BANK OF CHINA LTD.
(ABU DHABI BRANCH)

FINANCIAL STATEMENTS

31 DECEMBER 2020

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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 2020, and the statement of comprehensive income, statement of changes in head office 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 2020 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 Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Emphasis of matter

We draw attention to note 1 and note 17 to the financial statements which describe that subsequent to the approval of the financial statements on 30 March 2021, management withdrew the financial statements for the year ended 31 December 2020 and have reissued the financial statements. In the accompanying financial statements, management have made updates to include the impact of deferred tax assets. This has resulted in an update in the statement of financial position, statement of comprehensive income, statement of changes in head office equity and note 17 to the financial statements for the year ended 31 December 2020. Consequently, the previously issued financial statements of the Branch for the year ended 31 December 2020 dated 30 March 2021 have been withdrawn and replaced by these financial statements. Our audit report issued earlier on 30 March 2021, which was qualified with regard to the unadjusted difference relating to the deferred tax assets, has been withdrawn and replaced by this report.

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, as amended, and the UAE Federal Law No. (14) of 2018, 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.

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 skepticism 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.

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

For Ernst & Young

Signed by:
Ashraf Abu Sharkh
Partner
Registration No. 690

20 April 2021

Abu Dhabi, United Arab Emirates

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Notes	***2020*** ***AED'000***	*2019* *AED'000*
ASSETS			
Cash and balances with the Central Bank of UAE	9	**201,276**	255,566
Due from banks	10	**786,747**	423,391
Due from related parties	21	**14,522**	26,783
Loans and advances, net	11	**459,407**	662,148
Other assets	12	**1,864**	1,977
Property, equipment and right of use assets	13	**4,217**	6,001
Intangible assets	14	**10**	29
Deferred tax asset	17	**3,219**	-
TOTAL ASSETS		**1,471,262**	1,375,895
LIABILITIES AND EQUITY			
Liabilities			
Customer deposits	15	**378,153**	330,603
Due to related parties	21	**692,687**	632,928
Due to banks and other financial institutions	10	**1,554**	1,520
Other liabilities	16	**7,940**	15,268
Total liabilities		**1,080,334**	980,319
Equity			
Allocated capital	19	**367,200**	367,200
Statutory reserve	19	**4,002**	4,002
Credit risk reserve	23	**12,946**	12,946
Retained earnings		**6,780**	11,428
Total equity		**390,928**	395,576
TOTAL LIABILITIES AND EQUITY		**1,471,262**	1,375,895

Gao Xiaoming
General Manager

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	***2020 AED'000***	*2019 AED'000*
Interest income	5	**22,570**	39,191
Interest expense	6	**(6,822)**	(14,258)
Net interest income		**15,748**	24,933
Net fees and commission income	7	**2,426**	2,427
Net foreign exchange income		**1,076**	705
Trading gain on derivative financial instruments		**1,053**	-
Net operating income		**20,303**	28,065
General and administrative expenses	8	**(12,741)**	(12,028)
Profit for the year before provisions		**7,562**	16,037
(Provision for) / net reversal of expected credit losses	10, 11	**(13,917)**	353
(LOSS)/ PROFIT FOR THE YEAR BEFORE TAX		**(6,355)**	16,390
Income tax credit (expense)	17	**1,707**	(3,208)
(LOSS)/ PROFIT FOR THE YEAR		**(4,648)**	13,182
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		**(4,648)**	13,182

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF CHANGES IN HEAD OFFICE EQUITY

For the year ended 31 December 2020

	Allocated capital AED'000	*Statutory reserve AED'000*	*Credit risk reserve AED'000*	*Retained earnings AED'000*	*Total AED'000*
At 1 January 2019	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
Total comprehensive loss for the year	-	-	-	(4,648)	(4,648)
At 31 December 2020	**367,200**	**4,002**	**12,946**	**6,780**	**390,928**

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	***2020 AED'000***	*2019 AED'000*
OPERATING ACTIVITIES			
(Loss)/profit for the year before taxation		**(6,355)**	16,390
Adjustments for:			
Depreciation and amortization	13, 14	**1,270**	1,279
Depreciation on right of use assets	13	**566**	566
(Provision for) / net reversal of expected credit losses	10, 11	**13,917**	(353)
Finance cost		**27**	139
Operating cash flows before changes in working capital		**9,425**	18,021
Changes in working capital:			
Cash reserve requirement with Central Bank of UAE		**29,470**	(21,373)
Due from banks		**(411,376)**	91,825
Loans and advances		**188,825**	(164,525)
Other assets		**113**	1,919
Customer deposits		**47,550**	42,902
Due to banks		**(1,517)**	(35,219)
Due to related parties		**(20,569)**	(123,154)
Other liabilities		**(8,074)**	1,536
Net cash used in operating activities		**(166,153)**	(188,068)
INVESTING ACTIVITY			
Payment for purchase of property and equipment and intangibles	13	**(35)**	(180)
Net cash used in investing activity		**(35)**	(180)
FINANCING ACTIVITY			
Lease payments	16	**(577)**	(549)
Net cash used in financing activity		**(577)**	(549)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(166,765)**	(188,797)
Cash and cash equivalents, beginning of year		**41,084**	229,881
CASH AND CASH EQUIVALENTS, END OF YEAR	24	**(125,681)**	41,084

The attached notes 1 to 25 form part of these financial statements.

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 46^{th} floor, Al Reem Island, Abu Dhabi, UAE.

UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Branch came into effect from 1 July 2015. In addition, the Federal Law No. (14) of 2018 – Regarding the Central Bank & Organization of Financial Institutions and Activities ("Banking Law") which is applicable to the Branch came into effect on 23 September 2018. The Branch has assessed, evaluated relevant provisions of the Companies Law and the Banking Law and ensured compliance with the applicable provisions of relevant law.

These financial statements represent the financial position and results of the Branch in the United Arab Emirates. The Branch is not a separate legal entity but meets the definition of a reporting entity under IFRS under the Conceptual Framework for IFRS. IFRS defines a reporting entity as an entity that is required, or chooses, to prepare financial statements.

All the operating activities of the Branch are clearly defined and separately managed from the other businesses of the Head Office and accounting records are maintained on this basis. The assets of the Branch are used solely by the Branch and are registered in the name of the Branch. The liabilities relate to the activities of the Branch.

It is important to note whilst the reporting boundary is defined above, the assets and liabilities presented within the reporting boundary remain the assets and liabilities of the Head Office and are not legally separable from the Head Offices' other assets and liabilities. As such legally, the assets of the reporting entity may be available to the other claims of the Head Office.

These financial statements of the Branch were approved for issuance on 20 April 2021.

Reissuance of financial statements
Subsequent to the approval of the financial statements on 30 March 2021, management have withdrawn the financial statements for the year ended 31 December 2020 and have reissued these financial statements. In these financial statements, management have made updates to consider the impact of deferred tax assets in the statement of financial position, statement of comprehensive income, statement of changes in head office equity and note 17 to these financial statements. Consequently, the previously issued financial statements of the Branch for the year ended 31 December 2020 dated 30 March 2021 have been withdrawn and replaced by these financial statements.

The following table summarizes the adjustments to amounts previously reported in the financial statements as at and for the year ended 31 December 2020 which was issued on 30 March 2020:

31 December 2020

	Previously reported AED'000	*Adjustment AED'000*	*Adjusted balance AED'000*
Statement of financial position			
Deferred tax assets (Note 17)	-	3,219	3,219
Retained earnings	3,561	3,219	6,780
Statement of comprehensive income			
Income tax expense (Note 17)	(1,512)	3,219	1,707
Total comprehensive loss for the year	(7,867)	3,219	(4,648)

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 CBUAE.

The COVID-19 pandemic has resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE have announced measures to provide both financial and nonfinancial assistance to the affected entities. The pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities with details covered in note 23 of these financial statements.

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 2020. The nature and the impact of each such relevant standard and amendment is described below:

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 did not have any significant impact on the Branch's financial statements.

IBOR reform Phase 1 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.

IBOR reform Phase 1 provides reliefs which require the Branch to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Branch to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. IBOR Reform Phase 1 also requires additional disclosures in relation to those hedging relationships to which the reliefs are applied.

The Branch has concluded that the uncertainty arising from IBOR reform currently did not have a significant impact on an overall basis for the year ended 31 December 2020.

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.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (effective date: 1 January 2022)
As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Branch will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in any material impact on its financial statements.

IBOR reform Phase 2 (effective date: 1 January 2021)
In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. Some of these reliefs allow the Branch to amend hedge designations and hedge documentation (if applicable). The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Branch will apply IBOR reform Phase 2 from 1 January 2021.

4.3 SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

IFRS 9: Financial Instruments

Initial measurement and recognition of financial assets and financial liabilities
A financial asset or a financial liability is recognised when the Branch becomes a party to the contractual provisions of the instrument. 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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 financial assets 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.

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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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

The SPPI test (continued)
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, loans and advances and other assets 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.

Fair Value Through Profit and Loss (FVTPL)(continued)
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.

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.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Branch benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. The Branch has no such instruments currently.

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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Derecognition of financial assets and financial liabilities

Derecognition due to substantial modification of terms and conditions
If the terms of a financial asset are modified, the 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.

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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial assets
The Branch recognises expected credit losses (ECL) for cash and balances with the central bank, loans and advances, other assets 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.

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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

The calculation of ECLs

Undrawn loan commitments
When estimating lifetime 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.

Revolving facilities
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.

Guarantees
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.

Regulatory guidelines
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.

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.

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 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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

The calculation of ECLs (continued)

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.

Guarantees held are included in the measurement of loan ECL when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended. Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL.

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. This, however, is subject to the regulatory requirements as per CBUAE. 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.

Offsetting
Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Branch has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting arrangements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Property and equipment and right of use assets
Property and equipment and right-of-use assets 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	5	0%
Motor vehicles	6	3%
Computer and accessories	3	3%

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.

The Branch also 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.

Revenue recognition
Interest income
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. The previously unrecognised interest income of a cured but previously impaired financial asset will be recognised as a reversal of impairment loss. Interest income and expenses for all interest-bearing financial instruments are recognised within the statement of comprehensive income.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)
Fee and commission 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.

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.

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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Branch operates and generates taxable income.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
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.

The Branch only off-sets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Branch’s intention to settle on a net basis.

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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases
The Branch applies 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 recognises lease liability to make lease payments and right-of-use assets representing the right to use the underlying assets.

Below are the accounting policies of the Branch in relation to leases where the Branch is the lessee:

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

Short-term leases and leases of low-value assets
The 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).

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:

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and judgements (continued)

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

- 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.

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).

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 (Branch as a lessee)
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.

4.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and judgements (continued)

Determination of the lease term for lease contracts with renewal and termination options (Branch as a lessee) (continued)
The Branch has one lease contract that includes 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).

Going concern
The Branch's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Branch's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5 INTEREST INCOME

	2020 AED'000	*2019 AED'000*
Loans and advances	**15,629**	25,521
Due from related parties (Note 21)	**207**	266
Due from banks	**6,734**	13,404
	22,570	39,191

6 INTEREST EXPENSE

	2020 AED'000	*2019 AED'000*
Due to related parties (Note 21)	**3,069**	12,903
Customer deposits	**3,699**	1,013
Due to banks	**54**	342
	6,822	14,258

7 NET FEE AND COMMISSION INCOME

	2020 AED'000	*2019 AED'000*
Fee and commission income	**2,568**	2,568
Fee and commission expense	**(142)**	(141)
Net	**2,426**	2,427

8 GENERAL AND ADMINISTRATIVE EXPENSES

	2020	*2019*
	AED'000	*AED'000*
Staff costs	**7,891**	7,361
Rental expenses	**201**	-
Advertising and business promotion expenses	**24**	330
Communication expenses	**433**	475
Depreciation and amortization (Note 13, Note 14)	**1,836**	1,845
Repairs and maintenance	**635**	490
Travelling expenses	**48**	113
Legal and professional fees	**1,182**	515
Other expenses	**491**	899
	12,741	12,028

9 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE

	2020	*2019*
	AED'000	*AED'000*
Balances with the Central Bank of UAE:		
Current account	**178,485**	203,305
Cash reserve requirement	**22,791**	52,261
	201,276	255,566

The reserve requirements, which were previously kept with CBUAE in AED and USD in accordance with Circular No. 21/99, were computed as 14% of demand deposits plus 1% of time deposits. These reserve amounts were not available for use in the Branch's day to day operations and could not be withdrawn without CBUAE's approval. The level of reserve required used to be updated on a monthly basis in accordance with the CBUAE directives.

On 6 April 2020 via Notice No. 1759/2020, CBUAE revised its computation of reserves to be 7% of demand deposits plus 1% of time deposits to be maintained in AED with reserves denominated in foreign currency to be converted into AED using the FX midpoint rate as published by CBUAE. Effective 28 October 2020 via Notice No. CBUAE/MMD/2020/4690, CBUAE requires that this reserve should be updated on a fortnightly basis and also allowed licensed institutions to draw on the reserve balances held with the CBUAE on any day up to 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that they meet the daily average requirements over the 14-day reserve maintenance period.

The reserve requirement as at 31 December 2020 amounted to AED 22,791 thousand (2019: AED 52,261 thousand). In accordance with the revised regulations effective from October 2020, the end of day balance in the current/clearing account maintained with CBUAE is swept to the Reserve account on a daily basis.

Balances with the CBUAE are in stage 1 throughout the year and therefore have insignificant ECL.

10 DUE FROM/TO BANKS

	2020 AED'000	2019 AED'000
Due from banks comprise:		
Current account with other banks	**52,329**	37,883
Deposits with banks	**734,600**	385,665
Less: Expected credit loss (10.1)	**(182)**	(157)
	786,747	423,391
Due to banks comprise:		
Term deposits	**-**	1,517
Demand and call deposits	**1,554**	3
	1,554	1,520

Amounts due from banks are in stage 1 throughout the year.

10.1 Movement of expected credit loss are as follows:

	2020 AED'000	2019 AED'000
Balance at 1 January	**157**	121
Provided during the year	**25**	36
Balance at 31 December	**182**	157

11 LOANS AND ADVANCES

	2020 AED'000	2019 AED'000
Loans and advances (11.1)	**475,319**	664,168
Expected credit losses against loans and advances – ECL (11.2)	**(15,912)**	(2,020)
Loans and advances, net	**459,407**	662,148

11.1 Analysis of loans and advances

	2020 AED'000	2019 AED'000
Trade finance - bills discounting	**83,634**	144,226
Syndicated loans	**299,860**	357,871
Bilateral loans	**91,825**	162,071
Balance at 31 December	**475,319**	664,168

11 LOANS AND ADVANCES (continued)

11.2 Movement of provision for credit losses are as follows:

	2020 ***AED'000***	*2019* *AED'000*
Balance at 1 January	**2,020**	2,409
Provision / (net reversal) during the year	**13,892**	(389)
Balance at 31 December	**15,912**	2,020

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 2020 (2019: 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 gross balances included under each stage classification is as follows:

In AED 000	***2020***			
Grades	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Performing*				
Normal grade (AAA1 – A3)	**421,398**	**-**	**-**	**421,398**
Watchlist grade (A4 – C)	**-**	**53,921**	**-**	**53,921**
Non-performing*				
Sub-standard grade (D)	**-**	**-**	**-**	**-**
Doubtful grade (D)	**-**	**-**	**-**	**-**
Loss grade (D)	**-**	**-**	**-**	**-**
Total	**421,398**	**53,921**	**-**	**475,319**

In AED 000	*2019*			
Grades	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing*				
Normal grade (AAA1 – A3)	617,899	-	-	617,899
Watchlist grade (A4 – C)	46,269	-	-	46,269
Non-performing*				
Sub-standard grade (D)	-	-	-	-
Doubtful grade (D)	-	-	-	-
Loss grade (D)	-	-	-	-
Total	664,168	-	-	664,168

11 LOANS AND ADVANCES (continued)

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

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

In AED 000	***2020***			
Grades	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Performing*				
Normal grade (AAA1 – A3)	**2,303**	**-**	**-**	**2,303**
Watchlist grade (A4 – C)	**-**	**13,609**	**-**	**13,609**
Non-performing*				
Sub-standard grade (D)	-	-	-	-
Doubtful grade (D)	-	-	-	-
Loss grade (D)	-	-	-	-
Total	**2,303**	**13,609**	**-**	**15,912**

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

* 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:

	2020			
In AED 000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount as at 1 January 2020	**664,168**	-	-	**664,168**
New assets originated	**551,233**	**7,651**	-	**558,884**
Assets derecognised or repaid (excluding write offs)	**(747,733)**	-	-	**(747,733)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	**(46,269)**	**46,269**	-	-
Transfers to Stage 3	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2020	**421,399**	**53,920**	-	**475,319**

11 LOANS AND ADVANCES (continued)

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

Impairment allowance for loans and advances (continued)

	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

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

	2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
ECL allowance as at 1 January 2020	**2,020**	**-**	**-**	**2,020**
Additional ECL during the year	**464**	**13,428**	**-**	**13,892**
At 31 December 2020	**2,484**	**13,428**	**-**	**15,912**

	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

11 LOANS AND ADVANCES (continued)

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

Impairment allowance for loans and advances (continued)

Economic sector risk concentration for the loans and advances:

	2020 AED'000	*2019 AED'000*
Banks and other financial institutions	**83,634**	144,226
Mining and quarrying	**91,825**	191,455
Electricity, water, gas and health services	**79,337**	110,269
Construction	**53,920**	130,442
Transportation and communication	**111,508**	62,065
Agriculture	**55,095**	-
Services	**-**	25,711
Total	**475,319**	664,168

11.3 Modified and renegotiated loans

There were no modified or renegotiated loans as at 31 December 2020 (2019: nil).

11.4 Ageing for stage 2 loans

The Branch has one loan included in stage 2 and there are no days past due on that exposure as at 31 December 2020 (2019: nil).

12 OTHER ASSETS

	2020 AED'000	*2019 AED'000*
Interest receivable	**750**	1,683
Others*	**1,114**	294
	1,864	1,977

* Others include positive fair value of derivatives of AED 127 thousand (2019: AED 10 thousand), refer note 18 below.

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 2019	411	409	1,118	5,557	2,545	174	10,214
Additions during the year	3	-	3	-	-	29	35
Disposals during the year	(68)	-	(15)	-	-	(5)	(88)
At 31 December 2020	**346**	**409**	**1,106**	**5,557**	**2,545**	**198**	**10,161**
Accumulated depreciation:							
At 31 December 2019	(282)	(171)	(515)	(2,613)	(566)	(66)	(4,213)
Charge for the year	(37)	(64)	(278)	(841)	(566)	(31)	(1,817)
Disposals during the year	66	-	15	-	-	5	86
At 31 December 2020	**(253)**	**(235)**	**(778)**	**(3,454)**	**(1,132)**	**(92)**	**(5,944)**
Net carrying amount:							
At 31 December 2020	**93**	**174**	**328**	**2,103**	**1,413**	**106**	**4,217**
At 31 December 2019	129	238	603	2,944	1,979	108	6,001

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 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

14 INTANGIBLE ASSETS

Computer software	***2020*** ***AED'000***	*2019* *AED'000*
Cost:		
At 1 January	**362**	346
Additions	**-**	16
At 31 December	**362**	362
Accumulated amortisation:		
As at 1 January	**(333)**	(300)
Charge for the year	**(19)**	(33)
At 31 December	**(352)**	(333)
Net carrying amount:		
At 31 December	**10**	29

15 CUSTOMER DEPOSITS

	2020 ***AED'000***	*2019* *AED'000*
Current accounts	**230,867**	298,800
Term deposits	**147,286**	31,803
	378,153	330,603

At 31 December 2020, term deposits amounting to AED 10,353 thousand (2019: AED 11,542 thousand) were held as cash collateral for facilities granted to customers.

16 OTHER LIABILITIES

	2020 ***AED'000***	*2019* *AED'000*
Inward remittances	**-**	5,201
Deferred fee income	**816**	813
Interest expense payable	**880**	960
Employee cost accruals	**2,153**	2,621
Provision for tax (Note 17)	**1,512**	3,208
Other provisions and payables*	**2,579**	2,465
	7,940	15,268

* Other provisions and payables include lease liability of AED 1,297 thousand (2019: AED 1,847 thousand) recorded in accordance with IFRS 16. Refer note 16.1 below. In addition, other provisions and payables include negative fair value of derivatives of AED 14 thousand (2019: AED 35 thousand), refer note 18 below.

16 OTHER LIABILITIES (continued)

16.1 Lease liability as per IFRS 16

	2020	*2019*
	AED'000	*AED'000*
At 1 January	**1,847**	2,257
Payment during the year	**(577)**	(549)
Finance costs	**27**	139
At 31 December	**1,297**	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 2020 and 2019 are:

	2020	*2019*
	AED'000	*AED'000*
Current income tax	**1,512**	3,208
	1,512	3,208
Deferred tax		
Relating to taxable losses of the current year*	**(3,219)**	-
Income tax (credit) expense reported in the income statement	**(1,707)**	3,208

* As discussed in note 1, the amount includes the impact of deferred taxation in relation to IFRS 9 expected credit losses on stage 1 and stage 2 financial assets that was not considered in the financial statements that were previously issued on 30 March 2021.

The movement in the current taxation account is presented in the financial statements is as follows:

	2020	*2019*
	AED'000	*AED'000*
Opening balance	**3,208**	2,481
Current year charge	**1,512**	3,208
Tax paid	**(3,208)**	(2,481)
Closing balance	**1,512**	3,208
Balance Sheet – Income tax payable	**1,512**	3,208
Balance Sheet – Income tax receivable	**-**	-
Net current tax payable	**1,512**	3,208

17 TAXATION (continued)

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

	2020 ***AED'000***	*2019* *AED'000*
Accounting (loss)/ profit before tax	**(6,355)**	16,390
Expected tax charge at the applicable rate of 20%	**(1,271)**	3,278
Tax effect of non-deductible expenses	**(436)**	(70)
	(1,707)	3,208
Taxation charge for the year – current	**1,512**	3,208
Taxation charge for the year – deferred*	**(3,219)**	-
	(1,707)	3,208

* As discussed in note 1, the amount includes the impact of deferred taxation in relation to IFRS 9 expected credit losses on stage 1 and stage 2 financial assets that was not considered in the financial statements that were previously issued on 30 March 2021.

18 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Branch enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. During the current and prior year, the Branch entered into forward foreign exchange contracts.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

At 31 December 2020			***Notional amounts by term to maturity***		
	Positive fair value AED'000	***Negative fair value AED'000***	***Notional amount AED'000***	***Within 3 months AED'000***	***3-12 months AED'000***
Derivatives not designated as hedging instruments					
Forward foreign exchange contracts	**127**	**14**	**286,686**	**286,686**	**-**

18 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At 31 December 2019			*Notional amounts by term to maturity*		
	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount AED'000*	*Within 3 months AED'000*	*3-12 months AED'000*
Derivatives not designated as hedging instruments					
Forward foreign exchange contracts	10	35	520,004	520,004	-

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the income statement of the Branch. Over–the–counter derivatives may expose the Branch to the risks associated with the absence of an exchange market on which to close out an open position.

The Branch's exposure to derivative contracts is closely monitored as part of the overall management of its market risk.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Branch's best estimate of the most appropriate model inputs. Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. The Branch has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

19 ALLOCATED CAPITAL AND STATUTORY RESERVE

In accordance with the Decretal Federal Law No. (14) of 2018, allocated capital represents the amount of funds provided by the Head Office.

In accordance with the Decretal Federal Law No. (14) of 2018, 10% of the annual profit for the year is transferred to a statutory reserve until this reserve equals 50% of the allocated capital. No transfer to statutory reserve (2019: AED 1,318 thousand) has been made during the year due to loss incurred during the year. This reserve is not available for distribution, except under the circumstances stipulated by law.

20 CONTINGENCIES AND COMMITMENTS

	2020 AED'000	*2019 AED'000*
Letters of guarantee	**388,727**	344,443
Letter of credit	**1,534**	4,400
Undrawn credit commitments	**157,867**	157,531
Total	**548,128**	506,374

20 CONTINGENCIES AND COMMITMENTS (continued)

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

2020	***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	**95,137**	**293,590**	**-**	**388,727**
Letters of credit	**-**	**1,534**	**-**	**1,534**
Undrawn credit commitments	**21,966**	**135,901**	**-**	**157,867**
Total	**117,103**	**431,025**	**-**	**548,128**

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

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 carry a lower 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 115,542 thousand (2019: AED 149,088 thousand) incurred on behalf of other branches of the Head Office.

As at 31 December 2020, the gross balance of contingent liabilities in Stage 1 amounted to AED 548,128 thousand (2019: AED 506,734 thousand). The ECL for Stage 1 amounted to AED 651 thousand and is included under loans and advances (2019: AED 386 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

	2020	*2019*
	AED'000	*AED'000*
Interest income on deposits with related parties	**207**	266
Interest expense on deposits from related parties	**3,069**	12,903

Balances with related parties

	2020	*2019*
	AED'000	*AED'000*
Due from Related Parties		
Current account	**14,522**	26,783
(Less) Expected credit loss	**(75)**	-
	14,447	26,783

5 % (2019: 11%) of loans and advances which are neither past due nor impaired are fully secured by guarantees from the Head Office through its branches.

	2020	*2019*
	AED'000	*AED'000*
Due to Related Parties		
Term deposits	**661,320**	601,656
Current account	**31,367**	31,272
	692,687	632,928
Interest payable	**1**	866

Key management compensation:

	2020	*2019*
	AED'000	*AED'000*
Remuneration to key management personnel:		
Salaries and other benefits	**840**	821

The Branch does not anticipate significant additional credit losses on balances due from related parties.

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, loans and advances and 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 generally included under level 2 of the fair value hierarchy.

31 December 2020	***Level 1 AED 000***	***Level 2 AED 000***	***Level 3 AED 000***	***Total AED 000***
Derivatives not designated as hedging instruments				
Positive fair value of derivatives:				
Forward foreign exchange contracts	**-**	**127**	**-**	**127**
Negative fair value of derivatives:				
Forward foreign exchange contracts	**-**	**(14)**	**-**	**(14)**
	-	**113**	**-**	**113**

31 December 2019	*Level 1 AED 000*	*Level 2 AED 000*	*Level 3 AED 000*	*Total AED 000*
Derivatives not designated as hedging instruments				
Positive fair value of derivatives:				
Forward foreign exchange contracts	-	10	-	10
Negative fair value of derivatives:				
Forward foreign exchange contracts	-	(35)	-	(35)
	-	(25)	-	(25)

During the financial years ended 31 December 2020 and 2019, no financial instruments were transferred from level 1 to level 2 or vice-versa.

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.

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.

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; and
- 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.

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Definition of default (continued)
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

Significant increase in credit risk
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.

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.

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

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 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. 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 2020 (2019: 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.

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 2020 and 2019 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.

	2020 ***AED'000***	*2019* *AED'000*
Due from banks	**786,929**	423,548
Due from related parties	**14,522**	26,783
Loans and advances	**475,319**	664,168
Other assets (excluding prepayments)	**1,864**	1,977
	1,278,634	1,116,476
Contingencies and commitments (Note 20)	**548,128**	506,374

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

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 2020, of the total outstanding loans and advances, AED 475,319 thousand (31 December 2019: AED 664,168 thousand) were secured with a collateral value of AED 142,755 thousand (31 December 2019: AED 125,528 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 2020 and 2019. 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 2020	***United Arab Emirates AED'000***	***Asia AED'000***	***Others AED'000***	***Total AED'000***
Assets				
Due from banks	**-**	**102,844**	**684,085**	**786,929**
Due from related parties	**-**	**14,522**	**-**	**14,522**
Loans and advances	**194,813**	**133,587**	**146,919**	**475,319**
Other assets (excluding prepayments)	**1,739**	**-**	**125**	**1,864**
	196,552	**250,953**	**831,129**	**1,278,634**
Off balance sheet items*	**126,109**	**394,776**	**27,243**	**548,128**

* Off balance sheet items include letters of credit, letters of guarantees and undrawn commitments on loans and advances.

31 December 2019	*United Arab Emirates AED'000*	*Asia AED'000*	*Others AED'000*	*Total AED'000*
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 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 2020 and 2019.

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).

	On balance sheet items				
31 December 2020	***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	**91,825**	**-**	**91,825**	**145,349**	**237,174**
Electricity	**79,337**	**-**	**79,337**	**44,076**	**123,413**
Manufacturing	**-**	**-**	**-**	**2,339**	**2,339**
Construction	**53,920**	**-**	**53,920**	**6,534**	**60,454**
Telecommunication and transportation	**111,508**	**-**	**111,508**	**41,660**	**153,168**
Financial institutions	**83,634**	**801,451**	**885,085**	**308,120**	**1,193,205**
Agriculture	**55,095**	**-**	**55,095**	**-**	**55,095**
Services	**-**	**-**	**-**	**50**	**50**
	475,319	**801,451**	**1,276,770**	**548,128**	**1,824,898**

	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)

Gross credit exposures by residual contractual maturity

31 December 2020	***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	**786,929**	**-**	**-**	**-**	**786,929**
Due from related parties	**14,522**	**-**	**-**	**-**	**14,522**
Loans and advances	**348**	**230,511**	**138,400**	**106,060**	**475,319**
Total funded	**801,799**	**230,511**	**138,400**	**106,060**	**1,276,770**

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

Impairment Reserve Under the Central Bank of UAE Guidance

CBUAE issued its IFRS 9 guidance in March 2018 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

	2020 AED 000	*2019 AED 000*
General provision calculated based on 1.5% of CRWA	**11,943**	11,326
Additional general provision considered by the Branch	**17,132**	3,797
Total general provisions considered	**29,075**	15,123
Stage 1 and Stage 2 provisions under IFRS 9	**(16,129)**	(2,177)
General provision transferred to the credit risk reserve*	**12,946**	12,946

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Impairment Reserve: Specific

	2020	*2019*
	AED 000	*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**	12,946

**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 2020:

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 receivable AED'000*	*Loans and advances AED'000*	*Due from related parties AED'000*	*Total AED'000*
AAA1- AAA4	Very low	**201,276**	**10,328**	**-**	**-**	**-**	**-**	**211,604**
AAA5 - AAA7	Low	**-**	**232,255**	**-**	**33**	**230,554**	**-**	**462,842**
AA1 - AA3	Relatively low	**-**	**254,870**	**102,844**	**666**	**134,738**	**-**	**493,118**
A1 - A3	Medium	**-**	**50,586**	**631,756**	**44**	**56,107**	**14,522**	**753,015**
A4 - BB2	Relatively high	**-**	**89**	**52,329**	**7**	**53,920**	**-**	**106,345**
B1 - C	Very high	**-**	**-**	**-**	**-**	**-**	**-**	**-**
D	Default	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		201,276	**548,128**	**786,929**	**750**	**475,319**	**14,522**	**2,026,924**

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

31 December 2019

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	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)

Impact of COVID-19 and macroeconomic variables with respect to ECL
In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the world. In addition, the oil prices and financial markets have witnessed unprecedented volatility causing protracted progression and a challenging operating environment. This has resulted in disruption to business and economic activities in the global and domestic economies. The CBUAE and fiscal and monetary authorities across the world have announced various support measures to counter the possible adverse implications.

The Branch has been closely monitoring the situation and has successfully taken a number of measures ranging from reduced branch working hours to remote working and use of digital solutions to ensure continuity of customer services and precautionary measures to ensure health and safety of all stakeholders. The Branch has been proactively managing its liquidity and further strengthened its position to navigate through this uncertain environment with confidence. As at 31 December 2020, the Branch's advances to deposits ratio stood at 65.92%, NSFR at 133.76% and LCR at 43.43% (2019: advances to deposits ratio at 95.49%, NSFR at 117.59% and LCR at 54.74%)

The Management Risk Committee ('MRC') and Central Credit Committee ('CCC') of the Head Office and Executive Committee ('EC') and Asset Liability Committee ('ALCO') of the Branch ensures governance over all critical decisions and requirements of the IFRS 9 standard and the related guidance and notices issued by the regulator are complied with and monitored with the appropriate involvement of key stakeholders including Risk, Credit, Finance and the Business divisions. These include key technical accounting and risk methodology decisions, management overlays, inputs and assumptions used for the determination of ECL and macro-economic factors consideration.

Execution of principal decisions and results of reviews and monitoring are presented to the Board Audit Committee, Board Risk Committee and the Board, as the Branch is committed to upholding the highest corporate governance standards.

The Branch has considered the standards and joint guidance with respect to Targeted Economic Support Scheme (TESS) and the Treatment of IFRS 9 Expected Credit Loss Provisions in the UAE in the context of the COVID-19 crisis issued by the CBUAE during March and April 2020 respectively. Pursuant to these standards and the joint guidance, the Branch has not granted repayment holiday to any of its customers and has not offered payment deferral relief in the context of COVID-19 under the TESS scheme or otherwise. Management at the time of assessing significant increase in credit risk factors in the past and expected future performance of the customers benefitting from payment deferrals (if applicable). Had the Branch granted a repayment holiday or any payment deferral relief, the Branch would segregate its customers benefitting from payment deferrals (if applicable) into two groups as follows:

- Group 1 – customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues, caused by the COVID-19 crisis; and
- Group 2 – customers expected to be significantly impacted by the COVID-19 crises and are expected to face substantial deterioration in their creditworthiness triggering a migration to stage 2. In exceptional circumstances, stage 3 migration may have also been triggered where significant disruptions have threatened the long-term sustainability of the customers' business model causing the business to be permanently impaired.

The principal parameters for the grouping consideration included customers' account conduct, credit worthiness, economic sector, collateral, level of the COVID-19 impact, customers' supply chains and sales markets, severity of industry impacts and implications reflected in the operating performance, where available. The Branch has been diligently monitoring its credit risks and the detailed review of all portfolios was undertaken on these lines with the COVID-19 impacts cumulatively assessed and risk-matrixed to adequately protect the Branch from any adverse movements. The impact of the extension of loans and advances on account of COVID-19 would have been assessed and considered in accordance with the requisites of IFRS 9 for modification of the terms of the facilities.

23 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)
The uncertainties caused by COVID-19 have required the Branch to update the inputs and assumptions used for the determination of ECL. The Branch has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. The Branch has considered the potential impacts of the current market volatility in determination of the reported amounts of the Branch's financial and nonfinancial assets and these are considered to represent management's best assessment based on observable information.

Markets, however, remain volatile and the impacts remain sensitive to market fluctuations and the Branch will continue to monitor and reflect appropriately in ECL calculations. Therefore, actual results may be considerably different to the forecast. Since, the situation is rapidly changing and accordingly any downside scenarios will be reassessed if adverse conditions continue and the Branch will continue to reassess its position and the related impact on a regular basis.

With the heightened COVID-19 concerns and the related shocks being experienced throughout the world economies, the Branch, on an on-going basis reviews prudently the staging and grouping decisions to ensure accurate reflection of the Branch's assessment of these aspects at the reporting date.

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 results and all other net currency exposures are not significant. At 31 December 2020 and 31 December 2019, the Branch had the following net currency exposures.

23 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B.2 Currency risk (continued)

31 December 2020	***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	**201,276**	**-**	**-**	**-**	**-**	**201,276**
Due from banks	**-**	**786,929**	**-**	**-**	**-**	**786,929**
Due from related parties	**-**	**7,595**	**49**	**6,830**	**48**	**14,522**
Loans and advances	**53,921**	**421,398**	**-**	**-**	**-**	**475,319**
Other assets excluding prepayments	**996**	**868**	**-**	**-**	**-**	**1,864**
Deferred tax asset	**3,219**	**-**	**-**	**-**	**-**	**3,219**
Total financial assets	**259,412**	**1,216,790**	**49**	**6,830**	**48**	**1,483,129**
Liabilities						
Customer deposits	**76,083**	**260,851**	**-**	**41,188**	**31**	**378,153**
Due to related parties	**31,365**	**661,142**	**-**	**-**	**180**	**692,687**
Due to banks	**-**	**3**	**-**	**1,551**	**-**	**1,554**
Other liabilities excluding deferred income	**6,224**	**812**	**-**	**88**	**-**	**7,124**
Total financial liabilities	**113,672**	**922,808**	**-**	**42,827**	**211**	**1,079,518**
Net position	**145,740**	**293,982**	**49**	**(35,997)**	**(163)**	**403,611**

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

As at 31 December 2020, if the AED had strengthened/weakened by 10% (2019: 10%) against the CNY with all other variables held constant, the net result for the year of the Branch would have been higher/lower by AED 3,600 thousand (2019: AED 334 thousand) as a result of currency transaction gains/losses on the CNY denominated assets and liabilities.

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 2020	***AED***	***CNY***	***US$***	***EUR***	***HKD***
	%	***%***	***%***	***%***	***%***
Assets					
Due from banks	-	-	**0.41**	-	-
Due from related parties	-	-	-	-	-
Loans and advances	**4.87**	-	**1.59**	-	-
Liabilities					
Due to banks	-	-	-	-	-
Due to related parties	-	-	**0.02**	**(.30)**	-
Customer deposits		**2.73**	**1.28**		

At 31 December 2019	*AED*	*CNY*	*USD*	*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	-	-

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 2020		
Fluctuation of 100 bps	**11,172**	**10,281**

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

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 by repricing or maturity date. It includes the Branch's financial instruments at gross carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

2020

	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	**-**	**-**	**-**	**-**	**201,276**	**201,276**
Due from banks	**734,600**	**-**	**-**	**-**	**52,329**	**786,929**
Due from related parties	**-**	**-**	**-**	**-**	**14,522**	**14,522**
Loans and advances, gross	**392,034**	**83,285**	**-**	**-**	**-**	**475,319**
Other assets excluding prepayments	**-**	**750**	**-**	**-**	**1,114**	**1,864**
Total	**1,126,634**	**84,035**	**-**	**-**	**269,241**	**1,479,910**
Liabilities:						
Customer deposits	**131,385**	**5,549**	**-**	**-**	**241,219**	**378,153**
Due to related parties	**661,321**	**-**	**-**	**-**	**31,366**	**692,687**
Due to banks	**-**	**-**	**-**	**-**	**1,554**	**1,554**
Other liabilities excluding deferred income	**-**	**-**	**-**	**-**	**7,124**	**7,124**
Total	**792,706**	**5,549**	**-**	**-**	**281,263**	**1,079,518**
Interest rate sensitivity gap	**333,928**	**78,486**	**-**	**-**	**(12,022)**	**400,392**

23 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B3. Interest rate risk (continued)

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)

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 exposure to interbank offered rates (IBORs) on its financial instruments, as these are applied primarily on loans and advances. These will be replaced or reformed as part of this market-wide initiative.

The table below shows the Branch's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. This primarily includes floating rate loans and advances to customers.

At 31 December 2020	*Financial assets AED'000*	*Financial liabilities AED'000*
Assets		
EIBOR – 3 month	**53,921**	-
LIBOR – 1 month	**140,892**	-
LIBOR – 3 month	**196,872**	-
Total	**391,685**	-

The Branch is in the process of establishing policies for amending the interbank offered rates on its existing floating-rate loan portfolio indexed to IBORs that will be replaced as part of the IBOR reform. The Branch expects to participate in bilateral negotiations with the counterparties in its bespoke products, such as loans and advances issued to corporates. The Branch expects to begin amending the contractual terms of its existing floating-rate assets in the year 2021; however, the exact timing will vary depending on the extent to which standardized language can be applied across certain loan types and the extent of bilateral negotiations between the Branch and loan counterparties.

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 CBUAE's requirements and the Branch's internal guidelines mandated by ALCO. The CBUAE has reserve requirements on deposits ranging between 1% and 14% on demand and time deposits. The CBUAE 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 CBUAE. 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.

23 FINANCIAL RISK MANAGEMENT (continued)

C. Liquidity risk (continued)

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 2020***	***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	**241,219**	**131,385**	**5,549**	**-**	**-**	**378,153**
Due to related parties	**31,367**	**661,320**	**-**	**-**	**-**	**692,687**
Due to banks	**1,554**	**-**	**-**	**-**	**-**	**1,554**
Other liabilities excluding deferred income	**1,698**	**4,130**	**-**	**1,297**	**-**	**7,124**
Total discounted financial liabilities	**275,838**	**796,835**	**5,549**	**1,297**	**-**	**1,079,518**

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

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 December 2020	***Within 12 months***	***After 12 months AED'000***	***Total AED'000***
Assets			
Cash and balances with the Central Bank of UAE	**201,276**	**-**	**201,276**
Due from banks (including related parties balances)	**801,269**	**-**	**801,269**
Loans and advances	**83,634**	**375,773**	**459,407**
Other assets (including property, equipment and right of use assets, intangible assets and deferred tax asset)	**3,219**	**6,091**	**9,310**
Total	**1,089,398**	**381,864**	**1,471,262**
Liabilities			
Customer deposits	**341,423**	**36,730**	**378,153**
Due to banks and other financial institutions (including related party balances)	**694,241**	**-**	**694,241**
Other liabilities	**7,940**	**-**	**7,940**
Total	**1,043,604**	**36,730**	**1,080,334**

23 FINANCIAL RISK MANAGEMENT (continued)

C. Liquidity risk (continued)

At 31 December 2019	*Within 12 months*	*After 12 months AED'000*	*Total AED'000*
Assets			
Cash and balances with the Central Bank of UAE	255,566	-	255,566
Due from banks (including related parties balances)	450,174	-	450,174
Loans and advances	408,179	253,969	662,148
Other assets (including property, equipment and right of use assets and intangible assets)	-	8,007	8,007
Total	1,113,919	261,976	1,375,895
Liabilities			
Customer deposits	330,603	-	330,603
Due to banks and other financial institutions (including related party balances)	634,448	-	634,448
Other liabilities	15,268	-	15,268
Total	980,319	-	980,319

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.

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 2020 and 2019, 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.

23 FINANCIAL RISK MANAGEMENT (continued)

F. Capital management (continued)

	Basel III	*Basel III*
	2020	*2019*
	AED 000	*AED 000*
Tier 1 capital		
Allocated capital	**367,200**	367,200
Statutory reserves	**4,002**	4,002
Retained earnings*	**6,780**	11,428
Total	**377,982**	382,630
Tier 2 capital		
Collective impairment provision	**9,952**	9,439
Total capital base	**387,934**	392,069
Regulatory adjustments		
Goodwill and other intangibles	**(10)**	(29)
Total capital base	**387,924**	392,040
Risk-weighted assets		
Credit risk	**796,176**	755,097
Market risk	**1,039**	192
Operational risk	**52,792**	36,562
Total risk-weighted assets	**850,007**	791,851
Capital adequacy ratio (%)	**45.64%**	49.50%
Capital ratio (%):		
Total regulatory capital as a percentage of total risk weight assets	**45.64%**	49.50%
Total tier 1 regulatory capital as a percentage of total risk weight assets	**44.47%**	48.32%

* The amount includes the impact of deferred taxation in relation to IFRS 9 expected credit losses on stage 1 and stage 2 financial assets that was not considered in the financial statements that were issued on 30 March 2021.

Minimum capital requirement under each of the above items including capital conservation buffer (“CCB”) is as follows:

Capital element:	***2020***	*2019*
Minimum Common Tier I (CET 1) ratio	**7.00%**	7.00%
Minimum Tier I (CET 1) ratio	**8.50%**	8.50%
Minimum capital adequacy ratio	**10.50%**	10.50%
CCB	**2.50%**	2.50%

24 CASH AND CASH EQUIVALENTS

	2020 ***AED 000***	*2019* *AED 000*
Cash and balances with the CBUAE (Note 9):		
− Current account with CBUAE	**178,485**	203,305
Due from banks (Note 10)	**375,553**	423,548
Due from related parties (Note 21)	**14,522**	26,783
Due to banks (Note 10)	**(1,554)**	(3)
Due to related parties (Note 21)	**(692,687)**	(612,549)
	(125,681)	41,084

For the purposes of the statement of cash flows, cash and cash equivalents includes balances with banks and placements 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.

25 COMPARATIVE FIGURES

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these financial statements for the current year.

Except for the reclassification in the comparative figures with regards to cash and cash equivalents, there were no other significant impact of the reclassifications on the previously reported results including the statement of financial position, statement of comprehensive income and statement of changes in head office equity.

The reclassifications relating to cash and cash equivalents are shown below:

31 December 2019	*Previously reported AED'000*	*Reclassification AED'000*	*Revised balance AED'000*
Net cash used in operating activities	(197,478)	9,410	(188,068)
Net cash used in investing activity	(2,811)	2,631	(180)
Net cash used in financing activity	(549)	-	(549)
Net decrease in cash and cash equivalents	(200,838)	12,041	(188,797)
Cash and cash equivalents (beginning of year)	468,809	(238,928)	229,881
Cash and cash equivalents (end of year)	267,971	(226,887)	41,084

Cash and cash equivalents (end of year) are represented by:

Current account with CBUAE	203,305	-	203,305
Due from banks	37,883	385,665	423,548
Due from related parties	26,783	-	26,783
Due to banks	-	(3)	(3)
Due to related parties	-	(612,549)	(612,549)
	267,971	(226,887)	41,084