Arab African International Bank
UAE Branches

Financial statements
for the year ended 31 December 2019

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INDEPENDENT AUDITORS' REPORT TO THE HEAD OFFICE OF ARAB AFRICAN INTERNATIONAL BANK – UNITED ARAB EMIRATES BRANCHES

Opinion

We have audited the financial statements of Arab African International Bank – United Arab Emirates Branches (the "Branches"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branches as at 31 December 2019 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Other matter

The financial statements of the Branches for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion, prior to the restatement referred to in note 27, on those financial statements on 26 February 2019.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branches' 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 Branches or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branches' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branches' 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 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 Branches to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management 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.

INDEPENDENT AUDITORS' REPORT TO THE HEAD OFFICE OF
ARAB AFRICAN INTERNATIONAL BANK – UNITED ARAB EMIRATES BRANCHES
(continued)

Report on other legal and regulatory requirements

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

i) the Branches have maintained proper books of account;

ii) we have obtained all the information we considered necessary for the purposes of our audit;

iii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

iv) note 24 reflects material related party transactions and the terms under which they were conducted;

v) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Branches' have contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 which would have a material impact on its activities or its financial position as at 31 December 2019; and

vi) There were no social contributions made during the year ended 31 December 2019.

For Ernst & Young

Signed by:
Ashraf Abu-Sharkh
Partner
Registration No: 690

28 April 2020

Dubai, United Arab Emirates

Arab African International Bank
United Arab Emirates Branches
Statement of financial position
As at 31 December 2019

	Notes	**2019** **AED'000** **(Audited)**	2018 AED'000 (Restated)
Assets			
Cash and balances with the Central Bank of the UAE	6	**797,371**	801,516
Due from banks	7	**3,639,073**	2,968,365
Due from Head Office and other branches	24	**29,773**	147,079
Loans and advances	8	**1,453,364**	1,877,125
Financial investments	9	**318,051**	307,535
Premises and equipment	10	**5,491**	6,462
Deferred tax assets	22	**17,661**	14,713
Other assets	11	**20,162**	17,782
Total assets		**6,280,946**	6,140,577
Liabilities			
Customers' deposits	12	**4,311,968**	4,289,826
Due to banks	13	**315,745**	394,266
Due to Head Office and other branches	24	**39,213**	13,187
Other liabilities	14	**98,314**	83,465
Total liabilities		**4,765,240**	4,780,744
Head Office equity			
Allocated capital	15	**686,437**	686,437
Legal reserve	15	**117,581**	102,054
Fair value reserve		**702**	96
Retained earnings		**710,986**	571,246
Total Head Office equity		**1,515,706**	1,359,833
Total liabilities and Head Office equity		**6,280,946**	6,140,577

The notes on pages 9 to 63 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

These financial statements were approved and authorised for issue on ______________ by:

____
Tamer Khalifa
Regional General Manager - Gulf

28 April 2020

Arab African International Bank
United Arab Emirates Branches
Statement of profit or loss

For the year ended 31 December 2019

	Notes	2019 AED'000 (Audited)	2018 AED'000 (Restated)
Interest income	16	**215,370**	223,607
Interest expense	17	**(54,085)**	(37,596)
Net Interest Income		**161,285**	186,011
Fee and commission income	18	**25,587**	43,663
Fee and commission expense	18	**(558)**	(835)
		25,029	42,828
Net gains on foreign exchange	21	**42,256**	68,017
Other income	19	**201**	1,085
		42,457	69,102
Operating income		**228,771**	297,941
Personnel expenses		**(15,893)**	(14,790)
Depreciation	10	**(1,151)**	(709)
Other operating expenses	20	**(12,496)**	(15,581)
Profit before net impairment charge and taxation		**199,231**	266,861
Net impairment allowance on financial assets		**(5,142)**	(66,428)
Profit before tax		**194,089**	200,433
Taxation	22	**(38,822)**	(55,978)
Profit for the year		**155,267**	144,455

The notes on pages 9 to 63 are an integral part of these financial statements.

The independent auditors’ report is set out on pages 1 to 3.

Arab African International Bank
United Arab Emirates Branches
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

	2019	2018
	AED'000	AED'000
	(Audited)	(Restated)
Profit for the year	**155,267**	144,455
Other comprehensive income:		
Items that may or will not be reclassified subsequently to statement of profit or loss		-
Net change in fair value reserve during the year	**606**	(181)
Other comprehensive income / (loss) for the year	**606**	(181)
Total comprehensive income for the year	**155,873**	144,274

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Arab African International Bank
United Arab Emirates Branches
Statement of changes in equity
For the year ended 31 December 2019

	Allocated capital AED'000	Legal reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
As at 1 January 2018	686,437	87,609	-	485,604	1,259,650
Impact of adopting IFRS 9 as at 1 January 2018	-	-	277	(68,957)	(68,680)
Prior period adjustment for deferred tax assets on stage 1 and 2 ECL	-	-	-	24,589	24,589
As at 1 January 2018 (restated)	686,437	87,609	277	441,236	1,215,559
Total comprehensive (loss) / income for the year (restated)	-	-	(181)	144,455	144,274
Transfer to legal reserve (restated)	-	14,445	-	(14,445)	-
As at 31 December 2018 (restated)	686,437	102,054	96	571,246	1,359,833
As at 1 January 2019	686,437	102,054	96	571,246	1,359,833
Total comprehensive income for the year	-	-	606	155,267	155,873
Transfer to legal reserve	-	15,527	-	(15,527)	-
As at 31 December 2019	**686,437**	**117,581**	**702**	**710,986**	**1,515,706**

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The independent auditors' report is set out on pages 1 to 3.

Arab African International Bank
United Arab Emirates Branches
Statement of cash flows
For the year ended 31 December 2019

	Note	2019 AED'000 (Audited)	2018 AED'000 (Restated)
Cash flows from operating activities			
Profit before tax		**194,089**	200,433
Adjustment for:			
Depreciation on premises and equipment		**1,151**	709
Net impairment allowance on financial assets		**5,142**	66,428
		200,382	267,570
Changes in operating assets and liabilities			
Reserve with Central Bank of UAE		**(31,285)**	(20,240)
Loans and advances		**418,619**	146,817
Due from banks		**(463,875)**	(73,460)
Other assets		**(2,380)**	64,758
Customers' deposits		**22,142**	164,068
Other liabilities		**13,327**	(93,927)
Tax paid		**(40,247)**	(48,867)
Net cash generated from operating activities		**116,683**	406,719
Cash flows from investing activities			
Purchase of premises and equipment		**(180)**	(3,803)
Net (purchase)/ sale of financial investments		**(9,911)**	145,624
Net cash (used in) / from investing activities		**(10,091)**	141,821
Net increase in cash and cash equivalents		**106,592**	548,540
Cash and cash equivalents at 1 January	23	**3,101,373**	2,552,833
Cash and cash equivalents at 31 December		**3,207,965**	3,101,373

The notes on pages 9 to 63 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

Arab African International Bank
United Arab Emirates Branches
Notes to the financial statements

1. Legal status and principal activities

Arab African International Bank – United Arab Emirates Branches (the “Branches” of the “Bank”) operates in the United Arab Emirates (“UAE”) through its two branches located in the Emirates of Dubai and Abu Dhabi which are registered under a banking license issued by the Central Bank of United Arab Emirates. Arab African International Bank (the “Head Office”) is an Egyptian Joint Stock company incorporated in Cairo, Egypt. The Branches are a segment of the Head Office. The accompanying financial statements have been prepared from the records of the Branches, which contain evidence of transactions recorded locally.

The principal activities of the Branches primarily comprise corporate and retail banking activities. The financial statements of the Branches include only activities relating to the Branches and do not include any other activities or transactions outside of the Branches and within the Head Office operations

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated**.**

A. Changes in accounting policies and disclosures

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of new standards and the amendments to the existing standards relevant to the Branches, effective as of 1 January 2019. The nature and the impact of each is described below:

a. IFRS 16 ‘Leases’ (effective date: 1 January 2019)

The Branches adopted IFRS 16 from 1 January 2019 using the modified retrospective approach and has not restated the comparative reporting period ended 31 December 2018, as permitted under the specific transitional provisions in the standard. The overall impact of the IFRS 16 on the financial statements of the Branches is insignificant and as a result, no amounts have been recorded in the financial statements.

Nature of the effect of adoption of IFRS 16
The Branches have leases contract for its premises in Dubai and Abu Dhabi. Before the adoption of IFRS 16, the Branches classified its lease at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and other liabilities, respectively.

Upon adoption of IFRS 16, the Branches applied a single recognition and measurement approach for its leases that it is the lessee, except for short-term leases and leases of low-value assets. The Branches would be required to recognize a lease liability to make lease payments and right-of-use assets representing the right to use the underlying assets.

Set out below are the new accounting policies of the Branches upon adoption of IFRS 16:

Right-of-use assets
The Branches recognise right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Branches are reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The estimated useful life of right-of-use assets is consistent with leasehold improvements as discussed in note 2.N.

2. Summary of significant accounting policies (continued)

A. Changes in accounting policies and disclosures (continued)

a. IFRS 16 'Leases' (effective date: 1 January 2019) (continued)

Lease liabilities
At the commencement date of the lease, the Branches recognise lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Branches and payments of penalties for terminating a lease, if the lease term reflects the Branches exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Branches use the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Branches apply the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). They also apply the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Branches have the option, under some of its leases to lease the assets for an additional term. The Branches apply judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Branches reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

b. Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation (effective 1 January 2019)

The Board has issued a narrow-scope amendment to IFRS 9 to enable entities to measure at amortized cost some pre-payable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL).

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

2. Summary of significant accounting policies (continued)

A. Changes in accounting policies and disclosures (continued)

b Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation (effective 1 January 2019) (continued)

Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Branches assess the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Branches.

c. IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS ("International Accounting Standards)12 Income Taxes ("IAS 12"). It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Branches determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Branches apply significant judgement in identifying uncertainties over income tax treatments. Since the Branches operate in a complex multinational environment, they assessed whether the Interpretation had an impact on its financial statements. Upon adoption of the Interpretation, the Branches considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Interpretation did not have a significant impact on the financial statements of the Branches.

B. New standards, interpretations and amendments to existing standards issued but not yet Effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Branches' financial statements are disclosed below. The Branches intend to adopt these standards, if applicable, when they become effective.

a. IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4). IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. This standard is not applicable to the Branches.

2. Summary of significant accounting policies (continued)

B New standards, interpretations and amendments to existing standards issued but not yet Effective (continued)

b. Amendments to IAS 1 and IAS 8: Definition of Material (effective date: 1 January 2020)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Branches' financial statements.

There are no other applicable new standards and amendments to published standards or IFRS interpretations that have been issued but are not effective for the first time for the Branches' financial year beginning on 1 January 2019 that would be expected to have a material impact on the Branches' financial statements.

c. IBOR reform disclosure: (effective date: 1 January 2020)

Interest Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7 include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate (an "RFR"). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative RFR. The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight.

With phase one completed, the IASB is now shifting its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project.

The Branches have not early adopted the amendments and has concluded that the uncertainty arising from IBOR reform is not expected to have any impact on an overall basis.

2. Summary of significant accounting policies (continued)

C. Basis of preparation

a. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by International Accounting Standard Board (IASB) and the requirement of the UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Branches which has come into effect on 1 July 2015. The Branches have assessed, evaluated and ensured compliance with the relevant provisions of the Company Law.

b. Basis of measurement

These financial statements are prepared under the historical cost convention except for investments classified as fair value through other comprehensive income (FVOCI).

c. Functional and presentation currency

The financial statements are presented in United Arab Emirates Dirham ("AED"), which is the functional currency of the Branches. Except as indicated, amounts presented are rounded to the nearest thousand.

d. Use of estimates and judgments

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

The 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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

Estimates –
The basis used by management in determining the carrying values of loans and advances and the underlying risk therein are discussed below:

Impairment losses on loans and advances
The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Branches' ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Branches' internal credit grading model, which assigns Probability of default (PD) to the individual grades
- The Branches' criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life time expected credit loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, exposure at default (EAD) and loss given default (LGD).
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2 Summary of significant accounting policies (continued)

C Basis of preparation (continued)

Fair value measurement
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts.

Judgements
In the process of applying the Branches' accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Classification of financial assets
The Branches determine the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognised in the financial statements of the year ended 31 December 2019 pertain to the changes introduced because of adoption of IFRS 16: Leases, which are covered in the above section.

D. Foreign currency translation

The Branches maintain its accounts in AED currency. Foreign currency transactions are translated using the exchange rates prevailing at the date of the transactions. All monetary assets and liabilities balances in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the following items in the income statement:-

- Net trading income for trading assets and liabilities or net income from financial instruments designated at fair value through profit or loss for instruments designated at fair value through profit or loss according to its type.
- Other operating income (expense) for the rest of items.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in OCI.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2 Summary of significant accounting policies (continued)

E. Financial assets and liabilities

i. Recognition and initial measurement

The Branches initially recognize loans and advances, and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Branches recognise the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

ii. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

Financial investment is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

All other financial assets are classified as measured at FVTPL.

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

2. Summary of significant accounting policies (continued)

F. Financial assets and liabilities (continued)

ii. Classification (continued)

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- how the performance of the portfolio is evaluated and reported to the Branches' management
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branches' stated objective for managing the financial assets is achieved and how cash flows are realised

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

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

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

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

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

Reclassification
The Branches do not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Branches acquire, dispose of, or terminate a business line. Financial liabilities are never reclassified.

2. Summary of significant accounting policies (continued)

F. Financial assets and liabilities (continued)

ii. Classification (continued)

Derecognition of financial assets and financial liabilities

Derecognition due to substantial modification of terms and conditions
If the terms of a financial asset are modified, the Branches evaluate whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Branches record a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Branches consider a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors

Derecognition other than for substantial modification
A financial asset (in whole or in part) is derecognised either when:

- the contractual rights to receive the cash flows from the asset have expired; or
- the Branches retain the right to receive cash flows from the assets but have assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Branches have transferred their rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Branches have transferred their right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branches' continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branches would be required to repay.

When the Branches have neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Branches' continuing involvement, in which case, the Branches also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branches have retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Branches could be required to pay.

2. Summary of significant accounting policies (continued)

F. Financial assets and liabilities (continued)

ii. Classification (continued)

Derecognition of financial assets and financial liabilities

Derecognition other than for substantial modification (continued)
If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Branches would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

G. Offsetting of financial instruments

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

H. Interest income and expense

Effective interest rate
Interest income and expense for all interest-bearing financial instruments, except for those classified as FVTPL or designated at fair value through profit or loss, are recognized within ‘interest income’ and ‘interest expense’ in the income statement using the effective interest method.

Interest income and expense are recognized in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Branches estimate future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses; i.e. the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Branches revert to calculating interest income on a gross basis.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

2. Summary of significant accounting policies (continued)

H Interest income and expense (continued)

Presentation:
Interest income and expense presented in the statement of profit or loss and OCI include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on financial investment is measured at FVOCI calculated on an effective interest basis;

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Amortised cost and gross carrying amount
The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

Amortised cost and gross carrying amount (continued)
The ‘gross carrying amount of a financial asset’ is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

I. Fees and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Branches’ financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Branches first apply IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

2. Summary of significant accounting policies (continued)

J. Treasury Bills

Treasury bills are recognized when they are bought at face value and the issuance cost which represents the unearned interest on these bills and government bonds is recognized through credit balances and other liabilities. And these treasury bills appear on the financial statement excluding the unearned interest and they are measured by the amortized cost using the effective interest rate.

The difference between the selling and repurchase price is recognized as accrued income over the agreement's period using the effective rate of return method.

K. Impairment of financial assets

The Branches apply the three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and financial investment classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

<u>Stage 1: 12 Months ECL</u>
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2

<u>Stage 2: Lifetime ECL - not credit impaired</u>
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.

<u>Stage 3: Lifetime ECL - credit impaired</u>
The Branches recognise loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Branches measure loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

The Branches consider a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

<u>Purchased or originated credit impaired (POCI)</u>
In addition, the Branches also recognise POCI assets, which are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

2. Summary of significant accounting policies (continued)

K Impairment of financial assets (continued)

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Branches expect to receive);

Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Undrawn loan commitments and letter of credit: as the present value of the difference between the contractual cash flows that are due to the Branches if the commitment is drawn down and the cash flows that the Branches expect to receive; and

Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Branches expect to recover.

Restructured assets: If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset. The treatment detailed in Note 2.F of these financial statements.

Credit-impaired financial assets
At each reporting date, the Branches assess whether financial assets carried at amortised cost and financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the branches on terms that the Branches would not consider otherwise
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties

2. Summary of significant accounting policies (continued)

K Impairment of financial assets (continued)

Credit-impaired financial assets (continued)

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign, is credit-impaired, the branches consider the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields
- The rating agencies' assessments of creditworthiness
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Branches have identified the ECL on the loan commitment / off balance sheet component separately from those on the drawn component: the Branches present a loss allowance for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Loss allowance for undrawn components is presented as a provision in other liabilities; and
- Financial investments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Branches determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the branches' procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2. Summary of significant accounting policies (continued)

L. Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash on hand, balances with Central Bank (excluding statutory reserve), due from and due to banks, due from Head Office and other branches with original maturity of three months or less from the date of initial recognition, and are used for the purpose of meeting short term cash commitments

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

M. Due from banks, Due from Head Office and other branches

Amounts due from banks, Head Office and other branches are initially recognised at cost, being the fair value of the consideration received and are subsequently measured at amortised cost, less any allowance for impairment.

N. Premises and equipment and right of use assets

Recognition and measurement
All items of premises and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Depreciation
Depreciation is recognised in the statement of profit or loss on a straight line basis over the estimated useful lives of all premises and equipment.

The estimated useful lives of assets as follows:

	Years
Furniture and fixtures	5-7
Computers and software	5
Motor vehicles	5
Leasehold Improvements	7

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

Right-of-use assets are depreciated on a straight-line basis over the lease term. Gains and losses on disposals are determined by comparing the proceeds from disposal with the carrying amount and are recognised in the statement of profit or loss, in the period in which they arise.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

N Premises and equipment and right of use assets (continued)

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Branches' accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Impairment
The carrying amounts are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

O. Due to banks, due to Head Office, other branches and customers' deposits

Due to banks, Head Office and other branches and customers' deposits are initially recognised at their fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method.

P. Impairment of non-financial assets

The carrying amount of the Branches' non-financial assets, other than deferred tax assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any.

An impairment loss is recognised in the statement of profit or loss if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or its cash-generating unit is the greater of its value-in-use and its fair value less cost to sell. In assessing its value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset in the income statement to the extent that carrying values exceed the recoverable amounts.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Q. Derivative financial instruments

Derivatives generally include swaps and forward foreign exchange contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position.

2. Summary of significant accounting policies (continued)

R. Income tax

Income tax comprises of current tax and deferred tax. Income tax expense is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income, in which case it is recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date by the tax laws and regulation issued by the Emirates of Abu Dhabi and Dubai, any adjustments to tax payable in respect of previous years, and deferred tax income recognised during the year.

S. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Branches and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Branches expect, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Branches have not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

T. Operating Lease – policy applicable prior to 1 January 2019

Leases of assets under which the less or effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in statement of profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

For policy applicable from 1 January 2019, please refer note 2. A. a. of these financial statements.

2. Summary of significant accounting policies (continued)

U. Provisions

A provision is recognised if, as a result of a past event, the Branches have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

V. Staff terminal benefits

The Branches provide for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed based on the requirements as per the UAE local laws.

The Branches contribute to the pension scheme for UAE nationals under the UAE pension and social security law in accordance with Federal Law No. 2 of 2000. This is a defined contribution pension plan and the Branches' contributions are charged to the statement of profit or loss in the period to which they relate. In respect of this scheme, the Branches have an obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

3 Financial risk management

Introduction and overview

The Branches have exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Currency risk;
- Operational risk
- Settlement risk; and
- Capital risk

This note presents information about the Branches' exposure to each of the above risks, the Branches' objectives, policies and processes for measuring and managing risk, and the Branches' management of capital.

Risk management framework

The Branches' risk management policies are established to identify and analyse the risks faced by the Branches, 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 the changes in market condition, products and service offered.

The Regional General Manager of UAE Branches has overall responsibility for the establishment and oversight of the Branches' risk management framework. The centralised internal audit department based in Head Office in Egypt is responsible for monitoring compliance with the Branches risk management policies and procedures, and for reviewing the adequacy of the risk management framework.

3 Financial risk management (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the Branches if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Branches' loans and advances, due from banks, due from Head Office and other branches and amortised cost and FVOCI securities.

Management of credit risk
The Branches credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

The Head Office is responsible for formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Branches manage the credit exposure by obtaining security where appropriate and limiting the duration of exposure.

The credit quality of the loans and advances is managed by the Branches using internal credit ratings comprising 10 grades. The risk rating system is used as a credit risk management tool whereby any risks taken on the Branches' books are rated against a set of predetermined standards which are in line with the UAE Central Bank guidelines.

The Branches' Credit Risk Rating Methodology reflects its assessment of the probability of default of individual counterparties mapped to the ratings specified by the External Credit Assessment Institutions (ECAIs). The mapping is based on a statistical model which takes into consideration the industry weights, country specific factors and the sensitivity of the counter party to systematic risk. Risk classification / grading system has been presented below:

Branches' rating	**Description of the grade**
1-5	Performing or normal
6-7	Regular watching and other loans especially mentioned (OLEM)
8	Sub-standard
9	Doubtful
10	Loss

Regular audits of the Branches' credit processes are undertaken by the centralised internal audit department.

3 Financial risk management (continued)

(a) Credit risk (continued)

The Branches are exposed to credit risk, which is the risk of suffering financial loss, should any of the branches' customers, clients or market counterparties fail to fulfil their contractual obligations to the Branches. Credit risk is the most important risk for the Branches' business. Management therefore carefully manages its exposure to credit risk. Credit risk arises mainly from lending activities which resulted in loans, facilities and investment activities which result in including the financial assets in the Branches' assets. Credit risk is available in the off-balance sheet financial assets such lending commitment. The credit risk management and control are centralized in a credit risk management team, which reports to the Board of Directors of the Head Office and head of each business unit regularly.

(i) <u>Credit risk measurement</u>

Loans and advances to banks and customers

In measuring credit risk of loans and advances to banks and customers, the assessment of the Branches reflects the following components:

Probability of default - by the client or counterparty on its contractual obligations.

The Branches assess the probability of default of individual customers using internal rating tools tailored to the various categories of the counterparty. They have been developed internally and combine statistical analysis with credit officer judgment. Clients of the Branches are segmented into five rating classes. The rating scale which is as shown below reflects the range of default probabilities- defined for each rating class. This means that in principal, exposures might migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Branches regularly validate the performance of the rating and their predictive power with regard to default cases.

Exposure at default

Exposure at default is based on the amounts the Branches expect to be outstanding at the time of default. For example, for a loan this is the face value. For a commitment, the Branches include any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Loss given default

Loss given default or loss severity represents the Branches' expectation of the extent of loss on a claim should default occur. It is expressed as a percentage of loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

Treasury bills

For treasury bills external rating such as (Standard & Poor's) rating or their equivalents are used by the Branches for managing of the credit risk exposures. In case such ratings are unavailable, internal rating methods are used that are similar to those used for credit customers. The investment in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time.

3 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit quality analysis

The following table sets out information about the credit quality of financial assets. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

As of 31 December 2019	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	AED'000 Exposure	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**
Cash and balances with the Central Bank of the UAE	**797,373**	**2**	**-**	**-**	**-**	**-**	**797,373**	**2**
Due from banks	**3,075,153**	**1,751**	**565,678**	**7**	**-**	**-**	**3,640,831**	**1,758**
Due from Head Office and and other branches	**29,773**	**-**	**-**	**-**	**-**	**-**	**29,773**	**-**
Loans and advances	**975,554**	**14,438**	**293,120**	**26,548**	**395,183**	**169,507**	**1,663,857**	**210,493**
Financial investments*	**318,739**	**1,390**	**-**	**-**	**-**	**-**	**318,739**	**1,390**
Other assets	**-**	**-**	**25,387**	**725**	**-**	**-**	**25,387**	**725**
Unfunded Exposure - Letter of Credits and Guarantees	**709,629**	**3,262**	**82,170**	**22,270**	**-**	**-**	**791,799**	**25,532**
	5,906,221	**20,843**	**966,355**	**49,550**	**395,183**	**169,507**	**7,267,759**	**239,900**

3 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit quality analysis (continued)

As of 31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
	Exposure	Provision	Exposure	Provision	Exposure	Provision	Exposure	Provision
Cash and balances with the Central Bank of the UAE	801,516	-	-	-	-	-	801,516	-
Due from banks	2,969,324	1,028	72	3	-	-	2,969,396	1,031
Due from Head Office and other branches	147,079	-	-	-	-	-	147,079	-
Loans and advances	1,388,953	6,560	315,068	32,021	549,631	337,946	2,253,652	376,527
Financial investments*	307,535	96	-	-	-	-	307,535	96
Other assets	-	-	15,730	225	-	-	15,730	225
Unfunded Exposure - Letter of Credits and Guarantees	670,083	6,131	93,235	573	-	-	763,318	6,704
	6,284,490	13,815	424,105	32,822	549,631	337,946	7,258,226	384,583

* *Financial investment provision includes fair value change made through OCI*

3 Financial risk management (continued)

(a) Credit risk (continued)

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Branches consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Branches' historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades:

Corporate exposure:

The Branches allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Branches collect performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio.

The Branches employ statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the branches has taken exposures.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Branches may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Branches consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due but less than 90 days for the corporates and more than 1 day but less than 30 days for the retail and small enterprises. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

3 Financial risk management (continued)

(a) Credit risk (continued)

Determining whether credit risk has increased significantly (continued)

The Branches monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 2.F.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Branches renegotiate loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the Branches' policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

The estimate of PD reflects whether the modification has improved or restored the Branches' ability to collect interest and principal and the Branches' previous experience of similar forbearance action. As part of this process, the Branches evaluate the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

3 Financial risk management (continued)

(a) Credit risk (continued)

Definition of default

The Branches consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Branches in full, without recourse by the Branches to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Branches; or
- borrower is tagged as credit impaired

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Branches consider indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Branches; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Branches for regulatory capital purposes.

Incorporation of forward-looking information

The Branches employs statistical models to incorporate macro-economic factors on historical default rates. The Branches incorporate the forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Branches relies on GDP growth rates as the economic input for forward looking information. The Branches formulate three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring.

In case none of the above macro – economic parameters are statistically significant or the results of forecasted PDs are too much deviated from the present forecast of the economic conditions, qualitative PD overlay shall be used by management after analyzing the portfolio as per the diagnostic tool. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

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

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

3 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)
These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the residual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Branches estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Branches derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Branches measure ECL considering the risk of default over the residual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Branches consider a longer period.

However, for revolving facilities such as retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Branches measure ECL over a period longer than the maximum contractual period if the Branches' contractual ability to demand repayment and cancel the undrawn commitment does not limit the Branches' exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Branches can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Branches become aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Branches expect to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and /or turning the outstanding balance into a loan with fixed repayment terms.

For portfolios in respect of which the Branches have limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

Particulars	Exposure 2019 (AED 000's)	Exposure 2018 (AED 000's)	External benchmarks used	
			PD	LGD
Bank and financial institution	**3,639,073**	3,916,960	Standard & Poor's study	Standard & Poor's study
Financial investments	**318,051**	307,535	Standard & Poor's study	Standard & Poor's study

3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Maximum exposure 2019 AED'000	Maximum exposure 2018 AED'000
Cash and balances with Central Bank of UAE (excluding cash on hand)	**783,089**	785,811
Due from banks	**3,639,073**	2,968,365
Financial investments	**318,051**	307,535
Due from Head office and other branches	**29,773**	147,079
Loans and advances (net of ECL)	**1,453,364**	1,877,125
Other assets (excluding prepayments)	**18,438**	15,505
Total	**6,241,788**	6,101,420
Off Balance sheet		
Letters of credit	**35,741**	19,405
Guarantees	**756,058**	743,913
Undrawn loan commitments	**39,335**	56,901
Total	**831,134**	820,219
Total credit risk exposure	**7,072,922**	6,921,639

Loans and advances neither past due nor impaired are mainly graded between credit grades 1 to 7. All other assets bearing credit risk other than those tabulated are insignificant. The following table shows the loans and advances on the basis of grade description –

	2019 AED'000	2018 AED'000
Stage 1 (ORR 1-6)		
Grades 1-5: Performing or normal	**893,740**	1,388,953
Grade 6: Regular Watching	**81,814**	-
	975,554	1,388,953
Stage 2 (ORR 6-7)		
Grade 6: Regular Watching*	**175,259**	315,068
Grade 7: Other Loans Especially Mentioned (OLEM)	**117,861**	-
	293,120	315,068
Stage 3 (ORR 8-10)		
Grade 8: Sub-standard	**319,904**	314,928
Grade 9: Doubtful	**-**	-
Grade 10: Loss	**75,279**	234,703
	395,183	549,631
Total	**1,663,857**	2,253,652

* These include loans where there has been a significant increase in credit risk as per the credit policy.

3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

Impaired loans and advances
Impaired loans and advances are financial assets for which the Branches determine that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

Impairment reserve under the Central Bank of UAE (CBUAE) guidance
The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

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

	2019 AED'000	2018 AED'000
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	**41,794**	43,071
Less: Stage 1 and Stage 2 provisions under IFRS 9	**70,393**	46,637
General provision transferred to the impairment reserve*	**-**	-

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

	2019 AED'000	2018 AED'000
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**169,507**	322,410
Less: Stage 3 provisions under IFRS 9	**169,507**	337,946
Specific provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**-**	-

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

3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk *(continued)*

Collaterals and collateral repossession
To mitigate its credit risks on financial assets, the Branches seek to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Branches' accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Branches' statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Branches use active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

The main types of collateral obtained are cash, securities, and charges over tangible properties and counter-guarantees. At 31 December 2019, of the total outstanding loans and advances, AED 1,453,364 thousand (31 December 2018: AED 1,877,395 thousand) were secured with a collateral value of AED 3,400,426 thousand (31 December 2018: AED 3,726,860 thousand).

The Branches' policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Branches' policy.

Loans with renegotiated terms
In the event of a default, the Branches seek to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Restructuring activity is designed to manage customer relationships, maximize collection opportunities and avoid foreclosure or repossession, if possible. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Following restructuring, an overdue individual account will normally be reset from delinquent to current status. Restructuring is done based on indicators or criteria which, in the opinion of management, evidence the probability that payment will continue. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. As at 31 December 2019, renegotiated loans amount to AED 399,723 thousand (2018: AED 127,100 thousand).

Past due but not impaired loans
These are the loans where contractual interest or principal payments are past due, but the Branches believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Branches.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(a) *Credit risk (continued)*

Concentration Risk
The Branches monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

As at 31 December 2019	**Due from Banks AED' 000**	**Loan and advances AED' 000**	**Unfunded Exposure AED' 000**	**Total AED' 000**
Concentration by industry sector:				
Oil & gas	**-**	**50,457**	**172**	**50,629**
Manufacturing	**-**	**284,068**	**18,298**	**302,366**
Construction	**-**	**214,769**	**506,972**	**721,741**
Real estate	**-**	**195,546**	**1,299**	**196,845**
Trading	**-**	**295,420**	**57,099**	**352,519**
Transport/aviation	**-**	**-**	**2,204**	**2,204**
Banks and financial institutions	**3,640,831**	**299,623**	**212,772**	**4,153,226**
Services	**-**	**155,920**	**25,863**	**181,783**
Personal loans for consumption	**-**	**2,189**	**3,150**	**5,339**
Personal/private loans for business	**-**	**155,867**	**-**	**155,867**
Others	**-**	**9,998**	**3,305**	**13,303**
	3,640,831	**1,663,857**	**831,134**	**6,135,822**
Less: ECL	**(1,758)**	**(210,493)**	**(25,532)**	**(237,783)**
Carrying amount	**3,639,073**	**1,453,364**	**805,602**	**5,898,039**

As at 31 December 2018	Due from Banks AED'000	Loan and advances AED'000	Unfunded Exposure AED'000	Total AED'000
Concentration by industry sector:				
Oil & gas	-	96,932	2,144	99,076
Manufacturing	-	268,964	13,302	282,266
Construction	-	168,183	454,310	622,493
Real estate	-	227,262	23,818	251,080
Trading	-	697,092	18,679	715,771
Transport/aviation	-	-	4,170	4,170
Banks and financial institutions	2,969,396	462,319	250,846	3,682,561
Services	-	188,175	41,702	229,877
Personal loans for consumption	-	2,756	3,150	5,906
Personal/private loans for business	-	131,515	-	131,515
Others	-	10,454	8,798	19,252
	2,969,396	2,253,652	820,919	6,043,967
Less: ECL	(1,031)	(376,527)	(6,704)	(384,262)
Carrying amount	2,968,365	1,877,125	814,215	5,659,705

3 Financial risk management (continued)

(a) Credit risk (continued)

Risk concentration of the maximum exposure to credit risk
Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2019 was AED 449,095 thousands (2018: AED 307,821 thousands) before taking account of collateral or other credit enhancements and AED 379,813 thousands (2018: AED 239,846 thousands) net of such protection.

An analysis of concentration of due from banks, loans and advances and unfunded exposures by geographical distribution is shown below:

As at 31 December 2019	**Due from Banks AED'000**	**Loan and advances AED'000**	**Unfunded Exposure AED'000**	**Total AED'000**
Concentration by geographical location:				
United Arab Emirates	**825,000**	**909,255**	**488,034**	**2,222,289**
Europe	**302,772**	**98,581**	**700**	**402,053**
Arab Countries	**1,651,454**	**135,142**	**260,618**	**2,047,214**
United States of America	**83,973**	**29,562**	**-**	**113,535**
Africa	**777,632**	**491,317**	**81,782**	**1,350,731**
	3,640,831	**1,663,857**	**831,134**	**6,135,822**
Less: ECL	**(1,758)**	**(210,493)**	**(25,532)**	**(237,783)**
Carrying amount	**3,639,073**	**1,453,364**	**805,602**	**5,898,039**

As at 31 December 2018	Due from Banks AED'000	Loan and advances AED'000	Unfunded Exposure AED'000	Total AED'000
Concentration by geographical location:				
United Arab Emirates	1,388,747	1,270,977	433,425	3,093,149
Europe	110,169	111,779	714	222,662
Arab Countries	773,929	255,033	267,788	1,296,750
United States of America	17,045	344,899	-	361,944
Africa	679,506	270,964	118,292	1,068,762
	2,969,396	2,253,652	820,219	6,043,267
Less: ECL	(1,031)	(376,527)	(6,704)	(384,262)
Carrying amount	2,968,365	1,877,125	813,515	5,659,005

Concentration by location for loans and advances, unfunded exposures and due from banks is measured based on the residential status of the borrower.

Commitments and contingencies related credit risk
Credit risk arising from commitments and contingencies is discussed in note 25.

3 Financial risk management (continued)

(a) Credit risk (continued)

Credit quality

The credit quality of the loans and advances is managed by the Branches using internal credit ratings model. The risk rating system is used as a credit risk management tool whereby counter party any risks are rated against a set of predetermined standards which also complies with the Central Bank guidelines.

(b) Settlement risk

The Branches activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Branches framework and Operational Risk Management.

For certain types of transactions, the Branches mitigate this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Branches Risk Management Department.

(c) Liquidity risk

Liquidity risk is the risk that the Branches will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It includes the risks of the inability to fund assets at appropriate maturities and rates, the inability to liquidate assets on reasonable basis and in an appropriate time frame and inability to liquidate assets to meet obligations as they become due. Liquidity risk can be caused by market disruption or credit downgrades which may cause certain sources of funding to diminish.

Management of liquidity risk
The Branches' approach to managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Branches maintain a portfolio of short-term liquid assets, largely made of inter-bank placements. Also liquidity requirements of business units are met through funding from Head Office. All liquidity policies and procedures are subject to review and approval by Head Office.

Exposure to liquidity risk
The key measure used by the Branches for measuring liquidity risk is the ratio of net assets, i.e., total assets by maturity against total liabilities by maturity.

Details of the Branches' net liquid assets is summarised in the table below by the maturity profile of the Branches' assets and liabilities based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Branches' deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)
Maturity profile of the assets and liabilities at 31 December 2019. The following table analyses the contractual maturities of assets and liabilities based on the remaining period at the reporting date:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
Assets					
Cash and balances with CBUAE	**797,371**	**797,371**	**-**	**-**	**-**
Due from banks	**3,639,073**	**3,259,913**	**379,160**	**-**	**-**
Due from Head Office & other branches	**29,773**	**29,773**	**-**	**-**	**-**
Loans and advances	**1,453,364**	**563,208**	**518,002**	**360,662**	**11,492**
Premises and equipment	**5,491**	**-**	**-**	**-**	**5,491**
Deferred tax assets	**17,661**	**17,661**	**-**	**-**	**-**
Other assets	**20,162**	**20,162**	**-**	**-**	**-**
Financial investments	**318,051**	**-**	**232,517**	**-**	**85,534**
Total Assets	**6,280,946**	**4,688,088**	**1,129,679**	**360,662**	**102,517**

	Total AED'000	Up to 3months AED'000	3months to1year AED'000	1to5 years AED'000	over5 years AED'000
Liabilities					
Customers' deposits	**4,311,968**	**3,643,499**	**477,801**	**150,072**	**40,596**
Due to banks	**315,745**	**315,745**	**-**	**-**	**-**
Due to Head Office & Other branches	**39,213**	**39,213**	**-**	**-**	**-**
Other liabilities	**98,314**	**98,314**	**-**	**-**	**-**
Total Liabilities	**4,765,240**	**4,096,771**	**477,801**	**150,072**	**40,596**
On Balance Sheet liquidity Gap	**1,515,706**	**591,317**	**651,878**	**210,590**	**61,921**

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)
Maturity profile of the assets and liabilities at 31 December 2018 (restated) was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
Assets					
Cash and balances with CBUAE	801,516	801,516	-	-	-
Due from banks	2,968,365	2,894,905	73460	-	-
Due from Head Office & other branches	147,079	147,079	-	-	-
Loans and advances	1,877,125	744,347	275,992	832,768	24,018
Premises and equipment	6,462	-	-	-	6,462
Deferred tax assets	14,713	14,713	-	-	-
Other assets	17,782	17,323	459	-	-
Financial investments	307,535	-	307,535	-	-
Total Assets	6,140,577	4,619,883	657,446	832,768	30,480

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
Liabilities					
Customers' deposits	4,289,826	3,620,788	457,236	166,723	45,079
Due to banks	394,266	394,266	-	-	-
Due to Head Office & Other branches	13,187	13,187	-	-	-
Other liabilities	83,465	83,006	459	-	-
Total Liabilities	4,780,744	4,111,247	457,695	166,723	45,079
On Balance Sheet liquidity Gap	1,359,833	508,636	199,751	666,045	(14,599)

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

The table below summarizes the maturity profile of the Branches' financial liabilities at 31 December 2019 and 31 December 2018 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Branches expect that many customers will not request repayment on the earliest date and the Branches could be required to pay and the table does not reflect the expected cash flows indicated by the Branches' deposit retention history.

At 31 December 2019:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
Liabilities					
Customers' deposits	**4,328,328**	**3,659,859**	**477,801**	**150,072**	**40,596**
Due to banks	**315,804**	**315,804**	**-**	**-**	**-**
Due to Head Office & Other branches	**39,213**	**39,213**	**-**	**-**	**-**
Other liabilities	**99,582**	**99,582**	**-**	**-**	**-**
Total Liabilities	**4,782,927**	**4,114,458**	**477,801**	**150,072**	**40,596**

At 31 December 2018:
(Restated)

	Total AED'000	Up to 3months AED'000	3months to1year AED'000	1to5 years AED'000	over5 years AED'000
Liabilities					
Customers' deposits	4,303,140	3,634,102	457,236	166,723	45,079
Due to banks	394,405	394,405	-	-	-
Due to Head Office & Other branches	13,187	13,187	-	-	-
Other liabilities	83,465	83,006	459	-	-
Total Liabilities	4,794,197	4,124,700	457,695	166,723	45,079

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates will affect the Branches' income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

Corporate banking division has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Head Office.

3 Financial risk management (continued)

(d) Market risk (continued)

Interest rate risk
Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Branches manage this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Branches' treasury operations, which uses financial instruments to manage overall position arising from the Branches' interest bearing financial instruments.

The substantial portion of the Branches' assets and liabilities are re-priced within one year. Accordingly, there is a limited exposure to interest rate risk.

The effective interest rate of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

Sensitivity analysis
The amount mentioned in the table below reflect an equal but opposite potential effect on profit or loss based on assumed 50 basis point negative or positive movement in profit rates with all other variables being constant.

	2019		2018	
	Total	**Effect on Profit**	Total	Effect on Profit
	AED'000	**AED'000**	AED'000	AED'000
Interest bearing asset	**5,636,872**	**28,184**	5,518,495	27,592
Interest bearing liabilities	**4,373,968**	**21,870**	4,344,826	21,724

IBOR Reforms

Interest rate benchmark reform:
A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Branches have "limited" exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is an uncertainty over the timing and the methods of transition. The Branches anticipate that IBOR reform will have "limited" operational, risk management and accounting impacts across all of its business lines. The Branches plan to perform a detailed assessment during 2020.

3 Financial risk management (continued)

(e) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Branches' functional currency is the UAE Dirham. Head Office has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits.

At 31 December, the Branches had the following significant net open currency exposures denominated in the following foreign currencies:

	Net spot position (short) / long 2019 AED'000	Net spot position (short) / long 2018 AED'000
Currency		
US dollar	**402,359**	456,496
Sterling pound	**(103)**	-
Euro	**389**	406
Saudi Riyal	**278**	22
Egyptian pound	**839**	136
Omani Riyal	**35**	35
Qatari riyal	**56**	25
Swiss franc	**(13)**	(2)
Kuwaiti Dinar	**67**	41
Jordanian Dinar	**133**	67

The exchange rate of AED against US Dollar is pegged since November 1980 and the Branches' exposure to currency risk is limited to that extent. Since majority of the assets and liabilities are in AED and US Dollar, the management estimates that any reasonable possible changes in exchange rates would not have a significant impact on the Branches' financial statements.

3 Financial risk management (continued)

(f) Operational risks

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

The Branches' objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Branches reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Branches don't have any separate division for the monitoring of operational risk other than the centralised audit department that reviews the Branches on a regular basis. The results of these reviews are discussed with unit heads to which they relate, with summaries submitted to the General Manager of the Branches.

(g) Capital management

Capital management process
The Branches objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:

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

The Central Bank of UAE ('CBUAE') supervises the Branches on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Branches as a whole. Effective from 2018, the capital is computed at the Branches level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Branches' regulatory capital is analysed into two tiers:

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2018 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. The minimum capital adequacy requirements as set out by the Central Bank are as follows:

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

3 Financial risk management (continued)

(g) Capital management

Capital management process (continued)
Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Branches' management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly or/and quarterly basis.

During the years ended 31 December 2019 and 2018, the Branches have complied in full with all its externally imposed capital requirements.

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

	2019 AED'000	2018 AED'000 (Restated)
Tier 1 Capital		
Allocated capital	**686,437**	686,437
Legal reserves	**117,581**	102,054
Retained earnings	**710,986**	571,246
Fair value reserve	**316**	43
Regulatory deduction from Capital	**(17,661)**	(14,713)
Total Tier 1 Capital	**1,497,659**	1,345,067
Tier 2 Capital	**34,749**	35,892
Total Tier 2 Capital	**34,749**	35,892
Total capital base	**1,532,408**	1,380,959
Risk weighted assets		
Credit risk	**2,779,950**	2,871,388
Market risk	**1428**	650
Operational risk	**486,769**	486,769
Total risk weighted assets	**3,268,147**	3,358,807
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets ("capital adequacy ratio")	**46.89%**	41.11%
Tier 1 capital to total risk weighted assets after deductions for associates	**45.83%**	40.05%

4 Use of estimates and judgements

(a) Impairment charge on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

(b) Contingent liability arising from litigations

The Branches may be involved in litigations arising in the ordinary course of business, due to the nature of its operations. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(c) Financial asset and liability classification

The Branches' accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

(d) Income tax

The Branches subject to income tax in the UAE. Estimates are required in determining the provision for income taxes. There are several transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The recoverability of the Branches' deferred tax assets is based on management's judgment of the availability of future taxable profits against which the deferred tax assets will be utilized.

(e) IFRS 16

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognised in the financial statements of the year ended 31 December 2019 pertain to the changes introduced because of adoption of IFRS 16: Leases

5 Accounting classification and fair value

Fair value of financial instruments

All financial assets and liabilities are measured at amortised cost except for financial investments that are measured at fair value through OCI.

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Branches have access to at that date. The fair value of a liability reflects its non-performance risk.

Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Branches are going concern without any intention or requirement to materially curtail the scale of their operation or to undertake a transaction on adverse terms.

5 Accounting classification and fair value (continued)

Fair value hierarchy
The Branches measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- Level 2: Valuation techniques based on observable input, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation 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 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.

Management believes that the carrying value of financial assets and liabilities in the statement of financial position represents a reasonable approximation of their fair values.

The Branches estimate that the fair value of its loans and advances portfolio is not materially different from its book value since majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans and advances considered to be impaired, the expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

Financial instruments measured at fair value

The Branches have no financial or non-financial assets or liabilities that are measured at fair value at the reporting date except for financial investments categorized under Level 3 in the fair value hierarchy. Financial instruments measured at fair value held by the Branches as at 31 December 2019 amounted to AED 233,205 thousand (2018: AED 307,535 thousand).

All investments are subject to price risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to price risk is monitored by senior management on an ongoing basis to assess the impact of changes in market conditions.

Sensitivity
An increase of 5% in the price as at the reporting date would have increased FVOCI investments by AED 11,660 thousand (2018: AED 15,376 thousand); an equal change in the opposite direction would have decreased equity by AED 11,660 thousand (2018: AED 15,372 thousand).

6 Cash and balances with the Central Bank of the UAE

	2019 AED'000	2018 AED'000
Cash on hand	**14,284**	15,705
Current account with the UAE Central Bank	**117,130**	176,137
Reserve with UAE Central Bank	**365,959**	334,674
Certificate of Deposits with UAE Central Bank	**300,000**	275,000
	797,373	801,516
Expected Credit Losses	**(2)**	-
	797,371	801,516

The reserve requirements, kept with the UAE Central Bank in AED and USD, are not available for use in the Branches' day to day operations and cannot be withdrawn without its approval. However, the Central Bank in its Circular 4310/2008 dated 24 September 2008, has temporarily permitted banks to overdraw their current accounts (a) up to the amount of reserves at interest of 3% above the prevailing Central Bank Repo rate, and (b) in excess of reserves at interest of 5% above the prevailing Central Bank Repo rate. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

7 Due from banks

	2019 AED'000	2018 AED'000
Money at call	**102,528**	56,354
Term deposit accounts	**3,302,154**	2,913,042
Bank's trade bill discounted	**236,149**	-
	3,640,831	2,969,396
Expected Credit Losses	**(1,758)**	(1,031)
	3,639,073	2,968,365

8 Loans and advances

Loans and advances are stated net of provision for impaired loans and advances. The composition of the loans and advances portfolio is as follows:

	2019 AED'000	2018 AED'000
Gross loans and advances	**1,663,857**	2,253,652
Less: Expected Credit Losses	**(210,493)**	(376,257)
	1,453,364	1,877,395

8 Loans and advances (continued)

8.1 Individually impaired loans and collaterals held

At 31 December 2019, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance and on which interest is not being accrued amounted to AED 111 million (2018: AED 281.4 million).

The fair value of collateral that the Branches hold relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2019 amounts to AED 269 million post haircut (2018: AED 185 million).

8.2 Collateral repossessed

During the year, the Branches did not repossess any material amounts of collateral.

8.3 Movement in the gross balance and corresponding ECL allowances of loans and advances

Outstanding balance – AED ' 000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount - 1 January 2019	**1,388,953**	**315,068**	**549,631**	**2,253,652**
Transferred from Stage 1	(116,966)	116,966	-	-
Transferred from Stage 2	149,451	(149,451)	-	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period (net)	(445,884)	10,537	(154,448)	(589,795)
Gross carrying amount - 31 December 2019	**975,554**	**293,120**	**395,183**	**1,663,857**

Outstanding balance – AED ' 000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount - 1 January 2018	1,663,140	525,203	220,183	2,408,526
Transferred from Stage 1	(208,090)	191,515	16,575	-
Transferred from Stage 2	-	(267,303)	267,303	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year (net)	(66,097)	(134,347)	45,570	(154,874)
Gross carrying amount - 31 December 2018	1,388,953	315,068	549,631	2,253,652

8 Loans and advances (continued)

8.3 Movement in the gross balance and corresponding ECL allowances of loans and advances (continued)

ECL – AED ' 000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 January 2019	6,560	32,021	337,946	376,527
Transferred from Stage 1	(1,341)	1,341	-	-
Transferred from Stage 2	31,651	(31,651)	-	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period (net)	(22,432)	24,837	(168,439)	(166,034)
Gross carrying amount - 31 December 2019	**14,438**	**26,548**	**169,507**	**210,493**

ECL – AED ' 000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 January 2018	3,826	110,223	195,208	309,257
opening balance that have:				
Transferred from Stage 1	(884)	884		-
Transferred from Stage 2	-	(76,310)	76,310	-
Transferred from Stage 3	-	-	-	-
Originated / expired during the year	3,618	(2,776)	66,428	67,270
Gross carrying amount - 31 December 2018	6,560	32,021	337,946	376,527

9 Financial investments

	2019 **AED'000**	2018 AED'000
Fair value through other comprehensive income with recycle to profit or loss	**233,205**	307,535
Amortized cost	**85,534**	-
	318,739	307,535
Expected Credit Losses on Amortized Cost	**(688)**	-
	318,051	307,535

During the year, the Branches have purchased new treasury bills with the face value of AED 236.5 million (with a discount of AED 8.96 million). In addition, treasury bills with the face value of AED 311.5 million (with a discount of AED 3.94 million) were matured and AED 5.66 million was amortized on the outstanding AED 236.5 million face value of treasury bills by the end of December 2019. As of the reporting date, AED 236.5 million face value (with an unamortized discount of AED 3.34 million) of Treasury Bills remaining outstanding and will be matured in Q2'2020.

Also, Euro bonds with the face value of AED 84.4 million were purchased during the year, out of which AED 20.6 million face value of Euro bonds will be matured in Q2'2025 and balance in Q2'2026.

The balances shown in the above table are net of unamortized discounts/premiums.

10 Premises and Equipment

	Furniture and fixtures AED'000	Computers AED'000	Motor Vehicles AED'000	Leasehold Improvements & Installations AED'000	Capital work in progress AED'000	Total AED'000
Cost						
Balance at 1 January 2018	688	546	529	1,647	978	4,388
Additions during the year	482	44	-	3,599	(322)	3,803
Written off during the year	(56)	(8)	-	(64)	-	(128)
Balance at 31 December 2018	**1,114**	**582**	**529**	**5,182**	**656**	**8,063**
Balance at 1 January 2019	1,114	582	529	5,182	656	8,063
Additions during the year	18	770	-	48	(656)	180
Written off during the year	(3)	(306)	-	(12)	-	(321)
Balance at 31 December 2019	**1,129**	**1,046**	**529**	**5,218**	**-**	**7,922**
Accumulated Depreciation						
Balance at 1 January 2018	203	304	78	435	-	1,020
Charge for the year	124	111	106	368	-	709
Written off during the year	(56)	(8)	-	(64)	-	(128)
Balance at 31 December 2018	**271**	**407**	**184**	**739**	**-**	**1,601**
Balance at 1 January 2019	271	407	184	739	-	1,601
Charge for the year	183	110	106	752	-	1,151
Written off during the year	(3)	(306)	-	(12)	-	(321)
Balance at 31 December 2019	**451**	**211**	**290**	**1,479**	**-**	**2,431**
Balance at 31 December 2018	**843**	**175**	**345**	**4,443**	**656**	**6,462**
Balance at 31 December 2019	**678**	**835**	**239**	**3,739**	**-**	**5,491**

11 Other assets

	2019 AED'000	2018 AED'000
Accrued interest receivable	**18,857**	15,092
Sundry debtors and prepayments	**1,825**	2,457
Customers' indebtedness for acceptances	**205**	458
	20,887	18,007
Expected Credit Losses	**(725)**	(225)
	20,162	17,782

12 Customers' deposits

	2019 AED'000	2018 AED'000
By account:		
Current accounts	**1,743,566**	1,653,668
Saving accounts	**163,614**	197,776
Call accounts	**394,704**	540,889
Time deposits	**1,989,114**	1,879,932
Others	**20,970**	17,561
	4,311,968	4,289,826
By sector:		
Corporate / private sector	**3,270,958**	3,266,635
Retail sector	**1,041,010**	1,023,191
	4,311,968	4,289,826

13 Due to banks

	2019 AED'000	2018 AED'000
Current Account and Demand Deposits	**260,745**	339,266
Time Deposits	**55,000**	55,000
	315,745	394,266

14 Other liabilities

	2019 AED'000	2018 AED'000 (Restated)
Accrued interest payable	**16,419**	13,454
Unearned commission *(Note 14.1)*	**1,620**	2,057
Unearned discount *(Note 14.2)*	**33**	97
Employees' end of service benefits *(Note 14.3)*	**2,898**	2,626
Cheques and transfers payable	**1,237**	1,087
Tax payable *(Note 22)*	**41,611**	40,087
Sundry creditors	**8,759**	16,894
Liabilities under acceptances	**205**	459
Expected Credit Loss on unfunded exposures *(Note 25)*	**25,532**	6,704
	98,314	83,465

14.1 Unearned commission relates to commission received on syndicated lending and on letter of credits and guarantees amortised over the life of such lending.

14.2 Unearned discount relates to manual interest calculation on staff (auto and personal) loans, which is amortised over the life of the loan and recognised in interest income.

14.3 The movement in the provision for employees' end of service benefits is as follows:

	2019 AED'000	2018 AED'000
Balance at 1 January	**2,626**	3,092
Paid during the year	**(220)**	(911)
Charge for the year	**492**	445
Balance at 31 December	**2,898**	2,626

15 Capital and reserve

Allocated capital:

Allocated capital amounting to AED 686,437 thousand *(2018: AED* 686,437 *thousand)* is specifically allocated by the Head Office. The Branches increased its allocated capital from AED 319,137 thousand to AED 686,437 thousand by funding provided by Head office pursuant to the decision of the Board dated 12 September 2017 and CBUAE approval dated 01 November 2017.

Legal reserve:

In accordance with Article 82 of Union Law No. 10 of 1980, the Branches have to allocate 10% of the profit for the year to the legal reserve, until this reserve is equal to 50% of the Head Office allocated capital. This reserve is not available for distribution.

16 Interest income

	2019 AED'000	2018 AED'000
Interest on:		
- Loans and advances	**99,072**	121,520
- Placements with banks	**97,361**	83,911
- Certificate of Deposit with the CBUAE	**5,709**	4,937
- Due from Head Office and other branches	**2,135**	1,151
- Financial investments	**11,093**	12,088
	215,370	223,607

17 Interest expense

	2019 AED'000	2018 AED'000
Interest on:		
- Customers' deposits	**47,575**	33,365
- Due to banks	**6,489**	4,210
- Due to Head Office and other branches	**21**	21
	54,085	37,596

18 Net fee and commission income

	2019 AED'000	2018 AED'000
Commission on letters of guarantee	**8,275**	10,496
Commission on bills of collection	**4,977**	6,476
Commission on letters of credit	**349**	5,631
Commission on transfers	**5,691**	7,225
Syndication and participation fees	**117**	6,175
Consultation fees	**3,696**	4,955
Miscellaneous	**2,482**	2,705
Fee and commission income	**25,587**	43,663
Fee and commission expenses	**(558)**	(835)
Net fee and commission income	**25,029**	42,828

19 Other income

	2019 AED'000	2018 AED'000
Reversal of excess accruals	**163**	1,073
Others	**38**	12
	201	1,085

20 Other operating expenses

	2019	2018
	AED'000	AED'000
Printing and stationary	**301**	328
Communication expense	**595**	973
Head office admin charges	**5,803**	7,178
Professional and license fees	**1,482**	1,496
Repairs and maintenance	**1,196**	1,191
Travel and entertainment	**280**	577
VAT Absorption	**564**	931
Others	**2,275**	2,907
	12,496	15,581

21 Net gains on foreign exchange

Net gains on foreign exchange mainly relates to the realised gains on remittance services provided to different customers during the year.

22 Taxation

The Branches are subject to tax in accordance with Regulation Number 2 of 2007 for the assessment of fees on the branches of foreign banks issued by the Government of UAE.

22.1 Movement in tax provision

	2019	2018
	AED '000	AED '000
		(Restated)
Opening balance	**40,087**	48,238
Taxes paid	**(40,247)**	(48,867)
Current tax expense	**41,771**	40,716
Closing balance *(Note 14)*	**41,611**	40,087

	2019	2018
	AED '000	AED '000
		(Restated)
Current tax		
Current income tax	**41,611**	40,087
Adjustment in respect of prior years *(Note 22.3)*	**159**	629
	41,770	40,716
Deferred tax		
Relating to origination and reversal of temporary differences	**(2,948)**	15,262
	(2,948)	15,262
Total income tax expense	**38,822**	55,978

22 Taxation (continued)

22. 2 Reconciliation between tax expense and accounting profit

Tax is computed at 20% of the net taxable profit of the Branches generated through its operations in the Emirates of Abu Dhabi and Dubai

	2019 AED '000	2018 AED '000 (Restated)
Net profit for the year before taxation	**194,089**	200,433
Tax @ 20% of net accounting profit (2019: 20%)	**38,818**	40,087
Tax effects of temporary differences	-	15,262
Prior year tax charge	**4**	629
Total income tax expense	**38,822**	55,978
Effective tax rate	**20.0%**	27.9%

22.3 Prior year taxation

Tax assessed by the tax authorities for the prior assessment years was in excess of the tax provision maintained by the Branches by AED 159 thousand (2018: AED 629 thousand). Such shortfall was charged to statement of profit or loss by the Branches

22.4 Relating to origination and reversal of temporary differences

This reflects the tax paid to the tax authorities in the current year for the prior assessment year against the non receipt of the due interest income of AED 780 thousand, which was subsequently collected in the current year and settled.

22.5 Deferred tax

31 December 2019	**At 1 January AED '000 (Restated)**	**Charge to statement of profit or loss AED '000**	**At 31 December AED '000**
Deferred tax asset on stage 1 and 2 ECL (Note 27)	**9,327**	**4,751**	**14,078**
Deferred tax asset on ECL on stage 3 loans and advances (Note 27)	**5,386**	**(1,803)**	**3,583**
	14,713	**2,948**	**17,661**

22 Taxation (continued)

31 December 2018	At 1 January AED '000	Adjustment AED '000	At 1 January AED '000 (Restated)	Charge to statement of profit or loss AED '000	At 31 December AED '000
Deferred tax asset on Stage 1 & 2 provisions *(Note 27)*	-	24,589	24,589	(15,262)	9,327
Deferred tax asset on ECL on stage 3 loans and advances *(Note 27)*	5,386	-	5,386	-	5,386
	5,386	24,589	29,975	(15,262)	14,713

23 Cash and cash equivalents

	2019 AED'000	2018 AED'000
Cash and balances with the Central Bank of UAE (excluding reserves) (Refer note 5)	**431,412**	466,842
Due from banks	**3,101,738**	2,894,905
Due from Head Office and other branches	**29,773**	147,079
Due to banks	**(315,745)**	(394,266)
Due to Head Office and other branches	**(39,213)**	(13,187)
Cash and cash equivalents	**3,207,965**	3,101,373

24 Related party transactions

Identification of related parties:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Branches, related parties comprise Head Office, key management personnel and their related companies. Banking transactions are entered into with related party on terms and conditions approved by the Branches management and the Head Office. The significant related party transactions and significant outstanding balances are as follows:

Ultimate controlling party:

The Branches are a segment of the Head Office which is held 48.96 % each by the Central Bank of Egypt and Kuwait Investment Authority which are therefore the ultimate controlling parties.

24 Related party transactions (continued)

Ultimate controlling party: (continued)

(a) Balances with related parties

Head office and other branches

	2019 AED'000	2018 AED'000
Deposit with Head Office and other Branches*		
Outstanding at 1 January	**147,079**	220,431
Withdrawn during the year	**(117,306)**	(73,382)
	29,773	147,049

* The ECL considered against deposits with Head Office and other Branches amounted was not significant on an overall basis.

Deposits from Head office and other Branches

	2019 AED'000	2018 AED'000
Outstanding at 1 January	**13,187**	10,829
Deposit during the year	**26,026**	-
Deposit with head office	**-**	2,358
Outstanding at 31 December	**39,213**	13,187

(b) Transactions carried out during the year with related parties:

	2019 AED'000	2018 AED'000
Interest income for the year	**2,135**	1,151
Interest expenses for the year	**21**	21

(c) Key management compensation:

All key management personnel are based in the Head Office and accordingly, no key management compensation is paid in the Branches.

25 Commitments and contingencies

As at 31 December, the Branches had the following commitments and contingencies:

	2019 AED'000	2018 AED'000
Letters of credit	**35,741**	19,405
Letters of guarantee	**756,058**	743,913
Undrawn loan commitments	**39,335**	56,901
	831,134	820,219

The Branches hold collaterals against letter of guarantees and letter of credits in the form of deposits, securities and personal and corporate guarantees, where applicable.

25 Commitments and contingencies (continued)

Movement in the gross balance and corresponding ECL allowances of off–balance sheet exposures

Outstanding balance – AED ' 000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2019	670,083	93,235	-	763,318
Transferred from Stage 1	11,081	(11,081)	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated (expired) during the period (net)	28,465	16	-	**28,481**
Gross carrying amount - 31 December 2019	**709,629**	**82,170**	-	**791,799**

Outstanding balance – AED ' 000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2018	1,046,612	57,762	-	1,104,374
Transferred from Stage 1	(97,677)	97,677	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year (net)	(278,852)	(62,204)	-	**(341,056)**
Gross carrying amount - 31 December 2018	670,083	93,235	-	763,318

ECL – AED ' 000	Stage 1	Stage 2	Stage 3	Total
1 January 2019	6,131	573	-	6,704
Transferred from Stage 1	130	(130)	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period (net)	(2,999)	21,827		**18,828**
31 December 2019	**3,262**	**22,270**	-	**25,532**

ECL – AED ' 000	Stage 1	Stage 2	Stage 3	Total
1 January 2018	8,057	122	-	8,179
Transferred from Stage 1	(761)	761	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / expired during the year	(1,165)	(310)	-	**(1,475)**
Gross carrying amount - 31 December 2018	6,131	573	-	6,704

25 Commitments and contingencies (continued)

Credit related commitments

Letters of credit and guarantee commit the Branches to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Irrevocable commitments to extend credit represent contractual commitments to extend loans and revolving credits. These commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

The Branches' contractual amounts in respect of letters of credit and guarantees commit the Branches to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to disburse the loan. These generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash requirements.

26 Comparative figures

Certain comparative figures, other than the restatements described in note 27, have been reclassified, where appropriate, to conform to the presentation and accounting policies adopted in these financial statements. However, there was no significant impact of these reclassifications on the previously reported results including the consolidated statement of financial position, consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows.

27. Prior period adjustments

The Branches had not been recognizing deferred taxes on the ECL relating to Stage 1 and Stage 2 loans and advances (i.e. collective allowances as per IAS 39 – Financial Instruments). This has been corrected in these financial statements by restating the comparative information in the current year's financial statements.

The following table summarizes the adjustments to previously reported amounts as at and for the year ended 31 December 2018 and as at 1 January 2018:

31 December 2018

	Previously reported AED'000	*Restatement AED'000*	*Restated balance AED'000*
Statement of financial position			
Deferred tax assets *(Note 22)*	5,386	9,327	14,713
Legal reserve	103,581	(1,527)	102,054
Retained earnings	560,392	10,854	571,246
Statement of profit or loss and other comprehensive income			
Taxation	40,716	15,262	55,978

27. Prior period adjustments (continued)

1 January 2018

	Previously reported AED'000	Restatement AED'000	Restated balance AED'000
Statement of financial position			
Retained earnings	416,467	24,589	441,236
Deferred tax asset*	5,386	24,589	29,975

* The above adjustment was not reflected in the financial statements and only the impact on the opening retained earnings has been shown at 1 January 2018. This disclosure shows the potential impact if the restatement was made on 1 January 2018.

28 Subsequent events disclosure

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. In January 2020, oil prices fell as a result of the outbreak of Covid-19 and its impact on demand for petroleum products. More recently, oil prices suffered a steep fall following the failure of OPEC and OPEC+ to reach an agreement in respect of production cuts.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could negatively impact our future financial results, cash flows and financial condition.