At fair value through profit & loss	261,089	764,727
- At fair value through other comprehensive income	2,071,963	4,390,568
	4,222,231	7,114,349
Investment in Equity Funds		
- At fair value through profit & loss	312,895	-
- At fair value through other comprehensive income	77,179	-
	390,074	-
Investments in Sukuk & Equity funds	4,612,305	7,114,349

All investments in sukuk are classified as Stage 1 at 31 December 2019 and 31 December 2018. At 31 December 2019, the fair value of investments in Sukuk at amortised cost was AED 1,998 million (31 December 2018: AED 1,927 million).

During the year ended 31 December 2019, the Group recognised net changes in fair value on investments in sukuk at fair value through other comprehensive income of AED 137.5 million (31 December 2018: a net fair value loss of AED 38.3 million) in other comprehensive income under "fair value reserve on Sukuk at FVOCI".

At 31 December 2019, no sukuks have been pledged as collateral against investment deposits. In comparison as at 31 December 2018, Sukuk with a market value of AED 1,651 million were pledged as collateral against investment deposits from financial institutions (Note 12).

At 31 December 2019, the Group held sukuk with a market value of AED 1.5 billion (31 December 2018: AED 2.4 billion) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, these sukuks are not included in the Group's consolidated financial statements.

Investment in equity funds are classified at FVTPL or at FVOCI as given above and comprise of the limited partner (LP) stakes obtained by the Bank in multiple geographically diverse equity funds in settlement of a financing facility.

8 Investment properties

	2019 AED'000	2018 AED'000
At 1 January	1,007,023	1,073,524
Impairment charge for the year	-	(61,480)
Depreciation during the year	(5,155)	(5,021)
At 31 December	1,001,868	1,007,023

The valuation of Investment properties at 31 December 2019 was conducted by an independent valuation expert, using the comparable method in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The carrying value of the investment properties at 31 December 2019 approximates their fair value.

8 Investment properties (continued)

	Land AED'000	Buildings AED'000	Total AED'000
Net book value			
At 1 January 2018 (restated)	978,124	95,400	1,073,524
Depreciation charge for the year	-	(5,021)	(5,021)
Impairment (charge)/reversal for the year	(63,901)	2,421	(61,480)
At 31 December 2018 (restated)	914,223	92,800	1,007,023
Depreciation charge for the year	-	(5,155)	(5,155)
At 31 December 2019	914,223	87,645	1,001,868

Investment properties are held to earn rentals and/or for capital appreciation. Investment properties are measured at cost less accumulated depreciation and impairment loss, if any. Depreciation on buildings is charged on a straight-line basis over 25 years. Freehold land is not depreciated.

Land comprises certain vacant plots granted by the Government of Dubai to the Bank at various locations in Dubai.

The Bank had a revaluation surplus within equity amounting to AED 76 million as the plots of land were initially recorded in property and equipment. Subsequently these plots of land were reclassified to investment properties under the fair value method due to a change in use. These plots of land were incorrectly recorded in property and equipment initially and should have been recorded under investment properties at the time of recognition (Note 32).

The Bank has decided to change its accounting policy for investment properties from the fair valuation model followed previously to the cost model to enable a fair presentation.

Consolidated statement of financial position	**As previously reported at 1 Jan 2018** AED'000	**Reclassification / Restatement** AED'000	**As restated at 1 January 2018** AED'000
Investment properties	1,178,947	(105,423)	1,073,524
Revaluation surplus	118,884	(75,637)	43,247
Retained earnings	40,450	75,637	116,087

Consolidated statement of financial position	**As previously reported at 31 December 2018** AED'000	**Reclassification / Restatement** AED'000	**As restated at 31 December 2018** AED'000
Investment properties	1,127,563	(120,540)	1,007,023
Revaluation surplus	116,001	(75,637)	40,364
Retained earnings	176,613	75,637	252,250

9 Other assets

	2019 AED'000	2018 AED'000
Accrued income on investments in Islamic financing & Sukuk	283,398	292,333
Assets acquired in settlement of financing instruments	145,559	120,540
Commission Receivable	33,800	27,705
Sundry Receivable	25,512	21,256
Acceptances	525,148	314,059
Islamic derivatives (Note 14 (iii))	14,432	11,135
Equity investments in related companies	26,500	26,530
Prepayments and Advances	20,212	20,137
Investment in Associate	-	1,500
Investment in Joint Venture (Note (ii) below)	16,058	25,005
Others	60,953	46,182
	1,151,572	906,382

(i) Equity investment in related companies represents the Bank's share of its investment in the following entities.

	Shareholding structure	
	Noor Bank PJSC	Noor Investment Group LLC
Noor Takaful Family P.J.S.C.	10%	90%
Noor Takaful General P.J.S.C.	10%	90%

On 1 September 2019, the Bank acquired the shareholding of Noor Investment Group (NIG) in three of its subsidiaries under a common control transaction. Refer Note 31 for relevant details.

(ii) Share of loss from the investment in joint venture of AED 8.9 million has been recorded in the consolidated statement of income for the year ended 31 December 2019.

Assets that are acquired from customers in settlement of investments in Islamic financing instruments were classified under Investment Properties in prior years and should have been classified under Other Assets accounted at cost less impairment. These have been reclassified from Investment properties to other assets (Note 32).

Consolidated statement of financial position	**As previously reported at 1 January 2018** AED'000	**Reclassification / Restatement** AED'000	**As restated at 1 January 2018** AED'000
Other assets	681,821	105,423	787,244

Consolidated statement of financial position	**As previously reported at 31 December 2018** AED'000	**Reclassification / Restatement** AED'000	**As restated reported at 31 December 2018** AED'000
Other assets	453,526	452,856	906,382
Other liabilities	2,925,545	307,313	3,232,858
Due from Banks (Note 33)	2,958,365	(25,003)	2,933,362

10 Property and equipment

	Buildings AED'000	Leasehold Improvements* AED'000	Vehicles AED'000	Computers, Furniture & Equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost / fair value						
At 1 January 2019	172,820	18,929	1,415	248,386	38,722	480,272
Revaluation	6,650	-	-	-	-	6,650
Additions during the year	-	8,904	-	-	14,558	23,462
Transfers from Capital work in progress	-	-	296	39,127	(39,423)	-
Disposals during the year	-	(12,883)	(1,090)	(140,731)	-	(154,704)
At 31 December 2019	179,470	14,950	621	146,782	13,857	355,680
Accumulated depreciation						
At 1 January 2019	56,217	18,008	951	215,114	-	290,290
Charge for the year	8,334	3,604	281	18,585	-	30,804
Disposals during the year	-	(12,479)	(940)	(140,324)	-	(153,743)
At 31 December 2019	64,551	9,133	292	93,375	-	167,351
Net book value						
At 31 December 2019	114,919	5,817	329	53,407	13,857	188,329

The fair value of the Group's buildings was determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS") as at 31 December 2019. The excess of fair value over the carrying value is taken to revaluation reserve as per IAS 40.

Buildings are located at Emaar Square, Dubai, and are used as the Bank's Head Office premises.

* Leasehold Improvements include 'Right of Use' assets of AED 8.9 million, relating to relevant leasehold premises of the bank, booked as per IFRS-16.

10 Property and equipment (continued)

	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computers, Furniture & Equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost / fair value						
At 1 January 2018	172,820	18,929	1,415	232,892	9,678	435,734
Additions during the year	-	-	-	16,301	29,044	45,345
Disposals during the year	-	-	-	-	-	-
Write offs	-	-	-	(807)	-	(807)
At 31 December 2018	172,820	18,929	1,415	248,386	38,722	480,272
Accumulated depreciation						
At 1 January 2018	47,883	16,437	774	197,413	-	262,507
Charge for the year	8,334	1,571	177	17,701	-	27,783
Disposals during the year	-	-	-	-	-	-
At 31 December 2018	56,217	18,008	951	215,114	-	290,290
Net book value						
At 31 December 2018	116,603	921	464	33,272	38,722	189,982

11 Customer deposits

	2019 AED'000	2018 AED'000
Current accounts (Qard-e-Hasan)	9,375,688	9,857,939
Term accounts (Wakalah, Murabahah & Mudarabah)	18,156,335	17,936,303
Savings accounts (Mudarabah)	5,769,166	4,580,437
Escrow accounts (Qard-e-Hasan & Mudarabah)	1,909,805	2,792,392
Margin accounts (Qard-e-Hasan)	76,636	190,658
	35,287,630	35,357,729

12 Due to banks

	2019 AED'000	2018 AED'000
Investment deposits - (Wakalah & Murabahah)	505,360	2,663,683
Current accounts (Qard-e-Hasan)	24,195	88,264
	529,555	2,751,947

At 31 December 2019, no sukuks have been pledged as collateral against investment deposits. In comparison as at 31 December 2018, sukuks with a market value of AED 1,651 million were pledged as collateral against investment deposits from financial institutions (Note 7).

13 Sukuk financing instruments

In April 2015, the Bank through its Shari'ah compliant financing arrangement, established a Trust Certificate Issuance Programme for USD 3 billion ("the Programme").

The terms of the Programme include notional allocation of certain identified assets ("the Co-owned Assets") to Noor Sukuk Company Limited, Cayman Islands ("the Issuer or SPE"), a special purpose entity formed for the issuance of the sukuk. In substance, these co-owned assets shall continue to remain under the control of the Bank and shall continue to be serviced by the Bank.

The analysis of the sukuk instruments issued by the Group under the Programme is as follows:

Issuer	**Expected annual profit rate**	**Issuance dated**	**Maturity date**	**31 December 2019** AED'000	**31 December 2018** AED'000
Noor Sukuk Company Limited	2.788%	April 2015	April 2020	1,836,450	1,836,450
Noor Sukuk Company Limited*	4.471%	April 2018	April 2023	1,836,700	1,836,700
				3,673,150	3,673,150

These sukuks were listed on NASDAQ Dubai on the date of issuance and are expected to pay the profit to the sukuk holders semi-annually.

* During the year ended 31 December 2018, the Bank acquired a profit rate swap to hedge the profit rate risk on the sukuk.The net fair value losses as at 31 December 2018 amounting to AED 18.1 million have been included in Other Liabilities under Islamic derivatives as at 31 December 2018. The profit rate swap has been settled during the year ended 31 December 2019.

14 Other liabilities

	2019 AED'000	2018 AED'000
Sundry customer balances (Note (i) below)	-	1,826,155
Sundry disbursements payable	37,284	183,353
Acceptances payable	525,148	314,059
Managers cheques	187,485	199,839
Accrued expenses	225,879	225,054
Accrued depositors' share of profit	231,073	208,627
Impairment loss allowance on off-balance sheet items	47,201	45,724
Provision for employees' end of service benefits (Note 24)	43,970	40,452
Sundry collection accounts	25,800	18,501
Charity disbursement (Note (ii) below)	7,057	6,777
Islamic derivatives (Note (iii) below)	1,476	28,745
Switch settlements payable, net	3,772	6,186
Deferred income from Islamic financing	20,694	6,206
Other payables	120,024	123,180
	1,476,863	3,232,858

(i) At 31 December 2018, sundry customer balance represented specific customer funds held in a non-profit bearing suspense account. These funds have been released during the year ended 31 December 2019 at the instructions of the Central Bank of UAE.

(ii) As per Shari'ah principles, the Bank collects late payment fees for delays in payment by customers. These amounts are separately held and diverted towards charitable purposes (net of the Bank's related costs) under oversight and approval of the ISSC. During the year ended 31 December 2019, the Group disbursed AED 6.75 million (31 December 2018: AED 12.37 million) for charitable purpose.

(iii) Islamic derivatives represent the mark-to-market fair valuation of Promise to buy or sell currency contracts and profit rate swaps held by the Group. The contractual notional value of Promise to buy or sell currency contracts amounted to AED 6.1 billion at 31 December 2019 (31 December 2018: AED 4.6 billion). The contractual notional value on profit rate swaps amounted to AED 6.7 billion as at 31 December 2019 (31 December 2018: AED 7.2 billion). Additionally, the contractual notional value of Call / Put Options amounted to AED 1.5 billion as at 31 December 2019 (31 December 2018: AED 0.8 billion).

15 Share capital

	2019 AED'000	2018 AED'000
Authorised share capital:		
6,500 million shares (2018: 6,500 million shares) of AED 1 each	6,500,000	6,500,000
Issued and fully paid up share capital:		
3,574.9 million shares (2018: 3,574.9 million shares) of AED 1 each	3,574,895	3,574,895

16 Tier 1 Sukuk

In May 2016, the Bank issued Shari'ah compliant Tier 1 Sukuk through an SPE, Noor Tier 1 Sukuk Limited, ("the issuer") amounting to USD 500 million (AED 1,836.5 million) at a par value of USD 1,000 (AED 3,673) per sukuk. The Tier 1 Sukuk is classified by the Central Bank of UAE under grandfathering rule 1 at 100% eligibility for 10 years until 31 December 2027. The Point of Non-Viability provisions (PONV) in the Tier 1 Sukuk documentation are effective.

Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudarabah Agreement. These sukuk are expected to pay profit semi-annually based on 5 year mid-swap rate + 4.91% at the time of issuance on 1st June and 1st December of each year ("the profit payment date") commencing from 1st December 2016. The expected profit rate will be reset to a new fixed rate on the basis of the then prevailing 5 year mid-swap rate + 4.91% on 1 June 2021 ("the first reset date") and every 5 years thereafter. These sukuk are listed on NASDAQ Dubai and callable by the Bank on 1st June 2021 ("the first call date") or any profit payment date thereafter subject to certain redemption conditions. The net proceeds of Tier 1 are invested by the Bank in its general business activities on a co-mingling basis.

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

17 Statutory reserve

The UAE Federal Law No. (2) of 2015 and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. Accordingly, an amount equal to 10% of the net profit for the year has been transferred to the statutory reserve at 31 December 2019. This reserve will not be available for distribution.

18 Income from Islamic financing and Sukuk

	2019 AED'000	2018 AED'000
Murabahah	1,455,906	1,388,563
Ijarah	332,368	307,535
Wakalah	26,139	20,048
	1,814,413	1,716,146
Profit income on Sukuk	219,675	212,734
Profit income on Certificate of deposits with UAE Central Bank	45,278	21,350
Total income from Islamic financing and sukuk	2,079,366	1,950,230

19 Depositors' and Sukuk holders' share of profit

	2019 AED'000	2018 AED'000
Term accounts	645,353	515,975
Savings & Escrow accounts	107,929	70,354
Sukuk holders' profit on sukuk issued	125,960	122,913
	879,242	709,242

20 Fee and other income, net of charges

	2019 AED'000	2018 AED'000
Transactional and deposit related fees	200,364	168,935
Facility syndication, processing and other fees	208,919	204,012
Net foreign exchange and derivative income	200,149	214,875
Trade services related fees	71,989	54,638
Fees from investment in Equity funds	29,966	-
Other fees and commission	56,886	54,634
	768,273	694,094

21 Gain on Islamic investments

	2019 AED'000	2018 AED'000
Islamic financing – At FVTPL	69,961	56,539
Sukuk - At FVOCI – realised gain	70,444	14,288
Sukuk - At FVTPL	33,791	10,686
Equity funds at FVTPL	19,995	-
	194,191	81,513

22 Staff costs

	2019 AED'000	2018 AED'000
Salaries, allowances & staff benefits	424,867	422,590
Outsourced staff cost	46,720	50,939
Provision for employees' end of service benefits (Note 24)	11,080	8,695
Others staff cost	39,247	33,387
	521,914	515,611

23 General and administrative expenses

	2019 AED'000	2018 AED'000
Premises & equipment cost	49,289	53,499
Technology & communication cost	44,584	43,204
Directors' fee	7,870	7,776
Marketing and advertisement	17,401	21,036
Other operating expenses	40,246	57,678
	159,390	183,193

24 Provision for employees' end of service benefits

	2019 AED'000	2018 AED'000
At 1 January	40,452	31,490
Provided during the year (Note 22)	11,080	8,695
Adjustments / Transfers	3,151	6,200
Paid during the year	(10,713)	(5,933)
At 31 December	43,970	40,452

25 Impairment charges, net

	2019 AED'000	2018 AED'000
Investments in Islamic financing instruments and Equity funds	927,867	617,845
Due from banks	(1,595)	6,379
Investments in Sukuk at FVOCI	(4,141)	1,571
Investments in Sukuk at amortised cost	(1,485)	(41)
Financing commitments and financial guarantee contracts	1,478	(11,874)
	922,124	613,880

26 Fiduciary assets

At 31 December 2019, the Group held sukuk with a market value of AED 1.5 billion (31 December 2018: AED 2.4 billion) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, these sukuks are not included in the Group's consolidated financial statements (Note 7).

27 Related party balances and transactions

The Group, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, 'Related party Disclosures' at commercial terms and profit rates. Other related parties include shareholders of the Bank and other entities controlled by the Board members of the Bank. Balances and transactions with related parties are as follows:

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

27 Related party balances and transactions (continued)

	The parent	Directors and key management personnel	Associate and other related parties	Total	The parent	Directors and key management personnel	Associate and other related parties	Total
	AED'000	AED '000	AED'000	AED'000	AED'000	AED '000	AED'000	AED'000
Related party balances:		31 December 2019				31 December 2018		
Assets:								
Investments in Islamic financing instruments	-	123,866	-	**123,866**	-	87,116	-	**87,116**
Investments in Sukuk	-	-	347,139	**347,139**	-	-	341,207	**341,207**
Accrued income from Islamic financing Instruments	-	1,749	-	**1,749**	-	1,049	-	**1,049**
Commission Receivable	-	-	33,800	**33,800**	-	-	27,705	**27,705**
Sundry Receivable	11,599	-	13,913	**25,512**	7,720	-	13,536	**21,256**
Equity investments in related companies (Note 9)	-	-	26,500	**26,500**	-	-	26,530	**26,530**
Investment in associate (Note 9)	-	-	-	**-**	-	-	1,500	**1,500**
Investment in joint venture	-	-	16,058	**16,058**	-	-	25,005	**25,005**
Liabilities:								
Customer deposits	15,891	170,542	817,783	**1,004,216**	20,093	162,328	697,016	**879,437**
Accrued depositors' share of profit	-	3,975	2,195	**6,170**	-	2,884	3,306	**6,190**
Other payable	-	-	6,466	**6,466**	-	-	7,541	**7,541**
Off-balance sheet:								
Contingent liabilities	-	6,937	1,546	**8,483**	-	46,329	1,443	**47,772**
Related party transactions:		31 December 2019				31 December 2018		
Income from Islamic financing	-	6,055	14,485	**20,540**	-	2,523	14,080	**16,603**
Depositors' share of profit	-	4,683	24,929	**29,612**	-	3,217	16,282	**19,499**
Remuneration	-	37,797	-	**37,797**	-	32,860	-	**32,860**
Fee and other income	-	37	64,871	**64,908**	-	393	75,237	**75,630**

NOTE: Directors considered for the above Related Party balances and transactions are members who were on the Board of Directors during the year 2019. Post year end, the composition of the Board of Directors changed pursuant to the change in shareholding of the Bank. Refer Note 34 for details.

28 Contingent liabilities and commitments

(a) Contingent liabilities

	2019 AED'000	2018* AED'000
Letters of credit (LC)	633,408	614,925
Guarantees	3,566,055	2,945,775
Undrawn credit commitments - Revocable	8,033,594	7,103,443
Undrawn credit commitments - Irrevocable	2,705,738	2,270,976
Undrawn commitments on Equity funds	208,549	-
	15,147,344	12,935,119

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Group monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Commitment for Equity fund investment includes future payment committed on investment in private equity funds.

* Acceptances, earlier reported under LC under Contingent Liabilities have been restated under Other Assets and Other Liabilities in the consolidated statement of financial position (Refer Note 9).

(b) Capital commitments

At 31 December 2019, the Group has capital commitments of AED 5.9 million (31 December 2018: AED 18.7 million) mainly relating to purchase of furniture, fixtures, computer equipment and development/up-grading of software.

29 Segmental reporting

Reportable segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. The Group's reportable segments are organized into three major segments as follows:

- Wholesale Banking – Principally handling financing/ trade facilities and deposit related services for medium and large sized corporate and institutional customers, treasury services and liquidity management
- Retail Banking – Principally serves individuals, high net worth customers and small sized businesses.
- Others – Others comprise of Central activities and Head office functions.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment operating income represents the profit earned by each segment without allocation of expenses and impairment charge on Islamic financing instruments.

29 Segmental reporting (continued)

	Wholesale Banking AED'000	Retail Banking AED '000	Others AED'000	Total AED'000	Wholesale Banking AED'000	Retail Banking AED '000	Others AED'000	Total AED'000
Year ended	31 December 2019				31 December 2018			
Net Income from Islamic financing and Sukuk	581,394	465,526	153,204	**1,200,124**	589,005	459,619	192,364	**1,240,988**
Fees and other income and gain on Islamic investments	557,976	379,719	24,769	**962,464**	386,768	380,055	8,784	**775,607**
Total income	1,139,370	845,245	177,973	**2,162,588**	975,773	839,674	201,148	**2,016,595**
Total expenses				**(717,263)**				**(731,608)**
Operating profit before impairment charge on financial assets				**1,445,325**				**1,284,987**
Impairment charge on:								
- financial assets				**(922,124)**				**(613,880)**
- properties				**(14,000)**				**(69,763)**
Share of loss from joint venture				**(8,947)**				**-**
Profit for the period				**500,254**				**601,344**
As of	31 December 2019				31 December 2018			
Segment assets	35,838,429	10,404,745	1,153,226	**47,396,400**	38,389,315	11,509,633	1,127,563	**51,026,511**
Segment liabilities	25,103,225	15,863,973	-	**40,967,198**	31,732,178	13,283,506	-	**45,015,684**

**Restated*

30 Risk management

The Group's risk management is focused on fully integrating enterprise wide risk management into its operations. Risks are proactively identified and managed within the Bank to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Group is exposed to various risks in the course of its regular business. Material risks include, but are not limited to:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors of the Group has the overall responsibility for setting the risk appetite and ensuring risk is effectively managed through a robust Enterprise Risk Management (ERM) framework. Board and Management level committees have been established, as part of the Group's corporate governance structure, to oversee the performance and operations of the Group. Some of these committees are responsible specifically for overseeing execution of the ERM strategy and monitoring performance against the Group's risk management framework.

The Board and management level committees set out below were part of the governance structure in the year 2019. Considering the change in shareholding of the Bank and the members of the Board of Directors post the reporting date, the governance structure and relevant Board and management level committees will undergo appropriate changes.

Board Level Committees

Board Executive and Credit Committee ("BECC")

The purpose of the BECC is to oversee the management of the Bank on behalf of the Board and review and approve credit exposures which exceed thresholds established for management. The BECC is also responsible for reviewing strategic matters which are to be presented to the Board and do not fall within the purview of any other committee of the Board.

Board Risk Committee ("BRC")

The purpose of the BRC is to assist the Board to provide oversight of the Bank's risk management framework and advise the Board on the Bank's risk position, risk appetite, risk culture and risk management strategy.

Board Audit Committee ("BAC")

The purpose of the BAC is to review and monitor, among other things, the integrity of the Bank's financial statements, the effectiveness of the Bank's internal controls, internal and external audit processes, whistleblowing procedures and the Bank's relationship with external auditors.

Board Nomination and Compensation Committee ("BNCC")

The purpose of the BNCC is to consider matters relating to the composition of the Board and its committees, their performance, succession planning, remuneration policies for the Board and senior management and strategic issues relating to human resources.

30 Risk management (continued)

Senior Management Level Committees

The Board has established management level committees comprising members of senior management that meet regularly for effective oversight of governance, risk and compliance, day-to-day operations and execution of the Bank's strategy. The Terms of Reference for the management committees are endorsed by the Board. These management committees (cited below) interact closely with one another to support a collaborative and integrated approach to information sharing and decision making.

Management Committee ("Mancom")

The Management Committee is responsible for overseeing and managing day-to-day business and ensures the operational performance of the Group is meeting or exceeding set performance targets and authorises actions to maintain, enhance or correct service delivery issues. The Mancom is also responsible for guiding, shaping, approving and monitoring a coherent set of projects in line with the Group's long term strategy that will maintain and enhance the Bank's progress towards its future vision, recommending investment and expenditure to the BECC in line with that goal. In fulfilling its purpose, the Management Committee translates the decisions of the Board of Directors regarding the operation and management of the Group. The Mancom is chaired by the Chief Executive Officer and meets monthly.

Enterprise Risk Management Committee ("ERMC")

This committee is responsible for developing and recommending the overall risk strategy, the ERM framework and risk appetite statements to the BRC for consideration. The committee is also responsible to institutionalise risk culture throughout the Bank. This committee is chaired by the Chief Risk Officer and meets monthly.

Management Credit Committee ("MCC")

This committee is responsible for review and recommendation of credit policies to the Board. The MCC is chaired by the Chief Credit Officer and meets weekly.

Asset Liability Committee ("ALCO")

This committee is responsible for developing and recommending the framework to strategically manage the Group's assets and liabilities. The ALCO is chaired by the Head of Treasury and meets monthly.

IFRS 9 Steering Committee

The Committee is a sub-committee of the Bank's ERMC. The Committee is responsible for the establishment of a strong governance and control framework over Expected Credit Loss (ECL) estimation and reporting, focusing on data integrity and model validation and approval of provisions calculated under IFRS 9 standards on a regular basis. The IFRS 9 Steering Committee is chaired by Chief Risk Officer and meets quarterly.

Investment Governance Forum ("IGF")

IGF is a sub-committee of Mancom and is responsible for improving the first line of defence by applying a robust financial governance approach to investment sought by the different functions for transformation initiatives. The committee meets periodically and is chaired by Chief Operating Officer.

Programme Steering Committee ("PSC")

The PSC is a sub-committee of the Bank's Mancom and is responsible to govern the Bank's transformation initiatives approved through the IGF, provide guidance on project and programme risk management and track post-implementation benefits. The committee meets periodically and is chaired by Chief Operating Officer.

30 Risk management (continued)

30.1 Credit risk management

Credit risk is the risk emanating when a counterparty of the Group does not fulfil its contractual obligation or the quality of an issuer deteriorates. It arises principally from financing, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

Following are the risk management policies adopted by the Group to ensure credit quality and minimise the risk of concentration:

(a) Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Bank's asset portfolio (except retail banking assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves, and the basis for credit approval authority delegation. The bank uses Moody's Risk Analyst to grade the customer and facility based on internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on an internal scale, each grade being associated with a Probability of Default ("PD"). Non-performing clients are also rated, corresponding to the Substandard, Doubtful and Loss classifications as per Clarifications and Guidelines Manual for Circular No. 28/2012 issued by the UAE Central bank. The Group's internal credit grades have also been mapped to external agency ratings for better comparison.

(b) Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group's Management Credit Committee ("MCC") within the authorities delegated by the Board of Directors.

(c) Credit monitoring

The Group regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer / Chief Credit Officer and Board Risk Committee, containing information on key variables, portfolio delinquency and financing impairment performance.

All corporate exposure accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Group has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as performing, watchlist or non-performing as per UAE Central Bank guidelines.

All non-performing accounts are monitored closely by the Remedial Management Unit of the Group, reporting to the Chief Risk Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.

With respect to the Group's retail banking portfolio, asset quality is monitored closely with 30/60/90 days past due accounts and delinquency trends are monitored continuously for each product of the Group. Accounts which are past due are subjected to collection process and managed independently by the risk function.

30 Risk management (continued)

30.1 Credit risk management (continued)

(d) Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit, etc. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

The estimated value of collaterals and mitigations relating to relevant credit facilities are as follows.

	2019 AED'000	2018 AED'000
Properties and mortgages	16,877,939	15,332,498
Deposits and securities	6,284,713	4,259,983
Movable assets	1,373,492	1,320,189
Risk Participation	764,270	710,925
Others	1,715,036	1,720,607

Repossessed collateral is either disposed off or is classified under other assets in accordance with the Group's approved policy.

(e) Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been partially or fully written off due to no reasonable expectation of recovery. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 was AED 589 million (31 December 2018: AED 422 million).

(f) Modification of financial assets

The Group may modify the terms of financing provided to customers due to commercial renegotiations, or for distressed financing, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term financing.

30 Risk management (continued)

30.1 Credit risk management (continued)

(f) Modification of financial assets (continued)

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets and may determine that the credit risk has significantly improved after restructuring, post which assets may be moved from Stage 3 to Stage 2 (Lifetime ECL). This is the case only if the asset has performed as per the restructure terms and conditions for consecutive months as specified in the contract.

The Group continues to monitor if there is significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

During the year ended 31 December 2019, there were no significant gains/losses on the modification of investments in Islamic financing instruments.

(g) Offsetting financial instruments

The Group has not entered into significant master netting arrangement with counterparties which enable them to settle transactions on net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

Expected credit loss measurement

Overview

The Bank has implemented IFRS 9 in line with the IASB (The International Accounting Standards Board) and CBUAE guidelines.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired financial assets)
12-month expected credit losses	Probability weighted lifetime expected credit losses	Lifetime expected credit losses

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The bank has developed the necessary PD, LGD and EAD models incorporating the forward looking information based on macro-economic factors in the models and performed the ECL computations.

30 Risk management (continued)

30.1 Credit risk management (continued)

Expected credit loss measurement (continued)

Overview (continued)

Significant increase in credit risk (SICR)

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

The Bank considers a financial asset to have experienced a significant increase in credit risk when one or more of the following key indicators have met the criteria as mentioned for respective portfolios:

- Downgrade in internal rating;
- Overdue status (days past due);
- Non-performing or restructuring identifiers for accounts.

Corporate Portfolio:

The following staging rules have been applied on the corporate portfolio to identify the movement of instruments from Stage 1 to Stage 2:

- Exposures or accounts which are overdue for more than 30 days past due (DPD) but less than (or equal to) 90 days
- Accounts deemed as 'Restructured' by the Bank in 12 months prior to the assessment date
- Rating downgrade by 3 notches or more since origination and the current rating is lower than specified internal rating threshold

The criteria for classifying to Stage 3 is the same as the Bank's rules for classification of credit impaired / default assets. Any account with more than 90 DPD or current non performing internal rating or accounts against which specific provisions are held are considered as default accounts.

Retail Portfolio:

The following stage classification rules have been applied to the Retail portfolio of the Bank to identify the movement of accounts from Stage 1 to Stage 2:

- Accounts overdue between 30 and 90 days
- Financing restructured in last 3 months

The criteria for classifying to Stage 3 is similar to the Bank's rules for classification of credit impaired / Default assets, as stipulated by the definition of default:

- Any account with more than 90 DPD or with internal rating reflecting "Delinquency Status".
- Accounts qualifying for any other regulatory criteria for retail non-performing accounts, as established by CBUAE.

30 Risk management (continued)

30.1 Credit risk management (continued)

Expected credit loss measurement (continued)

Significant increase in credit risk (SICR) (continued)

Low Default Portfolios:

The criterion for transfer between Stages for Low Default Portfolios like Investment in Sukuk and Banks is as follows:

For Stage 1 to Stage 2 migration, rating downgrade by 3 notches or more since origination is considered. Downgrading to Stage 3 is based on the prevailing rules for Non-Performing Assets identification, as prescribed by the CBUAE and IFRS 9 standards.

Definition of default and credit-impaired assets

The Bank considers a financial asset to be in default when:

- It is established that due to financial or non-financial reasons the customer is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realizing security (if any is held); or
- The customer is past due 90 days or more on any material credit obligation to the Bank.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a specified consecutive month period. This period has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques are covered in Note 3.2.3 as part of significant accounting policies.

30 Risk management (continued)

30.1 Credit risk management (continued)

30.1.1 Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of the investments in assets (including banks) and contingent liabilities which are subject to ECL. The gross carrying amounts below also represent the Group's maximum exposure to credit risk on these assets:

	As at 31 December 2019							
	Gross exposure (AED '000)				Expected credit loss (AED '000)			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	12-month ECL	Lifetime ECL	Lifetime ECL	Total	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Due from banks	3,876,519	-	-	**3,876,519**	(8,264)	-	-	**(8,264)**
Gross investments in Islamic financing instruments – At amortised cost								
Normal	28,840,004	2,184,209	-	**31,024,213**	(356,496)	(1,011,302)	-	**(1,367,798)**
Impaired	-	-	2,055,256	**2,055,256**	-	-	(1,257,016)	**(1,257,016)**
	28,840,004	2,184,209	2,055,256	**33,079,469**	(356,496)	(1,011,302)	(1,257,016)	**(2,624,814)**
Investments in Sukuk and Equity funds – At amortised cost & FVOCI	4,038,994	-	-	**4,038,994**	(7,606)	-	-	**(7,606)**
Contingent liabilities (excluding revocable commitments)	7,028,963	84,789	-	**7,113,752**	(45,779)	(1,422)	-	**(47,201)**

30 Risk management (continued)

30.1 Credit risk management (continued)

30.1.1 Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at 31 December 2018							
	Gross exposure (AED '000)				Expected credit loss (AED '000)			
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Due from banks	2,760,015	183,206	-	**2,943,221**	(9,075)	(784)	-	**(9,859)**
Gross investments in Islamic financing instruments – At amortised cost								
Normal	29,442,620	3,063,339	-	**32,505,959**	(257,227)	(1,044,748)	-	**(1,301,975)**
Impaired	-	-	1,518,807	**1,518,807**	-	-	(1,001,754)	**(1,001,754)**
	29,442,620	3,063,339	1,518,807	**34,024,766**	(257,600)	(1,044,375)	(1,001,754)	**(2,303,729)**
Investments in Sukuk and Equity funds – At amortised cost & FVOCI	6,351,780	-	-	**6,351,780**	(11,580)	-	-	**(11,580)**
Contingent liabilities (excluding revocable commitments)	5,458,636	373,040	-	**5,831,676**	(24,869)	(20,855)	-	**(45,724)**

30 Risk management (continued)

30.1.2 Expected credit losses

The following table show reconciliations from the opening balance to the closing balance of the impairment loss allowance on investment in Islamic financing instruments at amortised cost:

	2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Investments in Islamic financing instruments - At amortised cost				
Balance as at 1st January	257,600	1,044,375	1,001,754	2,303,729
Impairment charge / (reversal) during the year	98,896	(33,073)	844,058	909,881
Write off (net of recoveries)	-	-	(588,796)	(588,796)
Balance as at 31 December	356,496	1,011,302	1,257,016	2,624,814

	2018			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Investments in Islamic financing instruments - At amortised cost				
Balance as at 1st January	278,949	917,543	911,977	2,108,469
Impairment charge / (reversal) during the year	(21,349)	126,832	512,362	617,845
Write off (net of recoveries)	-	-	(422,585)	(422,585)
Balance as at 31 December	257,600	1,044,375	1,001,754	2,303,729

30.2 Liquidity risk

Liquidity risk is the risk that the Group is not in a position to fund growth in assets or meet obligations as they become due. Liquidity risk arises in the normal course of business by taking shorter term deposits, often repayable on demand or at short notice, and using these deposits to fund credit facilities over medium to longer periods. The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate high quality liquid assets to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs.

30 Risk management (continued)

30.2 Liquidity risk (continued)

Liquidity management and monitoring

The Group's daily liquidity management activity is performed by the Treasury Department. Treasury's activity is overseen by the ALM Risk team which measures, monitors and reports on liquidity management activity, covering the following activities:

- Monitoring of the maturity profile of assets and liabilities on a continuous basis inclusive of currency wise position analysis;
- Forecasting future cash flows between sources and uses of funds;
- Stress testing based on the sensitivity analysis of key factors and combined events:
- Measuring Key regulatory liquidity indicators e.g. Advances to Stable Resources ratio (ASRR) ratio, Eligible Liquid Assets ratio (ELAR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). In addition to these ALCO has also set targets for maximum cumulative outflow (MCO) including those for a set of various other ratios ensuring proper liquidity measurement;
- Monitoring of concentration risks in deposit sources; and
- Monitoring of early warning indicators to assess the potential impact arising from a series of defined idiosyncratic and systemic stress scenarios.

BRC has also set internal targets for above measures (wherever applicable) which are generally conservative compared to the requirements set by the regulator.

Liquidity Contingency plan

The Group has a formal liquidity contingency plan approved by Board of Directors (BOD) that contains clearly documented management action triggers for each type of event and recommended actions against those events with defined roles and responsibilities for key personnel.

30 Risk management (continued)

30.2 Liquidity risk (continued)

(a) The following table presents the cash flow analysis of remaining contractual maturities of Group's financial liabilities on an undiscounted basis, relating to both principal and profit payments:

	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
At 31 December 2019						
Customer deposits	35,287,630	25,267,012	9,834,927	325,749	70,715	35,498,403
Due to banks	529,555	530,837	-	-	-	530,837
Sukuk financing instruments	3,673,150	-	1,935,336	2,025,929	-	3,961,265
Other liabilities	1,476,863	1,181,950	294,913	-	-	1,476,863
	40,967,198	26,979,799	12,065,176	2,351,678	70,715	41,467,368
At 31 December 2018						
Customer deposits	35,357,729	24,671,952	8,452,583	2,683,642	74,791	35,882,968
Due to banks	2,751,947	2,143,428	627,136	-	-	2,770,564
Sukuk financing instruments	3,673,150	-	133,317	3,986,148	-	4,119,465
Other liabilities	3,232,858	3,227,832	5,026	-	-	3,232,858
	45,015,684	30,043,212	9,218,062	6,669,790	74,791	46,005,855

As at 31 December 2019, top 20 customers constitute 31% of total customer deposits (31 December 2018: 32%). Customer deposits due for maturity within 3 months include Escrow account balances and lien marked Qard-E-Hasan (demand) deposit balances which are expected to be retained for longer than 3 months. Remaining customer deposits, although contractually short term in nature, tend to be renewed on maturity and are expected to remain with the Bank for a longer term.

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

30 Risk management (continued)

30.2 Liquidity risk (continued)

(b) Maturity profile of the carrying amounts of financial assets and financial liabilities

At 31 December 2019	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Non-Financial AED'000	Total AED'000
Assets						
Cash and balances with the UAE Central Bank	4,771,887	1,000,000	-	-	-	5,771,887
Due from banks	2,950,661	844,135	73,459	-	-	3,868,255
Investments in Islamic financing instruments	5,456,240	5,676,771	12,980,797	6,688,376	-	30,802,184
Investments in Sukuk and Equity funds	213,698	166,553	1,841,685	2,390,369	-	4,612,305
Investments properties	-	-	-	-	1,001,868	1,001,868
Other assets	674,830	294,913	-	-	181,829	1,151,572
Property and equipment	-	-	-	-	188,329	188,329
Total	14,067,316	7,982,372	14,895,941	9,078,745	1,372,026	47,396,400
Liabilities						
Customer deposits	25,066,495	9,697,783	468,352	55,000	-	35,287,630
Due to banks	529,555	-	-	-	-	529,555
Sukuk financing instruments	-	1,836,450	1,836,700	-	-	3,673,150
Other liabilities	1,161,256	294,913	-	-	20,694	1,476,863
Total	26,757,306	11,829,146	2,305,052	55,000	20,694	40,967,198
Net liquidity gap	(12,689,990)	(3,846,774)	12,590,889	9,023,745	1,351,332	6,429,202
Cumulative gap	(12,689,990)	(16,536,764)	(3,945,875)	5,077,870	6,429,202	

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

30 Risk management (continued)

30.2 Liquidity risk (continued)

(b) Maturity profile of the carrying amounts of financial assets and financial liabilities (continued)

At 31 December 2018	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Non - Financial AED'000	Total AED'000
Assets						
Cash and balances with the UAE Central Bank	6,876,797	-	-	-	-	6,876,797
Due from banks	2,367,734	565,628	-	-	-	2,933,362
Investments in Islamic financing instruments	3,878,350	5,533,552	14,419,875	8,166,839	-	31,998,616
Investments in Sukuk and Equity funds	40,310	784,218	2,712,286	3,577,535	-	7,114,349
Investments properties	-	-	-	-	1,007,023	1,007,023
Other assets	735,674	5,026	-	-	165,682	906,382
Property and equipment	-	-	-	-	189,982	189,982
Total	13,898,865	6,888,424	17,132,161	11,744,374	1,362,687	51,026,511
Liabilities						
Customer deposits	24,499,781	8,211,123	2,591,825	55,000	-	35,357,729
Due to banks	2,133,390	618,557	-	-	-	2,751,947
Sukuk financing instruments	-	-	3,673,150	-	-	3,673,150
Other liabilities	3,221,626	5,026	-	-	6,206	3,232,858
Total	29,854,797	8,834,706	6,264,975	55,000	6,206	45,015,684
Net liquidity gap	(15,955,932)	(1,946,282)	10,867,186	11,689,374	1,356,481	6,010,827
Cumulative gap	(15,955,932)	(17,902,214)	(7,035,028)	4,654,346	6,010,827	

30 Risk management (continued)

30.3 Market risk (continued)

Market risk is the potential impact of adverse price movements such as benchmark rates, foreign exchange prices and commodity prices on the earnings/economic value of an asset held by the Group. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and capital of the Group. The market risk unit is responsible for monitoring and reporting this risk.

(a) Profit rate risk

The following table summarises the assets and liabilities of the Group, which are subject to profit rate risk, at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period:

At 31 December 2019 **Assets**	**Up to 3 months** **AED'000**	**3 months to 1 year** **AED'000**	**1 year to 5 years** **AED'000**	**More than 5 years** **AED'000**	**Non-profit bearing** **AED'000**	**Total** **AED'000**	**Profit rate** **%**
Cash and balances with the UAE Central Bank	1,600,000	1,000,000	-	-	3,171,887	5,771,887	1.94
Due from banks	2,735,754	844,136	-	-	288,365	3,868,255	2.87
Investments in Islamic financing instruments	24,577,016	2,188,604	2,956,893	1,079,671	-	30,802,184	5.65
Investments in Sukuk and Equity funds	213,698	166,553	1,841,685	2,390,369	-	4,612,305	4.49
Investments properties	-	-	-	-	1,001,868	1,001,868	
Other assets	-	-	-	-	1,151,572	1,151,572	
Property and equipment	-	-	-	-	188,329	188,329	
	29,126,468	4,199,293	4,798,578	3,470,040	5,802,021	47,396,400	
Liabilities							
Customer deposits	15,592,298	9,697,783	468,352	55,000	9,474,197	35,287,630	2.08
Due to banks	505,360	-	-	-	24,195	529,555	2.16
Sukuk financing instruments	-	1,836,450	1,836,700	-	-	3,673,150	3.63
Other liabilities	-	-	-	-	1,476,863	1,476,863	
	16,097,658	11,534,233	2,305,052	55,000	10,975,255	40,967,198	
Net position on balance sheet	13,028,810	(7,334,940)	2,493,526	3,415,040	(5,173,234)	6,429,202	

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

30 Risk management (continued)

30.3 Market risk

(a) Profit rate risk (continued)

At 31 December 2018 **Assets**	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Non-profit bearing AED'000	Total AED'000	Profit rate %
Cash and balances with the UAE Central Bank	750,000	-	-	-	6,126,797	6,876,797	2.20
Due from banks	2,031,194	565,628	-	-	336,540	2,933,362	4.46
Investments in Islamic financing instruments	20,952,941	5,382,945	4,328,310	1,334,420	-	31,998,616	5.56
Investments in Sukuk and Equity funds	93,306	787,201	2,695,385	3,538,457	-	7,114,349	4.45
Investments properties	-	-	-	-	1,007,023	1,007,023	
Other assets	-	-	-	-	906,382	906,382	
Property and equipment	-	-	-	-	189,982	189,982	
	23,827,441	6,735,774	7,023,695	4,872,877	8,566,724	51,026,511	
Liabilities							
Customer deposits	14,451,184	8,211,123	2,591,825	55,000	10,048,597	35,357,729	2.08
Due to banks	2,045,125	618,557	-	-	88,265	2,751,947	3.13
Sukuk financing instruments	-	-	3,673,150	-	-	3,673,150	3.63
Other liabilities	-	-	-	-	3,232,858	3,232,858	
	16,496,309	8,829,680	6,264,975	55,000	13,369,720	45,015,684	
Net position on balance sheet	7,331,132	(2,093,906)	758,720	4,817,877	(4,802,996)	6,010,827	

The impact of 1% change in profit rates on a progressive basis over the year would have an impact of AED 41.8 million (31 December 2018: AED 48 million) on the Group's consolidated statement of income for the year ended 31 December 2019. The analysis is based on the assumptions that all other variables will remain constant and income simulation for 1 year forecast.

30 Risk management (continued)

30.3 Market risk (continued)

(b) Foreign currency risk

Foreign currency risk represents the risk of change in the fair value of financial assets and financial liabilities due to changes in foreign exchange rates. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. At the end of the year, the Bank had the following significant net foreign currency exposures:

	Balances in Foreign Currency						Balances in local currency	
	USD	EUR	GBP	SAR	Others	Sub-total	Total	
At 31 December 2019	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	
Assets								
Cash and balances with the UAE Central Bank	878,756					878,756	4,893,131	5,771,887
Due from banks	2,855,506	21,980	28,217	56,229	47,959	3,009,891	858,364	3,868,255
Investments in Islamic financing instruments	8,684,375	23,327	32,028	139,560	-	8,879,290	21,922,894	30,802,184
Investments in Sukuk and Equity funds	4,612,305	-	-	-	-	4,612,305	-	4,612,305
Investment properties	-	-	-	-	-	-	1,001,868	1,001,868
Other assets	622,021	762	46	38,897	-	661,726	489,846	1,151,572
Property and equipment	-	-	-	-	-	-	188,329	188,329
	17,652,963	46,069	60,291	234,686	47,959	18,041,968	29,354,432	47,396,400
Liabilities								
Customer deposits	7,736,156	1,910,427	295,009	2,647,543	48,535	12,637,670	22,649,960	35,287,630
Due to banks	171,710	-	-	-	-	171,710	357,845	529,555
Sukuk financing instruments	3,673,150	-	-	-	-	3,673,150	-	3,673,150
Other liabilities	557,494	768	142	54,608	-	613,012	863,851	1,476,863
	12,138,510	1,911,195	295,151	2,702,151	48,535	17,095,542	23,871,656	40,967,198
Tier 1 Sukuk	1,836,500	-	-	-	-	1,836,500	-	1,836,500
	13,975,010	1,911,195	295,151	2,702,151	48,535	18,932,042	23,871,656	42,803,698
Net on-balance sheet foreign currency exposure	3,677,953	(1,865,126)	(234,860)	(2,467,465)	(576)	(890,074)		
Net FX position on account of FX contracts	(3,385,610)	1,873,901	237,976	2,477,123	1,698	1,205,088		
Net FX open position	292,343	8,775	3,116	9,658	1,122	315,014		

* Balances in local currency includes Non-Financial Assets / Liabilities

30 Risk management (continued)

30.3 Market risk (continued)

(b) *Foreign currency risk* (continued)

	Balances in Foreign Currency						Balances in local currency	
	USD	EUR	GBP	SAR	Others	Sub-total		Total
At 31 December 2018	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets								
Cash and balances with the UAE Central Bank	967,203	-	-	-	-	967,203	5,909,594	6,876,797
Due from banks	2,756,035	24,073	9,297	17,145	53,031	2,859,581	73,781	2,933,362
Investments in Islamic financing instruments	7,488,653	4,938	-	139,574	-	7,633,165	24,365,451	31,998,616
Investments in Sukuk and Equity funds	7,114,349	-	-	-	-	7,114,349	-	7,114,349
Investment properties	-	-	-	-	-	-	1,007,023	1,007,023
Other assets	298,880	1,807	-	28,805	223	329,715	576,667	906,382
Property and equipment	-	-	-	-	-	-	189,982	189,982
	18,625,120	30,818	9,297	185,524	53,254	18,904,013	32,122,498	51,026,511
Liabilities								
Customer deposits	8,370,668	1,619,198	228,294	2,491,385	47,878	12,757,423	22,600,306	35,357,729
Due to banks	2,225,921	-	-	74,419	668	2,301,008	450,939	2,751,947
Sukuk financing instruments	3,673,150	-	-	-	-	3,673,150	-	3,673,150
Other liabilities	2,198,146	35,962	238	26,499	223	2,261,068	971,790	3,232,858
	16,467,885	1,655,160	228,532	2,592,303	48,769	20,992,649	24,023,035	45,015,684
Tier 1 Sukuk	1,836,500	-	-	-	-	1,836,500	-	1,836,500
	18,304,385	1,655,160	228,532	2,592,303	48,769	22,829,149	24,023,035	46,852,184
Net on-balance sheet foreign currency exposure	320,735	(1,624,342)	(219,235)	(2,406,779)	4,485	(3,925,136)		
Net FX position on account of FX contracts	(96,449)	1,637,023	221,570	2,398,060	(3,574)	4,156,630		
Net FX open position	224,286	12,681	2,335	(8,719)	911	231,494		

The impact of a 1% increase/decrease in the foreign exchange rates of the Bank's net FX open position is AED 0.1 million on the Group's consolidated statement of income for the year ended 31 December 2019 (31 December 2018: AED 0.2 million). The analysis is based on the assumptions that any other relevant variables like FX positions, currency mix, etc. remain constant and current currency peg continues.

30 Risk management (continued)

30.3 Market risk (continued)

(c) Price risk

The Bank is exposed to price risk arising from publicly traded investments in sukuk classified as at FVTPL and FVOCI.

A present value one basis point (PVBP) increase/decrease in the prices will have an impact of AED 0.7 million on the Group's investment portfolio for the year ended 31 December 2019 (31 December 2018: AED 2.2 million). The analysis is based on the assumptions that all other variables will remain constant.

30.4 Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using discounted cash flow techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

30 Risk management (continued)

30.4 Fair value hierarchy (continued)

The financial instruments and non-financial assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2019			
Financial assets at fair value			
Investments in Sukuk			
- Classified at FVOCI	2,071,963	-	-
- Classified as FVTPL	261,089	-	-
Investments in Islamic financing instruments – At FVTPL	-	27,361	320,168
Equity investments in related companies	-	-	26,500
Equity investments in Islamic Funds			
- Classified at FVOCI	-	-	312,895
- Classified as FVTPL	-	-	77,179
Fair value of Islamic derivatives	-	14,432	-
	2,333,052	**41,793**	**736,742**
Financial liabilities			
Fair value of Islamic derivatives	-	1,476	-
Fair value on Sukuk financing instrument	-	-	-
	-	1,476	-

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2018			
Financial assets at fair value			
Investments in Sukuk			
- Classified at FVOCI	4,390,568	-	-
- Classified as FVTPL	764,727	-	-
Investments in Islamic financing instruments – At FVTPL	-	23,346	254,233
Equity investments in related companies	-	-	26,530
Fair value of Islamic derivatives	-	11,135	-
	5,155,295	**34,481**	**280,763**
Financial liabilities			
Fair value of Islamic derivatives	-	28,745	-
Fair value on Sukuk financing instrument	-	1,854,778	-
	-	**1,883,523**	-

At 31 December 2019 and 31 December 2018, the carrying value of the Group's financial assets and liabilities measured at amortised cost approximates their fair values.

30 Risk management (continued)

30.4 Fair value hierarchy (continued)

Movement of financing instruments at FVTPL based on the Level 3 hierarchy are as follows:

	2019 AED'000	2018 AED'000
At 1 January	280,763	26,530
Additions during the year	540,736	226,817
Disposal during the year	(91,796)	(25,694)
Change in fair value during the year	7,039	53,110
At 31 December	736,742	280,763

At 31 December 2019 and 31 December 2018, the difference between the carrying value and the fair value of the Group's properties, other assets and liabilities measured at amortised cost is not material.

30.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, people, technology and infrastructure within the Group, and from external factors other than credit, market and liquidity risks such as those arising from disruptive business events, natural disasters, non-compliance with regulations and generally accepted standards of corporate behaviour.

The Group has sound Operational Risk Management Framework, which outlines approaches to identifying, measuring, reporting and mitigating operational, information security and business continuity risks with forward looking management discipline. The management of operational risk is the primary responsibility of each business or support function and implementation of the framework is co-ordinated by a dedicated team under leadership of Chief Risk Officer, who maintains supervisory oversight and drives improvement in areas such as:

- Adequacy of segregation of duties and controls over critical processes and services
- New products or services launch, changes to existing product or services
- Critical outsourcing and service arrangement with third parties and business partners
- Review of new systems, applications or service delivery solutions
- Review of significant control break-downs, operational losses or near-misses, unethical sales and marketing practices, etc.
- Development of strong risk culture through staff awareness and risk socialization programmes.

Information Security

Information Security risk is increasingly assuming prominent threat potential in digital age. The Group recognizes its key dependencies on systems, people and service processes and the risks, to which they are exposed to both from internal and external factors.

To mitigate these threats, the Group has implemented robust information security framework based on leading international standards like ISO 27000 series and industry best practices.

Business Continuity Management

The Group is committed to ensure continuity and resilience of its key business processes and service deliveries against internal and external disruptive events, natural calamities, etc. To achieve these objectives, the Group has designed and implemented robust Business Continuity Management Framework by identifying disruptive scenarios, developing continuity plans and periodically testing the same for their continued viability.

30 Risk management (continued)

30.6 Capital management and capital adequacy as per Basel III requirement

The Group manages its capital considering both regulatory and economic capital. The Group calculates its risk asset ratio in accordance with requirements and guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets. This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel III Accord.

The following are the minimum requirements:

	2019	2018
Common equity tier 1 ratio*	9.50 %	8.875%
Tier 1 capital ratio*	11.00 %	10.375%
Capital adequacy ratio*	13.00 %	12.375%

* Including capital conservation buffer requirement of 2.5% (2018: 1.875%).

	31 December 2019 AED'000	31 December 2018* AED'000
CET 1 Capital		
Share capital	3,574,895	3,574,895
Statutory reserve	397,173	346,914
Retained earnings	599,599	252,250
Fair value reserve on Sukuk and Equity Funds at FVOCI	(23,095)	(40,096)
	4,548,572	4,133,963
Additional Tier 1 (AT1) Capital		
Tier 1 Sukuk	1,836,500	1,836,500
Total Tier 1 Capital	6,385,072	5,970,463
Tier 2 Capital		
General provision	450,079	447,372
Total Tier 2 Capital	450,079	447,372
Total regulatory capital	6,835,151	6,417,835
Risk weighted assets		
Credit risk	36,006,312	35,789,772
Market risk	812,396	533,052
Operational risk	3,835,382	3,388,757
Risk weighted assets	40,654,090	39,711,581
Common equity tier 1 ratio	11.19%	10.41%
Tier 1 capital ratio	15.71%	15.03%
Capital adequacy ratio	16.81%	16.16%

30 Risk management (continued)

30.6 Capital management and capital adequacy requirement (continued)

Asset classes in 2019	On balance sheet gross outstanding AED'000	Off balance sheet Exposure AED'000	Credit risk mitigation (CRM): Exposure before CRM (net off specific provision and profit in suspense) AED'000	CRM AED'000	Net exposure after Credit conversion factors (CCF) AED'000	Risk weighted assets AED'000
Claims on sovereigns	8,902,921	-	8,902,921	387,487	8,902,921	530,751
Claims on non-central government public sector entities	822,402	334,726	1,157,128	-	989,765	-
Claims on multilateral development banks	-	-	-	-	-	-
Claims on banks	4,595,580	275,203	4,870,783	17,997	4,854,183	2,791,689
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	20,226,266	15,052,545	35,278,811	689,063	23,363,364	22,782,293
Claims included in the regulatory retail portfolio	5,214,509	-	5,214,509	176,045	5,214,509	4,367,192
Claims secured by residential property	5,433,868	76,262	5,510,131	-	5,510,131	2,513,834
Claims secured by commercial real estate	-	-	-	-	-	-
Past due financing	1,470,182	-	213,166	17,429	213,166	293,230
Higher risk categories	390,074	208,549	598,623	-	598,623	897,934
Other assets	2,635,617	-	2,449,200	-	2,449,200	1,829,389
	49,691,419	15,947,285	64,195,272	1,288,021	52,095,862	36,006,312

30 Risk management (continued)

30.6 Capital management and capital adequacy requirement (continued)

			Credit risk mitigation (CRM)			
Asset classes in 2018	On balance sheet gross outstanding AED'000	Off balance sheet exposure AED'000	Exposure before CRM (net off specific provision and profit in suspense) AED'000	CRM AED'000	Net exposure after Credit conversion factors (CCF) AED'000	Risk weighted assets AED'000
Claims on sovereigns	11,503,171	-	11,503,171	-	11,503,171	978,764
Claims on non-central government public sector entities	742,984	457,018	1,200,002	-	971,493	44,860
Claims on multilateral development banks	14,318	-	14,318	-	14,318	7,159
Claims on banks	3,821,528	426,946	4,248,474	(95,716)	4,245,744	3,089,295
Claims on securities firms	6,394	-	6,394	-	6,394	6,394
Claims on corporates	20,609,404	12,324,349	32,933,753	(1,764,129)	23,147,670	21,534,999
Claims included in the regulatory retail portfolio	5,265,970	788,143	6,054,113	(421,349)	5,265,970	3,880,725
Claims secured by residential property	5,217,589	128,545	5,346,134	-	5,249,217	2,035,654
Claims secured by commercial real estate	1,830,344	3,835	1,834,179	-	1,832,262	1,832,262
Past due financing	1,500,272	8,417	506,936	-	502,728	502,728
Other assets	2,928,874	-	2,740,567	-	2,740,567	1,876,932
	53,440,848	14,137,253	66,388,041	(2,281,194)	55,479,534	35,789,772

31 Acquisition of subsidiaries

On 1 September 2019, Noor Investment Group LLC (Ultimate Parent Company) has transferred it's ownership of three subsidiaries to the Bank i.e. Premium Marketing Services LLC, Zawaya Realty LLC and Noor BPO LLC. The transfer has been considered as a common control transaction and in accordance with the Group's policy, has been accounted within equity. The results and cash flows of the subsidiary have been consolidated prospectively from the date of transfer, i.e. 1 September 2019 without restatement of statement of income and statement of financial position comparatives. Following are the details of assets and liabilities received as part of the transfer:

As of 1 September 2019	**Premium Marketing Services LLC** AED'000	**Zawaya Realty LLC** AED'000	**Noor BPO LLC** AED'000	**Total** AED'000
Total assets	457	11,430	5,024	16,911
Total liabilities	-	(2,064)	-	(2,064)
Net assets	457	9,366	5,024	14,847
Less: consideration paid	(270)	(300)	(3,500)	(4,070)
Transfer from other assets*	(30)	-	(1,500)	(1,530)
Net balance reflected in equity	157	9,066	24	9,247

** Represents bank's earlier investment in these entities prior to acquisition.*

32 Restatement

In accordance with the requirements of 'IAS 1 Presentation of Financial Statements' and 'IAS 8 Accounting policies, Changes in Estimates and Errors', the change in accounting policy and the prior period restatements have been corrected retrospectively and accordingly balances in the consolidated financial statements have been restated as highlighted in Note 8 and Note 9.

There was no material impact of the restatements on the consolidated statement of income and consolidated statement of cash flows for the year ended 31 December 2018.

33 Comparative figures

Certain comparative figures have been regrouped or reclassified to conform to the presentation adopted in these consolidated financial statements.

34 Subsequent Events

On January 2, 2020, Dubai Islamic Bank PJSC (DIB) acquired 99.999% of the issued share capital of Noor Bank PJSC from its existing shareholders. The acquisition was approved at the Board and shareholder meetings of both banks. Subsequently, there was a change in the composition of the Board of Directors of Noor Bank PJSC, effective 8 January 2019.