BANK OF CHINA LTD.
(ABU DHABI BRANCH)

FINANCIAL STATEMENTS

31 DECEMBER 2019

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working world

Ernst & Young
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INDEPENDENT AUDITORS' REPORT TO THE HEAD OFFICE OF BANK OF CHINA LIMITED - ABU DHABI BRANCH

Opinion
We have audited the financial statements of Bank of China Limited - Abu Dhabi Branch (the "Branch"), which comprise the statement of financial position as at 31 December 2019, and the statement of 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 Branch 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 Branch 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.

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 the UAE Union Law No. 10 of 1980, as amended, 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 Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

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.

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INDEPENDENT AUDITORS' REPORT TO THE HEAD OFFICE OF BANK OF CHINA LIMITED – ABU DHABI BRANCH (continued)

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

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 Branch's 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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Branch 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.

For Ernst & Young

Signed by:
Anthony O'Sullivan
Partner
Registration No: 687

31 March 2020

Abu Dhabi, United Arab Emirates

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	***2019*** ***AED'000***	*2018* *AED'000*
ASSETS			
Cash and balances with the Central Bank of UAE	9	**255,566**	452,026
Due from banks	10	**423,391**	299,204
Due from related parties	21	**26,783**	23,821
Loans and advances, net	11	**662,148**	497,270
Other assets	12	**1,977**	3,896
Property and equipment	13	**6,001**	5,088
Intangible assets	14	**29**	46
TOTAL ASSETS		**1,375,895**	1,281,351
LIABILITIES AND EQUITY			
Liabilities			
Customer deposits	15	**330,603**	287,701
Due to related parties	21	**632,928**	559,408
Due to banks and other financial institutions	10	**1,520**	41,810
Other liabilities	16	**15,268**	10,038
Total liabilities		**980,319**	898,957
Equity			
Allocated capital	18	**367,200**	367,200
Statutory reserve	19	**4,002**	2,684
Credit risk reserve	23	**12,946**	10,593
Retained earnings		**11,428**	1,917
Total equity		**395,576**	382,394
TOTAL LIABILITIES AND EQUITY		**1,375,895**	1,281,351

Gao Xiaoming
General Manager

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	***2019 AED'000***	*2018 AED'000*
Interest income	5	**39,191**	48,050
Interest expense	6	**(14,258)**	(26,496)
Interest income, net		**24,933**	21,554
Net fees and commission income	7	**2,427**	2,358
Net foreign exchange income		**705**	958
Trading (loss)/gain on derivative financial instruments		**-**	(171)
Net operating income		**28,065**	24,699
General and administrative expenses	8	**(12,027)**	(12,297)
Profit for the year before provisions		**16,038**	12,402
Net reversal (provision) on expected credit losses	10, 11	**352**	(443)
Profit for the year before tax		**16,390**	11,959
Income tax expense	17	**(3,208)**	(2,481)
PROFIT FOR THE YEAR		**13,182**	9,478
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13,182**	9,478

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CHANGES IN HEAD OFFICE EQUITY

For the year ended 31 December 2019

	Allocated capital AED'000	*Statutory reserve AED'000*	*Credit risk reserve AED'000*	*Retained earnings AED'000*	*Total AED'000*
At 1 January 2018	367,200	1,736	-	(6,613)	362,323
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	10,593	10,593
Transfer to credit risk reserve	-	-	10,593	(10,593)	-
As at 1 January 2018	367,200	1,736	10,593	(6,613)	372,916
Total comprehensive income for the year	-	-	-	9,478	9,478
Transfer to statutory reserve	-	948	-	(948)	-
At 31 December 2018	367,200	2,684	10,593	1,917	382,394
Total comprehensive income for the year	-	-	-	13,182	13,182
Transfer to statutory reserve	-	1,318	-	(1,318)	-
Transfer to credit risk reserve	-	-	2,353	(2,353)	-
At 31 December 2019	**367,200**	**4,002**	**12,946**	**11,428**	**395,576**

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	**2019** **AED'000**	2018 AED'000
OPERATING ACTIVITIES			
Profit for the year before taxation		**16,390**	11,959
Adjustments for:			
Depreciation and amortization	13, 14	**1,263**	376
Depreciation on right of use assets	13	**566**	-
(Reversal) provision for credit losses	10, 11	**(352)**	443
Operating cash flows before changes in working capital		**17,867**	12,778
Changes in working capital:			
Cash reserve requirement with Central Bank of UAE		**(21,373)**	22,863
Due from banks		**(110,190)**	(259,691)
Loans and advances		**(164,489)**	445,984
Other assets		**1,919**	510
Customer deposits		**42,902**	25,325
Due to banks		**(40,290)**	41,629
Due to related parties		**73,520**	(260,372)
Other liabilities		**2,656**	541
Net cash (used in) from operating activities		**(197,478)**	29,567
INVESTING ACTIVITY			
Payment for purchase of property and equipment	13	**(2,811)**	(5,121)
Net cash used in investing activity		**(2,811)**	(5,121)
FINANCING ACTIVITY			
Lease payments		**(549)**	-
Net cash used in investing activity		**(549)**	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(200,838)**	24,446
Cash and cash equivalents, beginning of year		**468,809**	444,363
CASH AND CASH EQUIVALENTS, END OF YEAR	24	**267,971**	468,809

Interest received in 2019 was AED 37,508 thousand (31 December 2018: AED 44,662 thousand) and interest paid in 2019 was AED 47,090 thousand (2018: AED 24,803 thousand).

1 ACTIVITIES

Bank of China Limited (the "Head Office") is a public limited company incorporated in Beijing, People's Republic of China and the address of its registered office is No.1, Fuxingmennei Street, Beijing (100818).

The Head Office has registered a branch in the Emirate of Abu Dhabi which is regulated by the Central Bank of United Arab Emirates ("CBUAE"). The principal activity of the Abu Dhabi Branch of Bank of China Limited (the "Branch") in the United Arab Emirates ("UAE") is wholesale banking.

The registered address of the Branch is Ground Floor, Mansour Tower, Al Salam Street, Abu Dhabi, UAE.

The financial statements of the Branch were approved for issuance on 31 March 2020.

2 BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis, except for the valuation of any financial instruments measured at fair value. For the purpose of the financial statements, the results and financial position of the Branch are expressed in Arab Emirates Dirhams (AED) (in thousands, except where noted), which is the functional currency of the Branch, and the presentation currency for the financial statements. The principal accounting policies adopted are set out below.

The Branch presents its statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) presented in the notes.

3 STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB or the "Board"), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of laws of the United Arab Emirates.

Along with these financial statements, the Branch has also presented Basel III disclosures in accordance with the guidelines issued by the Central Bank of UAE. The adoption of Basel III guidelines has impacted the type and amount of disclosures made in these financial statements but has no impact on the reported profits or financial position of the Branch. In accordance with the requirements of Basel III, the Branch has provided full comparative information.

4.1 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 Branch, effective as of 1 January 2019. The nature and the impact of each such relevant standard and amendment is described below:

IFRS 16 'Leases' (effective date: 1 January 2019)
The Branch adopted IFRS 16 from 1 January 2019 using the modified retrospective approach and has not restated the comparative reporting year ended 31 December 2018, as permitted under the specific transitional provisions in the standard.

The effect of adoption IFRS 16 is as follows:

4.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Impact on the statement of financial position increase / (decrease) as at 1 January 2019:

	2019 AED'000
Property and equipment:	
Right-of-use assets	2,545
Other assets:	
Prepayments	(288)
	2,257
Other liabilities	
Lease liabilities	**2,257**

Nature of the effect of adoption of IFRS 16

The Branch has a lease contract for its premises. Before the adoption of IFRS 16, the Branch 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 comprehensive 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 Branch 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 Branch recognized lease liability to make lease payments and right-of-use assets representing the right to use the underlying assets.

Based on the above, as at 1 January 2019:

- Right-of-use assets of AED 2,545 thousand were recognised and presented under property, plant and equipment in the statement of financial position.
- Prepayments of AED 288 thousand related to previous operating leases were derecognised.
- Lease liabilities of AED 2,257 were recognised.

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

Right-of-use assets

The Branch recognises 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 Branch is 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 4.3.

Lease liabilities

At the commencement date of the lease, the Branch recognises 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 may also include the exercise price of a purchase option reasonably certain to be exercised by the Branch and payments of penalties for terminating a lease, if the lease term reflects the Branch 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 Branch uses the incremental borrowing rate of 3 % 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.

4.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Short-term leases and leases of low-value assets
The Branch applies 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). It also applies 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 Branch has the option, under some of its leases to lease the assets for an additional term. The Branch applies 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 Branch reassesses 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).

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

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 Branch assesses 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 Branch.

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 12 Income Taxes. 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 Branch determines 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 Branch applies judgement in identifying uncertainties over income tax treatments. Since the Branch operates in a relatively non-complex tax environment, it assessed the Interpretation did not have any material impact on the financial statements of the Branch.

4.2 NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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 Branch's financial statements.

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 Branch has not early adopted the amendments and whilst it plans to perform a detailed assessment during 2020, it has initially expects that the uncertainty arising from IBOR reform is not expected to have any material impact on an overall basis.

4.3 SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

IFRS 9: Financial Instruments

Initial measurement and recognition of financial assets and financial liabilities
Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Branch becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Branch recognises balances due to customers when funds are transferred to the Branch.

All financial assets or financial liabilities are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for FVTPL financial assets. When the fair value of financial instruments at initial recognition differs from the transaction price, the Branch accounts for the Day 1 profit or loss, as described below.

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 Branch recognises 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.

Classification and measurement of financial assets and financial liabilities
The Branch determines classification and measurement category of financial assets, except derivatives, based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The Branch classifies and measures its derivative and trading portfolio at FVTPL.

The Branch classifies their financial assets based on the business model for managing the assets and the asset's contractual terms, as explained below.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at fair value through profit and loss when they are held for trading and derivative instruments or the fair value designation is applied.

Due from banks and loans and advances to customers
The Branch only measures due from banks and loans and advances to customers at amortized cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment
The Branch determines its business model at the level that best reflects how they manage financial assets to achieve their business objective. The Branch's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Branch's assessment.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

Business model assessment (continued)
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 Branch’s original expectations, the Branch does 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.

The SPPI test
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Branch assesses whether the financial instruments’ cash flows meet the solely payments of principal and interest test (the ‘SPPI test’).

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI assessment, the Branch applies judgement and consider relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

The Branch classifies financial assets upon recognition of IFRS 9 into following categories

- Amortised cost (AC)
- Fair value through profit and loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

Financial assets classified at AC are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the income statement. Any gain or loss on derecognition is recognised in the income statement. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in “Interest income” in the income statement. The losses arising from impairment are recognised in the income statement under “net provision on expected credit loss”.

The Branch classifies cash and balances with central bank, due from banks and loans and advances as AC.

Fair Value Through Profit and Loss (FVTPL)
The Branch classifies financial assets as FVTPL when they have been purchased primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit.

In addition to the above, on initial recognition, the Branch 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.

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the income statement. Interest income and dividends are recognised in the income statement according to the terms of the contract, or when the right to payment has been established.

The Branch measures derivatives as at FVTPL and the positive and negative fair value of these derivatives are included in other assets and other liabilities, respectively.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

Equity instruments at FVOCI
Upon initial recognition, the Branch occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Reclassifications
The Branch does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Branch acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

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 Branch evaluates 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.

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 Branch retains 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 Branch has 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 Branch has 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 Branch’s 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 branch would be required to repay.

When the Branch has 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 Branch’s continuing involvement, in which case, the Branch also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has 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 Branch could be required to pay.

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 Branch 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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial guarantees, letters of credit and undrawn loan commitments
In the ordinary course of business, the Branch gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in other liabilities. Subsequent to initial recognition, the Branch's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and under IFRS 9 - an ECL provision as set out in notes 10 and 11. The premium received is recognised in the income statement in 'net fees and commission income' on a straight-line basis over the life of the guarantee in line with IFRS 15.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Branch is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

Impairment of financial assets
The Branch recognises expected credit losses (ECL) for cash and balances with the Central Bank of UAE, loans and advances and due from banks, together with loan commitments and financial guarantee contracts.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Branch's policies for determining if there has been a significant increase in credit risk are set out in note 23.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Branch has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Branch groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognized, the Branch recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Branch records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired The Branch records an allowance for the LTECL
- POCI: Purchased or originated credit impaired (POCI) assets 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.

For financial assets for which the Branch has no reasonable expectations of receiving either the entire outstanding amount or a proportion there of, the gross carrying amount and financial asset are reduced. This is considered a (partial) derecognition of the financial asset.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The calculation of ECLs
The Branch calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of default (PD) -The PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- Exposure at default (EAD) - The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- Loss given default -The LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating life time ECL for undrawn loan commitments, the Branch estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For revolving facilities that include both a loan and an undrawn commitment loan commitments and letters of credit, ECLs are calculated and presented together with the loan.

The Branch has considered the following regulatory guidance of the regulator in arriving at ECL impairment:

- Probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.
- Requirement of 5 years data to be included in the IFRS 9 models for the purpose of assessment of the ECL, where relevant and available.

The Branch’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Branch estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the scenarios. The ECLs related to financial guarantee contracts are calculated and presented together with the loan.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Forward looking information
The Branch incorporates 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. Macro-economic factors are considered for this purpose by applying forward looking information such as GDP growth percentage.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Scenarios
Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts.The most significant period-end assumptions used for ECL estimate as at 31 December 2019 is GDP. The Branch has considered the scenarios – base case, upside and downside for all portfolios keeping in view the principal macroeconomic (GDP).

Sensitivity analysis
The Branch has performed sensitivity analyses by assessing the impact on the ECL if the principal macroeconomic variable (GDP) was to change by the base case, upside and downside scenarios and they do not expect a significant sensitivity impact on an overall basis.

Collateral valuation
To mitigate its credit risks on financial assets, the Branch seeks 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. Collateral, unless repossessed, is not recorded on the Branch's 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 Branch uses 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.

Write-offs
Financial assets are written off either partially or in their entirety only when the Branch has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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.

Derivative financial instruments
Derivatives generally include interest rate swaps, forward foreign exchange contracts and options. 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.

Renegotiated loans
In the event of a default, the Branch seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. 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. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Collateral repossessed
The Branch's 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 Branch's policy.

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and balances with the CBUAE and with other financial institutions with original maturities of three months or less, excluding statutory deposits required to be maintained with the CBUAE, net of amounts due to banks with original maturity not exceeding three months.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Property and equipment and right-of-use assets
Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all property and equipment at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful lives. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Category	Useful life (in years)	Residual value
Office equipment	5	3%
Furniture and fixtures	5	3%
Leasehold improvements	3	0%
Motor vehicles	6	3%
Computer and accessories	3	0%

The carrying amounts of property and equipment and right of use assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the statement of comprehensive income. Any gain or loss on the disposal of property and equipment is recognised in the statement of comprehensive income.

Intangible assets
Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The cost of the intangible asset is the purchase price together with any incidental expenses of acquisition. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of intangible assets and the benefits can be measured reliably. All other expenditure is recognised in the statement of comprehensive income as an expense is incurred. The useful life of the amortized assets is 3 years. The amortisation charge for the year is calculated on a straight-line basis after taking into account the residual value, if any. The residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. Amortisation on additions is charged from the month the asset is available for use. No amortisation is charged in the month of disposal.

Gains and losses on sale of intangible assets are included in the statement of comprehensive income.

End of service benefits
With respect to its national employees, the Branch make contributions to a pension fund established by the UAE General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Branch's obligations are limited to these contributions, which are expensed when due.

In accordance with IAS 19, the Branch provides end of service benefits to its other employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour and National Pension and Social Security Laws.

Fair value measurement
For those assets and liabilities carried at fair value, the Branch measures fair value at each reporting date. 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.

The fair value measurement of financial instruments is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Branch. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

A fair value measurement of non-financial instruments (instruments other than financial instruments) takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branch uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair values for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm’s length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants.

Fair value hierarchy
The Branch measures 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.

Revenue recognition
Interest income and expenses are recognised using effective interest method. When a financial asset becomes credit-impaired and is therefore regarded as ‘Stage 3’, the Branch calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Branch reverts to calculating interest income on a gross basis. Interest income and expenses for all interest-bearing financial instruments are recognised within the statement of comprehensive income.

Fees and commission income that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Other fees and commissions are recognised over the period of service or when rendered.

Taxation
Taxation is provided for in accordance with local regulations for assessment of tax on branches of foreign banks operating in the Emirate of Abu Dhabi.

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
Foreign currency transactions are recorded at rates of exchange ruling at value dates of the transaction. Monetary assets and liabilities in foreign currencies outstanding at the year-end are translated into UAE Dirhams at rates of exchange ruling at the statement of financial position date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to UAE Dirhams at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose changes in fair values are recognised directly in other comprehensive income, related foreign exchange differences are also recognised directly in other comprehensive income. For other non-monetary assets, foreign exchange differences are recognised directly in the statement of comprehensive income.

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

Contingencies
Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

Operating leases (Prior to 1 January 2019)
Leases that do not transfer to the Branch substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred. For policy from 1 January 2019, refer note 4.1

Use of estimates and judgements
The Branch based their assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Branch. Such changes are reflected in the assumptions when they occur.

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 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 Branch's 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:

Estimating the incremental borrowing rate
The Branch cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Branch would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Branch estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the entity's stand-alone credit rating, or to reflect the terms and conditions of the lease).

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and judgements (continued)

Impairment losses on loans and advances (continued)

- The Branch's internal credit grading model, which assigns PDs to the individual grades
- The Branch's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a 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 PDSs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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 Branch's 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 Branch determines 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. Refer Note 3 classification of financial assets for more information.

Determination of the lease term for lease contracts with renewal and termination options
The Branch determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Branch has one lease contracts that include possible extension and termination options. The Branch applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Branch reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate
The Branch cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Branch would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Branch 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).The Branch estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

5 INTEREST INCOME

	2019	*2018*
	AED'000	*AED'000*
Loans and advances	**25,521**	35,019
Due from related parties (Note 21)	**266**	5,667
Due from banks	**13,404**	7,364
	39,191	48,050

6 INTEREST EXPENSE

	2019	*2018*
	AED'000	*AED'000*
Due to related parties (Note 21)	**12,903**	24,724
Customer deposits	**1,013**	1,723
Due to banks	**342**	49
	14,258	26,496

7 NET FEE AND COMMISSION INCOME

	2019	*2018*
	AED'000	*AED'000*
Fee and commission income	**2,568**	2,532
Fee and commission expense	**(141)**	(174)
	2,427	2,358

8 GENERAL AND ADMINISTRATIVE EXPENSES

	2019	*2018*
	AED'000	*AED'000*
Staff costs	**7,361**	7,231
Rental expenses	**-**	1,859
Advertising and business promotion expenses	**330**	418
Communication expenses	**475**	450
Depreciation and amortization (Note 13, Note 14)	**1,845**	376
Repairs and maintenance	**490**	450
Travelling expenses	**113**	59
Legal and professional fees	**515**	785
Other expenses	**898**	669
	12,027	12,297

9 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE

	2019	*2018*
	AED'000	*AED'000*
Balances with the Central Bank of UAE:		
Current account	**203,305**	421,138
Cash reserve requirement	**52,261**	30,888
	255,566	452,026

The cash reserve requirement is maintained with the UAECB in UAE Dirhams and US Dollars and cannot be withdrawn without its approval. Accordingly, these deposits are not available to finance the day to day operations of the Branch. The level of reserve required changes every month in accordance with UAECB directives and is based on outstanding deposit balances.

Balances with the UAECB are in stage 1 throughout the period and have insignificant ECL.

10 DUE FROM/TO BANKS

	2019	*2018*
	AED'000	*AED'000*
Due from banks comprise:		
Current account with other banks	**37,883**	23,850
Deposits with banks	**385,665**	275,475
Less: Expected credit loss (10.1)	**(157)**	(121)
	423,391	299,204

	2019	*2018*
	AED'000	*AED'000*
Due to banks comprise:		
Term deposits	**1,517**	36,730
Demand and call deposits	**3**	5,080
	1,520	41,810

10.1 Movement of expected credit loss are as follows:

	2019	*2018*
	AED'000	*AED'000*
Balance at 1 January	**121**	-
Provided during the year	**36**	121
Balance at 31 December	**157**	121

11 LOANS AND ADVANCES

	2019 *AED'000*	*2018* *AED'000*
Loans and advances (11.1)	**664,168**	499,679
Expected credit losses against loans and advances – ECL (11.2)	**(2,020)**	(2,409)
Loans and advances, net	**662,148**	497,270

11.1 Analysis of loans and advances

	2019 *AED'000*	*2018* *AED'000*
Trade finance - bills discounting	**144,226**	13,725
Syndicated loans	**357,871**	212,591
Bilateral loans	**162,071**	273,363
Balance at 31 December	**664,168**	499,679

11.2 Movement of provision for credit losses are as follows:

	2019 *AED'000*	*2018* *AED'000*
Balance at 1 January	**2,409**	12,684
Expected credit loss – IFRS 9 transition adjustment	**-**	(10,593)
Adjusted balance at 1 January	**2,409**	2,091
(Reversed)/Provided during the year	**(389)**	322
Transfer from credit risk reserve	**-**	-
Exchange rate differences	**-**	(4)
Balance at 31 December	**2,020**	2,409

Past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. There were no loans and advances that were past due but not impaired as at 31 December 2019 (2018: nil).

Impairment allowance for loans and advances

The tables below show the credit quality and the maximum exposure to credit risk based on the Branch's internal credit rating system and year-end stage classification.

An analysis of the ECL included under each stage classification is as follows:

In AED 000	*2019*			
Grades	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing*				
Normal grade (AAA1 – A3)	**2,004**	**-**	**-**	**2,004**
Watchlist grade (A4 – C)	**16**	**-**	**-**	**16**
Non- performing*				
Sub-standard grade (D)	**-**	**-**	**-**	**-**
Doubtful grade (D)	**-**	**-**	**-**	**-**
Loss grade (D)	**-**	**-**	**-**	**-**
Total	**2,020**	**-**	**-**	**2,020**

11 LOANS AND ADVANCES (continued)

11.2 Movement of provision for credit losses are as follows: (continued)

Impairment allowance for loans and advances (continued)

In AED 000	*2018*			
Grades	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing*				
Normal grade (AAA1 – A3)	2,362	-	-	2,362
Watchlist grade (A4 – C)	47	-	-	47
Non- performing*				
Sub-standard grade (D)	-	-	-	-
Doubtful grade (D)	-	-	-	-
Loss grade (D)	-	-	-	-
Total	2,409	-	-	2,409

* The internal rating grades of the Branch corresponding to the grades mentioned above are described in note 23.

An analysis of changes in the gross carrying amount in relation to loans and advances is as follows:

	2019			
In AED 000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount as at 1 January 2019	**499,679**	-	-	**499,679**
New assets originated	**307,631**	-	-	**307,631**
Assets derecognised or repaid (excluding write offs)	**(143,142)**	-	-	**(143,142)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2019	**664,168**	-	-	**664,168**

	2018			
In AED 000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2018	945,663	-	-	945,663
New assets originated	1,068,827	-	-	1,068,827
Assets derecognised or repaid (excluding write offs)	(1,514,811)	-	-	(1,514,811)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2018	499,679	-	-	499,679

11 LOANS AND ADVANCES (continued)

11.2 Movement of provision for credit losses are as follows: (continued)

Impairment allowance for loans and advances (continued)

Loans and advances in the statement of financial position are stated net of impairment allowances. The movements for expected credit losses are as follows:

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
ECL allowance as at 1 January 2019	**2,409**	**-**	**-**	**2,409**
Net assets derecognised	**(389)**	**-**	**-**	**(389)**
At 31 December 2019	**2,020**	**-**	**-**	**2,020**

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	2,091	-	-	2,091
Net new assets originated	318	-	-	318
At 31 December 2018	2,409	-	-	2,409

Economic sector risk concentration for the loans and advances:

	2019 ***AED'000***	*2018* *AED'000*
Manufacturing	**-**	72,083
Banks and other financial institutions	**144,226**	13,725
Mining and quarrying	**191,455**	165,285
Electricity, water, gas and health services	**110,269**	103,028
Construction	**130,442**	38,289
Transportation and communication	**62,065**	81,559
Services	**25,711**	25,710
Total	**664,168**	499,679

11.3 Modified and renegotiated loans

There were no modified or renegotiated loans as at 31 December 2019 (2018: nil).

12 OTHER ASSETS

	2019 ***AED'000***	*2018* *AED'000*
Interest receivable	**1,683**	3,388
Others	**294**	508
	1,977	3,896

13 PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS

	Furniture and fixtures AED'000	*Motor vehicle AED'000*	*Computer and accessories AED'000*	*Leasehold improvements AED'000*	*Right of use assets AED'000*	*Office equipment AED'000*	*Total AED'000*
Cost:							
At 31 December 2018	411	409	938	5,557	-	174	7,489
Effect of adoption of IFRS 16 as at 1 January 2019	-	-	-	-	2,545	-	2,545
At 1 January 2019	411	409	938	5,557	2,545	174	10,034
Additions during the year	-	-	180	-	-	-	180
At 31 December 2019	411	409	1,118	5,557	2,545	174	10,214
Accumulated depreciation:							
At 31 December 2018	(185)	(120)	(275)	(1,773)	-	(48)	(2,401)
Charge for the year	(97)	(51)	(240)	(840)	(566)	(18)	(1,812)
At 31 December 2019	(282)	(171)	(515)	(2,613)	(566)	(66)	(4,213)
Net carrying amount:							
At 31 December 2019	**129**	**238**	**603**	**2,944**	**1,979**	**108**	**6,001**
At 31 December 2018	226	289	663	3,784	-	126	5,088

13 PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS (continued)

	Furniture and fixtures AED'000	*Motor vehicle AED'000*	*Computer and accessories AED'000*	*Leasehold improvements AED'000*	*Right of use assets AED'000*	*Office equipment AED'000*	*Total AED'000*
Cost:							
At 31 December 2017	231	152	280	1,633	-	72	2,368
Additions during the year	180	257	658	3,924	-	102	5,121
At 31 December 2018	411	409	938	5,557	-	174	7,489
Accumulated depreciation:							
At 31 December 2017	(134)	(80)	(204)	(1,633)	-	(31)	(2,082)
Charge for the year	(51)	(40)	(71)	(140)	-	(17)	(319)
At 31 December 2018	(185)	(120)	(275)	(1,773)	-	(48)	(2,401)
Net carrying amount:							
At 31 December 2018	226	289	663	3,784	-	126	5,088
At 31 December 2017	97	72	76	-	-	41	286

14 INTANGIBLE ASSETS

	Computer software AED'000
Cost:	
At 1 January 2019	346
Additions	16
At 31 December 2019	**362**
Accumulated amortisation:	
As at 1 January 2019	(300)
Charge for the year	(33)
At 31 December 2019	**(333)**
Net carrying amount:	
At 31 December 2019	**29**
At 31 December 2018	46

	Computer software AED'000
Cost:	
At 1 January 2018	346
At 31 December 2018	346
Accumulated amortisation:	
As at 1 January 2018	(243)
Charge for the year	(57)
At 31 December 2018	(300)
Net carrying amount:	
At 31 December 2018	46
At 31 December 2017	103

15 CUSTOMER DEPOSITS

	2019 AED'000	*2018 AED'000*
Current accounts	**298,800**	144,900
Term deposits	**31,803**	142,801
	330,603	287,701

At 31 December 2019, term deposits amounting to AED 11,542 thousand (2018: AED 37,648 thousand) were held as cash collateral for facilities granted to customers.

16 OTHER LIABILITIES

	2019 AED'000	2018 AED'000
Inward remittances	**5,201**	2,118
Deferred fee income	**813**	156
Interest expense payable	**960**	1,693
Employee cost accruals	**2,621**	2,629
Provision for tax (Note 17)	**3,208**	2,481
Other provisions and payables*	**2,465**	961
	15,268	10,038

***** Other provisions and payables includes lease liability of AED 1,847 thousand recorded in accordance with IFRS 16. Refer note 16.1 below.

16.1 Lease liability as per IFRS 16

	Lease liability 2019 AED'000
At 1 January	2,257
Payment during the year	(549)
Finance costs	139
At 31 December	**1,847**

17 TAXATION

The taxable income is calculated after making certain adjustments to the profit before tax for the year and is based on the tax regulations of Emirate of Abu Dhabi. The components of income tax expense for the year ended 31 December 2019 and 2018 are:

	2019 AED'000	2018 AED'000
Current income tax	**3,208**	2,481
	3,208	2,481
Deferred tax		
Relating to taxable losses of the prior years	**-**	-
Income tax expense reported in the income statement	**3,208**	2,481

17 TAXATION (continued)

The relationship between the tax expense for the year and the accounting profit before tax for the year is as follows:

	2019	*2018*
	AED'000	*AED'000*
Accounting profit before tax	**16,390**	11,959
Non-deductible expenses	**- (352)**	443
Taxable income for the year	**16,038**	12,402
Net taxable income for the year	**16,038**	12,402
Tax at the applicable rate of 20%	**3,208**	2,481
Taxation charge for the year – current	**3,208**	2,481
Taxation charge for the year – deferred	**-**	-
	3,208	2,481

The movement in the provision for taxation is as follows:

	2019	*2018*
	AED'000	*AED'000*
Balance at the beginning of the year	**2,481**	1,943
Provided during the year	**3,208**	2,481
Less: Tax paid during the year	**(2,481)**	(1,943)
Balance at the end of the year	**3,208**	2,481

The movement in the current taxation account during the year ended 31 December 2018 as presented in the financial statements is as follows:

	2019	*2018*
	AED'000	*AED'000*
Opening balance	**2,481**	1,943
Current year charge/(credit)	**3,208**	2,481
Tax paid	**(2,481)**	(1,943)
Closing balance	**3,208**	2,481
Balance Sheet – Income tax payable	**3,208**	2,481
Balance Sheet – Income tax receivable	**-**	-
Net current tax payable (receivable)	**3,208**	2,481

18 ALLOCATED CAPITAL

In accordance with the UAE Union Law Number 10 of 1980, as amended, allocated capital represents the amount of funds provided by the Head Office.

19 STATUTORY RESERVE

In accordance with Article 82 of the UAE Union Law Number 10 of 1980, 10% of the annual profit for the year is transferred to a statutory reserve until this reserve equals 50% of the allocated capital. Accordingly, a transfer of AED 1,318 thousand (2018: AED 948 thousand) has been made during the year. This reserve is not available for distribution, except under the circumstances stipulated by law.

20 CONTINGENCIES AND COMMITMENTS

	2019 AED'000	*2018 AED'000*
Letters of guarantee	**344,443**	319,884
Letter of credit	**4,400**	-
Undrawn credit commitments	**157,531**	118,820
Total	**506,374**	438,704

The maturity profile of trade related contingent liabilities is as follows:

2019	***No later than 1 year AED'000***	***Over 1 year up to 5 years AED'000***	***Over 5 years AED'000***	***Total AED'000***
Guarantees and acceptances	**191,363**	**153,080**	**-**	**344,443**
Letters of credit	**4,400**	**-**	**-**	**4,400**
Undrawn credit commitments	**108,208**	**49,323**	**-**	**157,531**
Total	**303,971**	**202,403**	**-**	**506,374**

2018	*No later than 1 year AED'000*	*Over 1 year up to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
Guarantees and acceptances	216,914	6,554	96,416	319,884
Letters of credit				
Undrawn credit commitments	118,820	-	-	118,820
Total	335,734	6,554	96,416	438,704

Guarantees and standby letters of credit, which represent irrevocable assurances that the Branch will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as loans and advances.

Documentary and commercial letters of credit, which are written undertakings by the Branch on behalf of a customer authorising a third party to draw drafts on the Branch up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Branch does not generally expect the third party to draw funds under the agreement.

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

Guarantees and acceptances include AED 149,088 thousand (2018: AED 143,432 thousand) incurred on behalf of other branches of the Head Office.

20 CONTINGENCIES AND COMMITMENTS (continued)

As at 31 December 2019, the gross balance of contingent liabilities in Stage 1 amounted to AED 506,374 thousand. The ECL for Stage 1 amounted to AED 386 thousand and is included under loans and advances (2018: AED 392 thousand).

21 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the Head Office, group entities, Directors of the Head Office, major shareholders of Head Office, senior management personnel of the Head Office and Branches, transactions with close members of their families and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by the Branch's management

Transactions with related parties

	2019 ***AED'000***	*2018* *AED'000*
Interest income on deposits with the related parties	**266**	5,667
Interest expense on deposits from the related parties	**12,903**	24,724

Balances with related parties

	2019 ***AED'000***	*2018* *AED'000*
Due from Related Parties		
Current account	**26,783**	23,821
	26,783	23,821

11% (2018: 22%) of the loans and advances which are neither past due nor impaired are fully secured by guarantees from the Head Office through its branches.

	2019 ***AED'000***	*2018* *AED'000*
Due to Related Parties		
Term deposits	**601,656**	509,210
Current account	**31,272**	50,198
	632,928	559,408
Interest payable	**866**	932

Key management compensation:

	2019 ***AED'000***	*2018* *AED'000*
Salaries and other benefits	**821**	893

The Branch has not recorded any credit losses on balances due from related parties during the year (2018: AED Nil).

22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments
Financial instruments generally comprise of financial assets, financial liabilities and derivatives.

Financial assets consist of cash and deposits with CBUAE, deposits with banks and loans and advances, certain other assets. Financial liabilities consist of due to banks, customer deposits and certain other liabilities. Derivatives consists of forward foreign exchange contracts.

The fair value of financial instruments is categorised as:

Financial instruments carried at amortised cost
The fair value of financial instruments carried at amortised cost are not materially different from their carrying value as most of these assets and liabilities are of short term maturities or are re-priced regularly based on market movement in interest rates.

Fair values of other financial instruments are not materially different from their carrying values. Derivatives are classified within Level 1 of the fair value hierarchy.

23 FINANCIAL RISK MANAGEMENT

The Branch's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business. The Branch's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Branch's financial performance.

The main sources of financial risk that the Branch faces arise from financial instruments which are fundamental to the Branch's business and constitute the core of its operations. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Branch's statement of financial position. Consequently, the Branch devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business.

Managing financial risks, especially credit risk is a fundamental part of the Branch's business activity and an essential component of the planning process. The Branch achieves its risk management goals by keeping risk management at the centre of the executive agenda and by building a culture that measures risk management with everyday business decision making.

The Branch ensures that it has the capacity to manage the risk in its new and growing businesses, and that its business plans are consistent with the risk appetite, that is, the level of risk that the Branch is willing to accept in fulfilling its business objectives.

The Branch's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. These policies provide written principles for overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

The most relevant risks are credit risk, market risk (which includes price risk, currency risk and interest rate risk, liquidity risk, prepayment risk and operational risk.

A. Credit risk

Credit risk is defined as the risk that the Branch's customers, clients or counterparties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Branch to suffer a financial loss. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Branch's portfolio, could result in losses that are different from those provided for at the end of the reporting period. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, balances with banks, other receivables and unfunded exposures such as letters of credit, letters of guarantee and undrawn commitments.

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Credit risk, both on and off-balance sheet, is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counterparty is evaluated and appropriate credit limits are established. Established limits and actual levels of exposure are regularly reviewed and updated by management. Credit review procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review.

In managing its portfolio, the Branch utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Branch uses Corporation Credit Management System ("CCMS") as its internal credit-rating engine. The CCMS tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. Where applicable, the Branch also uses external ratings by recognised rating agencies for externally rated portfolios.

Definition of default
The Branch considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Branch in full, without recourse to actions such as realising security (if any is held) by the Branch;
- the borrower is past due more than 90 days on any material credit obligation to the Branch; or borrower is considered as credit impaired based on qualitative assessment for internal credit risk management purposes

Any credit impaired or stressed facility that has been restructured would also be considered as in default. The restructured facilities would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Branch for consideration for moving the facility to stage 2/stage 1.

The Branch considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

The Branch continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12months ECL or life time ECL, the Branch assesses whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are generally deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria's do not indicate a significant increase in credit risk.

Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with investment grade and by 1 grade for those with non-investment grade.

The Branch also considers that events as mentioned below are indicators of significant increase in credit risk as opposed to a default.

- Significant deterioration of credit risk rating of the borrower with consideration to relative increase in PD.
- Accounts expired (pending renewal) for a period of 6 months or more (excluding all accounts with technical reasons).
- Contractual disputes between borrower and contracting entity, leading to detrimental impact on the borrower's cash flow.
- Management dispute or loss of key management personnel leading to detrimental impact on borrowers' repayment capacity.
- Restructured accounts where there is principal haircut, or a standstill agreement is signed or where the restructured account carries specific provision.

The Branch considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk.

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

PD estimation process
The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future.

PD estimation process requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Branch's estimate of the future asset quality. The Through The Cycle (TTC) PDs are generated from CCMS based on the internal/external credit ratings. The Branch converts the TTC PD to a Point In Time (PIT) PD term structures using appropriate models and techniques.

Exposure at default
Exposure at default (EAD) represents the amount which the obligor will owe to the Branch at the time of default. The Branch considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, usage given default, etc.

Loss Given Default
Loss Given Default (LGD) is the magnitude of the likely loss if there is a default. The Branch estimates 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.

Incorporation of forward-looking information
The Branch considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Branch employs statistical models (Z macro model) to incorporate macro-economic factors on historical default rates. The Branch considers scenarios of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Derivative financial instruments
Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Individually impaired
There are no loans or advances individually impaired as at 31 December 2019 (2018: nil).

Risk limit control and mitigation policies
The Branch maintains and manages limits and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups, and to industries and countries.

The credit risk is primarily managed by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate.

As part of the Branch's credit risk management policies and practices, it obtains security where deemed necessary for loans and advances. The security types are pledges of cash deposit and bank guarantees.

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements
The following table represents a worst case scenario of credit risk exposure to the Branch at 31 December 2019 and 2018 without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position. For off-balance sheet assets, the exposures set out below are based on gross carrying amounts before Credit Conversion Factor ("CCF"), Credit Risk Mitigation ("CRM") and ECL.

	2019	*2018*
	AED'000	*AED'000*
Due from banks	**423,548**	299,325
Due from related parties	**26,783**	23,821
Loans and advances	**664,168**	499,679
Other assets (excluding prepayments)	**1,977**	3,607
	1,116,476	826,432
Contingencies and commitments (Note 20)	**506,374**	438,704

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

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 664,168 thousand (31 December 2018: AED 499,679 thousand) were secured with a collateral value of AED 125,528 thousand (31 December 2018: AED 346,148 thousand).

Concentration of risks of financial assets with credit risk exposure
Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Branch's performance to developments affecting a particular industry or geographical location.

Concentration of credit risk by geographical area
The following table breaks down the Branch's main credit exposures at their carrying amounts, as categorised by geographical regions as of 31 December 2019 and 2018. For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position. For this table, the Branch has allocated exposures to regions based on the country of domicile of its counterparties.

31 December 2019	***United Arab Emirates***	***Asia***	***Others***	***Total***
	AED'000	***AED'000***	***AED'000***	***AED'000***
Assets				
Due from banks	**-**	**385,665**	**37,883**	**423,548**
Due from related parties	**-**	**26,783**	**-**	**26,783**
Loans and advances	**100,708**	**291,398**	**272,062**	**664,168**
Other assets (excluding prepayments)	**16**	**1,667**	**294**	**1,977**
	100,724	**705,513**	**310,239**	**1,116,476**
Off balance sheet items	**71,200**	**279,664**	**155,510**	**506,374**

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Concentration of credit risk by geographical area (continued)

31 December 2018	*United Arab Emirates AED'000*	*Asia AED'000*	*Others AED'000*	*Total AED'000*
Assets				
Due from banks	-	275,475	23,850	299,325
Due from related parties	-	23,821	-	23,821
Loans and advances	69,326	348,794	81,559	499,679
Other assets (excluding prepayments)	166	3,022	419	3,607
	69,492	651,112	105,828	826,432
Off balance sheet items	68,284	232,931	137,489	438,704

Concentration of credit risk by industry
The following table breaks down the Branch's main credit exposures on loans and advances, due from other banks and due from related parties and off balance sheet items categorised by industry as of 31 December 2019 and 2018.

For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position. For off-balance sheet assets, the exposures set out below are based on gross carrying amounts before Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM)s.

	On balance sheet items				
31 December 2019	***Loans and advances AED'000***	***Amounts due from other banks and group entities AED'000***	***Total funded AED'000***	***Off balance sheet items AED'000***	***Total AED'000***
Crude oil, gas, mining and quarrying	**191,455**	**-**	**191,455**	**91,825**	**283,280**
Electricity	**110,269**	**-**	**110,269**	**49,323**	**159,592**
Manufacturing	**-**	**-**	**-**	**6,712**	**6,712**
Construction	**130,442**	**-**	**130,442**	**45,566**	**176,008**
Telecommunication and transportation	**62,065**	**-**	**62,065**	**61,110**	**123,175**
Financial institutions	**144,226**	**450,331**	**594,557**	**245,338**	**839,895**
Services	**25,711**	**-**	**25,711**	**6,500**	**32,211**
	664,168	**450,331**	**1,114,499**	**506,374**	**1,620,873**

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Concentration of credit risk by industry (continued)

31 December 2018	*On balance sheet items* Loans and advances AED'000	*Amounts due from other banks and group entities AED'000*	*Total funded AED'000*	*Off balance sheet items AED'000*	*Total AED'000*
Crude oil, gas, mining and quarrying	165,285	-	165,285	91,825	257,110
Electricity	103,028	-	103,028	-	103,028
Manufacturing	72,083	-	72,083	13,503	85,586
Construction	38,289	-	38,289	63,658	101,947
Telecommunication and transportation	81,559	-	81,559	45,223	126,782
Financial institutions	13,724	323,146	336,870	200,608	537,478
Services	25,711	-	25,711	23,887	49,598
	499,679	323,146	822,825	438,704	1,261,529

Gross credit exposures by residual contractual maturity

31 December 2019	***Up to 3 months AED'000***	***3 to 12 months AED'000***	***1 to 5 years AED'000***	***Over 5 years AED'000***	***Total AED'000***
Due from banks	**423,548**	**-**	**-**	**-**	**423,548**
Due from related parties	**26,783**	**-**	**-**	**-**	**26,783**
Loans and advances	**160,760**	**168,167**	**217,346**	**117,895**	**664,168**
Total funded	**611,091**	**168,167**	**217,346**	**117,895**	**1,114,499**

31 December 2018	*Up to 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
Due from banks	207,500	91,825	-	-	299,325
Due from related parties	23,821	-	-	-	23,821
Loans and advances	370	97,099	230,940	171,270	499,679
Total funded	231,691	188,924	230,940	171,270	822,825

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Impairment Reserve Under the Central Bank of UAE (CB UAE) Guidance
The Central Bank of UAE issued its IFRS 9 guidance in March 2019 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE.

The guidance states that if in the first year of implementation the specific provision along with suspended interest / profit and general provisions (1.5% of Total Credit Risk Weight Asset "CRWA") as per CBUAE requirements (Circular 28/2010), is higher than the impairment allowance computed under IFRS 9, the difference individually shall be transferred to an impairment reserve as an appropriation from the retained earnings. This impairment reserve shall further be split into specific provision difference (*Impairment Reserve: Specific*) and the collective / general provision difference (*Impairment Reserve: General*). This impairment reserve shall not be available for payment of dividend.

Also, the regulation specifies that the *Impairment Reserve: General* shall be allowed to be included in regulatory capital up to a maximum of 1.25% of risk weighted assets as per Basel, where this is not already utilized.

Impairment Reserve: General

	2019 AED 000	*2018 AED 000*
General provisions calculated based on 1.5% of CRWA	**11,326**	8,854
Additional general provisions considered	3,797	4,269
Revised general provisions under Circular 28/2010 of CB UAE	15,123	13,123
Stage 1 and Stage 2 provisions under IFRS 9	**(2,177)**	(2,530)
General provision transferred to the credit risk reserve*	**12,946**	10,593

Impairment Reserve: Specific

	2019 AED 000	*2018 AED 000*
Specific provisions under Circular 28/2010 of CB UAE	-	-
Stage 3 provisions under IFRS 9	-	-
Specific provision transferred to the impairment reserve*	-	-
Total provision transferred to the impairment reserve	**12,946**	10,593

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

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

The Branch's internal credit rating grades for the year ended 31 December 2019:

Internal rating grade	*Internal risk rating description*	*Cash and balances with the Central Bank of UAE AED'000*	*Contingencies and commitments AED'000*	*Due from banks AED'000*	*Interest AED'000*	*Loans and advances AED'000*	*Due from related parties AED'000*	*Total AED'000*
AAA1- AAA4	Very low	**255,566**	**-**	**-**	**-**	**-**	**-**	**255,566**
AAA5 - AAA7	Low	**-**	**-**	**-**	**142**	**146,920**	**-**	**147,062**
AA1 - AA3	Relatively low	**-**	**12,052**	**37,883**	**20**	**146,238**	**-**	**196,193**
A1 - A3	Medium	**-**	**453,513**	**128,555**	**502**	**80,782**	**26,783**	**690,135**
A4 - BB2	Relatively high	**-**	**40,809**	**257,110**	**1,015**	**245,693**	**-**	**544,627**
B1 - C	Very high	**-**	**-**	**-**	**4**	**44,535**	**-**	**44,539**
D	Default	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		255,566	**506,374**	**423,548**	**1,683**	**664,168**	**26,783**	**1,878,122**

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

31 December 2018

Internal rating grade	*Internal risk rating description*	*Cash and balances with the UAE Central bank AED'000*	*Contingencies and commitments AED'000*	*Due from banks AED'000*	*Interest AED'000*	*Loans and advances AED'000*	*Due from related parties AED'000*	*Total AED'000*
AAA1- AAA4	Very low	452,026	-	15,897	764	-	23,821	492,508
AAA5 - AAA7	Low	-	96,416	7,953	-	62,076	-	166,445
AA1 - AA3	relatively low	-	40,952	-	-	13,355	-	54,307
A1 - A3	Medium	-	301,336	-	2,624	340,504	-	644,464
A4 - BB2	Relatively high	-	-	275,475	-	10,284	-	285,759
B1 - C	Very high	-	-	-	-	73,460	-	73,460
D	Default	-	-	-	-	-	-	-
		452,026	438,704	299,325	3,388	499,679	23,821	1,716,943

23 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk

The Branch takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. Market risk consists of price risk, currency risk and interest rate risk.

The Assets Liability Committee ("ALCO") is responsible for formalising the Branch's key financial indicators and ratios, set the thresholds to manage and monitor market risk and also analyse the sensitivity of the Branch's interest rate and maturity mis-matches. ALCO also guides the Branch's investment decisions and provides guidance in terms of interest rate and currency movements.

B.1 Price risk

Price risk is the risk that the value of the entity's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rates or foreign currency movements. The price risk arises primarily from uncertainty about the future price of financial instruments that the entity holds. The Branch does not hold significant financial instruments whose value is affected by changes in market prices and, therefore the Branch is not exposed to price risk.

B.2 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 Branch takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Head Office sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Branch's exposure to foreign currency risk. Included in the table are the Branch's financial instruments at carrying amounts, categorised by currency before provisions.

USD is the major foreign currency. Since AED is pegged to USD there is no effect on net profit and all other net currency exposures are not significant. At 31 December 2019 and 31 December 2018, the Branch had the following net currency exposures. As the Branch's functional currency is AED, the Branch is not exposed to any currency risk on its exposures to AED.

23 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B.2 Currency risk (continued)

31 December 2019	***AED AED'000 (equivalent)***	***US$ AED'000 (equivalent)***	***HKD AED'000 (equivalent)***	***CNY AED'000 (equivalent)***	***EUR AED'000 (equivalent)***	***Total AED'000 (equivalent)***
Assets						
Cash and balances with the Central Bank of UAE	**207,594**	**47,972**	**-**	**-**	**-**	**255,566**
Due from banks	**-**	**423,548**	**-**	**-**	**-**	**423,548**
Due from related parties	**26,783**	**-**	**-**	**-**	**-**	**26,783**
Loans and advances	**46,269**	**544,299**	**-**	**73,600**	**-**	**664,168**
Other assets excluding prepayments	**478**	**1,499**	**-**	**-**	**-**	**1,977**
Total financial assets	**281,124**	**1,017,318**	**-**	**73,600**	**-**	**1,372,042**
Liabilities						
Customer deposits	**235,284**	**89,778**	**-**	**5,541**	**-**	**330,603**
Due to related parties	**112,785**	**455,452**	**-**	**64,691**	**-**	**632,928**
Due to banks	**1,517**	**3**	**-**	**-**	**-**	**1,520**
Other liabilities excluding deferred income	**8,292**	**6,137**	**-**	**26**	**-**	**14,455**
Total financial liabilities	**357,878**	**551,370**	**-**	**70,258**	**-**	**979,506**
Net position	**(76,754)**	**465,948**	**-**	**3,342**	**-**	**392,536**

31 December 2018	*AED AED'000 (equivalent)*	*US$ AED'000 (equivalent)*	*HKD AED'000 (equivalent)*	*CNY AED'000 (equivalent)*	*EUR AED'000 (equivalent)*	*Total AED'000 (equivalent)*
Assets						
Cash and balances with the Central Bank of UAE	425,388	26,638	-	-	-	452,026
Due from banks	-	299,204	-	-	-	299,204
Due from related parties	-	5,749	43	16,752	1,277	23,821
Loans and advances	27,862	456,061	-	13,347	-	497,270
Other assets excluding prepayments	2,479	776	-	337	-	3,592
Total financial assets	455,729	788,428	43	30,436	1,277	1,275,913
Liabilities						
Customer deposits	21,994	253,440	-	10,954	1,313	287,701
Due to related parties	50,215	495,842	-	13,351	-	559,408
Due to banks	5,085	36,725	-	-	-	41,810
Other liabilities excluding deferred income	5,935	3,947	-	-	-	9,882
Total financial liabilities	83,229	789,954	-	24,305	1,313	898,801
Net position	372,500	(1,526)	43	6,131	(36)	377,112

23 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B3. Interest rate risk

The table below summarises the average interest rate on the outstanding interest bearing balances by major currencies for monetary financial instruments:

At 31 December 2019	***AED***	***CNY***	***US$***	***EUR***	***HKD***
	%	***%***	***%***	***%***	***%***
Assets					
Due from banks	**-**	**-**	**2.36**	**-**	**-**
Due from related parties	**-**	**-**	**-**	**-**	**-**
Loans and advances	**2.82**	**2.93**	**2.65**	**-**	**-**
Liabilities					
Due to banks	**-**	**-**	**-**	**-**	**-**
Due to related parties	**-**	**2.60**	**3.27**	**-**	**-**
Customer deposits	**-**	**3.25**	**1.23**	**-**	**-**

At 31 December 2018	*AED*	*CNY*	*USD*	*EUR*	*HKD*
	%	*%*	*%*	*%*	*%*
Assets					
Due from banks	-	-	3.12	-	-
Due from related parties	-	-	-	-	-
Loans and advances	7.17	4.75	4.28	-	-
Liabilities					
Due to banks	-	-	3.20	-	-
Due to related parties	-	4.60	3.27	-	-
Customer deposits	-	3.25	2.15	-	-

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Branch assumes a fluctuation in interest rates of 100 basis points (bps) as being reasonable and estimates the following impact on the results and equity for the year:

	Interest income AED'000	***Interest expense AED'000***
At 31 December 2019		
Fluctuation of 100 bps	**9,125**	**6,211**

	Interest income AED'000	*Interest expense AED'000*
At 31 December 2018		
Fluctuation of 100 bps	8,683	7,819

The above sensitivity analysis does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Branch takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The ALCO sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by the treasury function.

23 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B3. Interest rate risk (continued)

The table below summarises the Branch's exposure to interest rate risks. It includes the Branch's financial instruments at gross carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

2019

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year up to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing AED'000*	*Total AED'000*
Assets:						
Cash and balances with Central Bank of UAE	-	-	-	-	255,566	255,566
Due from banks	385,665	-	-	-	37,883	423,548
Due from related parties	-	-	-	-	26,783	26,783
Loans and advances, gross	596,529	67,639	-	-	-	664,168
Other assets excluding prepayments	989	694	-	-	294	1,977
Total	983,183	68,333	-	-	320,526	1,372,042
Liabilities:						
Customer deposits	-	26,701	-	-	303,902	330,603
Due to related parties	491,466	110,190	-	-	31,272	632,928
Due to banks	-	-	-	-	1,520	1,520
Other liabilities excluding deferred income	26	935	-	-	13,494	14,455
Total	491,492	137,826	-	-	350,188	979,506
Interest rate sensitivity gap	491,691	(69,493)	-	-	(29,662)	392,536

23 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B3. Interest rate risk (continued)

2018

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year up to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing AED'000*	*Total AED'000*
Assets:						
Cash and balances with Central Bank of UAE	-	-	-	-	452,026	452,026
Due from banks	275,475	-	-	-	23,850	299,325
Due from related parties	-	-	-	-	23,821	23,821
Loans and advances, gross	499,679	-	-	-	-	499,679
Other assets excluding prepayments	-	-	-	-	8,592	8,592
Total	775,154	-	-	-	508,289	1,283,443
Liabilities:						
Customer deposits	61,077	44,076	-	-	182,548	287,701
Due to related parties	472,480	36,730	-	-	50,198	559,408
Due to banks	36,730	-	-	-	5,080	41,810
Other liabilities excluding deferred income	-	-	-	-	7,774	7,774
Total	570,287	80,806	-	-	245,600	896,693
Interest rate sensitivity gap	204,867	(80,806)	-	-	262,689	386,750

23 FINANCIAL RISK MANAGEMENT (continued)

B4. 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 Branch has "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 Branch anticipates that IBOR reform will have "limited" operational, risk management and accounting impacts across all of its business lines. The Branch plans to perform a detailed assessment during 2020.

C. Liquidity risk

Liquidity risk is the risk that the Branch will not be able to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Branch manages its liquidity in accordance with the Central Bank of UAE's requirements and the Branch's internal guidelines mandated by ALCO. The Central Bank of UAE has reserve requirements on deposits ranging between 1% and 14% on demand and time deposits. The Central Bank of UAE also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of UAE. ALCO monitors liquidity ratios on a regular basis and for covering the risk of any mismatch in liquidity, Head Office funding is available to the Branch.

The table below presents the cash flows payable by the Branch under non-derivative financial instruments by remaining contractual maturity at the statement of financial position date. The amounts disclosed in the table are the contractual discounted cash flows.

Financial liabilities ***31 December 2019***	***On demand AED'000***	***Less than 3 months AED'000***	***3 to 12 months AED'000***	***1 to 5 years AED'000***	***Over 5 years AED'000***	***Total AED'000***
Customer deposits	**303,902**	**-**	**26,701**	**-**	**-**	**330,603**
Due to related parties	**31,272**	**491,466**	**110,190**	**-**	**-**	**632,928**
Due to banks	**1,520**	**-**	**-**	**-**	**-**	**1,520**
Other liabilities excluding deferred income	**13,494**	**26**	**935**	**-**	**-**	**14,455**
Total discounted financial liabilities	**350,188**	**491,492**	**137,826**	**-**	**-**	**979,506**

Financial liabilities *31 December 2018*	*On demand AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
Customer deposits	144,900	93,925	48,876	-	-	287,701
Due to related parties	50,198	380,655	36,730	91,825	-	559,408
Due to banks	5,080	36,730	-	-	-	41,810
Other liabilities excluding deferred income	8,189	1,693	-	-	-	9,882
Total discounted financial liabilities	208,367	513,003	85,606	91,825	-	898,801

23 FINANCIAL RISK MANAGEMENT (continued)

C. Liquidity risk (continued)

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

As at 31 December 2019

	Carrying Amount AED'000	*Gross nominal outflows AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*
Financial liabilities					
Customer deposits	**397,355**	**397,355**	**362,740**	**34,615**	**-**
Due to related parties	**1,525,648**	**1,525,648**	**1,370,629**	**155,019**	**-**
Due to banks	**1,520**	**1,520**	**1,520**	**-**	**-**
	1,924,523	**1,924,523**	**1,734,889**	**189,634**	**-**
Guarantees and acceptances	**348,841**	**348,841**	**96,220**	**97,976**	**154,645**
Irrevocable financing commitments	**157,531**	**157,531**	**8,731**	**99,477**	**49,323**

As at 31 December 2018

	Carrying Amount AED'000	*Gross nominal outflows AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*
Financial liabilities					
Customer Deposits	288,446	288,446	238,825	49,621	-
Due to related parties	560,357	560,357	431,802	36,730	91,825
Due to banks	41,810	41,810	41,810	-	-
	890,613	890,613	712,437	86,351	91,825
Guarantees and acceptances	319,884	319,884	99,922	46,387	173,575
Irrevocable financing Commitments	118,820	118,820	-	26,995	91,825

D. Prepayment risk

Prepayment risk is the risk that the Branch will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected such as fixed rate loans and advances when interest rates fall. Majority of the Branch's interests bearing financial assets are at floating rates.

E. Operational risk

Operational risk is the risk of loss caused by failures in operational processes, people, fraud, external events and system failures that supports operational processes. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Branch cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Branch is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Branch manages this risk by setting policies and procedures, which are approved by the Head Office and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Branch. The Branch manages operational risk through the Risk Management Division of the Branch and the guidance of Head Office.

23 FINANCIAL RISK MANAGEMENT (continued)

F. Capital management

The Central Bank of UAE sets and monitors capital requirements for the Branch.

The Branch's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes allocated capital, statutory reserve and retained earnings, after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes qualifying subordinated liabilities.

During the year ended 31 December 2019 and 2018, the Branch complied in full with the capital requirements. All banks operating in UAE are required to maintain a minimum capital adequacy of 12%.

There have been no material changes in the Branch's management of capital during the year.

	Basel III	*Basel III*
	2019 AED 000	*2018 AED 000*
Tier 1 capital		
Allocated capital	**367,200**	367,200
Statutory reserves	**4,002**	2,684
Retained earnings	**11,428**	1,917
Total	**382,630**	371,801
Tier 2 capital		
Collective impairment provision	**9,439**	8,855
Total capital base	**392,069**	380,656
Regulatory adjustments		
Goodwill and other intangibles	**(29)**	(46)
Total capital base	**392,040**	380,610
Risk-weighted assets		
Credit risk	**755,097**	590,316
Market risk	**192**	90
Operational risk	**36,562**	23,849
Total risk-weighted assets	**791,851**	614,255
Capital adequacy ratio (%)	**49.50%**	61.97%

Capital Ratio:

Total regulatory capital as a percentage of total risk weight assets	**49.50%**	61.97%
Total Tier I regulatory capital as a percentage of total risk weight assets	**48.32%**	60.53%

23 FINANCIAL RISK MANAGEMENT (continued)

F. Capital management (continued)

Minimum capital required under each of the above items including capital conversion buffer ("CCB") is as below:

Capital element	***2019***	*2018*
Minimum Common Tier I (CET 1) ratio	**7%**	7%
Minimum tier 1 capital ratio	**8.5%**	8.5%
Minimumcapital adequacy ratio	**10.5%**	10.5%
CCB	**2.5%**	1.875%

The Branch has complied with all the requirements as set by the Central Bank of UAE in respect of capital adequacy as at the reporting date.

24 CASH AND CASH EQUIVALENTS

	2019 ***AED 000***	*2018* *AED 000*
Current account with Central Bank of UAE	**203,305**	421,138
Due from banks (Note 10)	**37,883**	23,850
Due from related parties (Note 21)	**26,783**	23,821
	267,971	468,809

For the purposes of the statement of cash flows, cash and cash equivalents includes balances with banks and placements with the Central Bank of UAE, and with other financial institutions with original maturities of three months or less, excluding statutory deposits required to be maintained with the Central Bank of UAE.

25 SUBSEQUENT EVENTS

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging 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 may negatively impact future financial results, cash flows and financial condition due to the following:

- if employees are quarantined as the result of exposure to COVID 19, this could result in disruption of operations, supply chain delays, trade restrictions and impact on economic activity;
- similarly, travel restrictions or operational issues resulting from the rapid spread of COVID 19 may have a material adverse effect on our business and results of operations;
- continued decline in oil prices could have an impact, including reduced government spending, in the primary economies in which we operate in.