Arab Bank PLC
United Arab Emirates Branches

FINANCIAL STATEMENTS

31 DECEMBER 2019

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البنك العربي
ARAB BANK

REPORT OF THE MANAGEMENT

We are pleased to submit this report and the audited financial statements of Arab Bank plc, United Arab Emirates ("UAE") branches (the "Branches" or the "Bank") for the year ended 31 December 2019.

Incorporation and registered offices

The Branches were incorporated in the United Arab Emirates as a commercial bank in 1971. The Bank has eight branches, three in Dubai, three in Abu Dhabi and one each in Sharjah and Ras al-Khaimah.

The Head Office of the Branches is Arab Bank plc (the "Head Office"), a public listed bank registered in Amman, Jordan. The Head office is listed on the Amman Securities Exchange.

Financial position and results

The financial position and results of the Branches for the year ended 31 December 2019 are set out in the accompanying financial statements.

During the year ended 31 December 2019, the Branches recorded total operating income and net profit of AED 656,885 thousand (2018: AED 649,013 thousand) and AED 172,422 thousand (2018: AED 96,755 thousand) respectively.

Signed on behalf of the Management

Feras Darwish
Country Manager

Date:

17 March 2020

Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF ARAB BANK PLC, UNITED ARAB EMIRATES BRANCHES

Report on the audit of the financial statements

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Branches in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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.

Other information

The other information obtained at the date of the auditor's report is the Branches' 2019 Management Report. Those charged with governance are responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on the audit of the financial statements (continued)

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 Branches' internal control.

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

Report on the audit of the financial statements (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branches ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branches to cease to continue as a going concern.

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

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

Report on other legal and regulatory requirements

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

i) the Branches have maintained proper books of account;

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

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

iv) the financial information included in the management's report is consistent with the books of account of the Branches;

v) investments during the year ended 31 December 2019, are disclosed in note 12 to the financial statements;

vi) note 28 reflects material related party transactions and the terms under which they were conducted;

Report on other legal and regulatory requirements (continued)

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

viii) note 7(c) reflects social contributions made during the year ended 31 December 2019.

Further, as required by the Decteral 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

Date: 17 March 2020

Dubai, United Arab Emirates

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	***2019*** ***AED'000***	*2018* *AED'000*
Interest income	3	**780,622**	712,581
Interest expense	4	**(292,663)**	(220,311)
NET INTEREST INCOME		**487,959**	492,270
Other operating income	5	**168,926**	156,743
TOTAL OPERATING INCOME		**656,885**	649,013
Credit loss expense on financial assets	6	**(180,905)**	(243,198)
NET OPERATING INCOME		**475,980**	405,815
General and administrative expenses	7	**(242,108)**	(266,802)
Depreciation on property and equipment	15	**(7,938)**	(8,314)
Depreciation on right-of-use assets	34	**(12,389)**	-
TOTAL OPERATING EXPENSES		**(262,435)**	(275,116)
PROFIT BEFORE TAXATION		**213,545**	130,699
Income tax expense	21(b)	**(41,123)**	(33,944)
NET PROFIT FOR THE YEAR AFTER TAXATION		**172,422**	96,755
Other comprehensive income for the year			
Item that will be reclassified subsequently to profit or loss			
- Unrealized gain on revaluation of financial assets at FVTOCI	12(e)	**843**	-
- Tax effect		**(169)**	-
Other comprehensive income for the year, net of tax		**674**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**173,096**	96,755

Feras Darwish
Country Manager – United Arab Emirates

Khalil Abu Farah
Country Head of Finance – United Arab Emirates

The attached notes 1 to 35 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	*2019* *AED'000*	*2018* *AED'000*
ASSETS			
Cash and balances with the Central Bank of UAE	8	**2,523,727**	2,641,615
Due from banks, net	9	**1,588,603**	1,548,710
Due from Head Office and its branches abroad	10	**290,516**	128,935
Loans and advances, net	11	**11,744,535**	11,366,633
Other financial assets, net	12	**2,089,260**	1,701,663
Right-of-use assets	34	**44,358**	-
Other assets	13	**386,187**	377,987
Deferred tax assets	14	**192,057**	147,933
Property and equipment	15	**10,687**	13,913
TOTAL ASSETS		**18,869,930**	17,927,389
LIABILITIES AND HEAD OFFICE EQUITY			
LIABILITIES			
Due to banks	16	**81,934**	293,974
Due to Head Office and its branches abroad	17	**51,617**	77,447
Customers' deposits	18	**13,647,556**	12,567,879
Security deposits from customers	19	**1,823,496**	1,939,510
Other liabilities	20	**523,743**	509,738
Provisions	21	**99,219**	107,103
Deferred tax liability		**169**	-
Lease contract liability	34	**38,368**	-
Subordinated loan	22	**374,595**	374,595
TOTAL LIABILITIES		**16,640,697**	15,870,246
HEAD OFFICE EQUITY			
Designated share capital	23	**620,704**	620,704
Statutory reserve	24	**310,352**	310,352
Other reserve	24	**23,000**	23,000
Impairment reserve	24	**66,879**	8,230
Revaluation reserve on financial assets - FVTOCI		**674**	-
Retained earnings		**1,207,624**	1,094,857
TOTAL HEAD OFFICE EQUITY		**2,229,233**	2,057,143
TOTAL LIABILITIES AND HEAD OFFICE EQUITY		**18,869,930**	17,927,389

These financial statements were approved and authorised for issue on 17 March 2020 by:

Feras Darwish
Country Manager – United Arab Emirates

Khalil Abu Farah
Country Head of Finance – United Arab Emirates

The attached notes 1 to 35 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	***2019 AED'000***	*2018 AED'000*
OPERATING ACTIVITIES			
Net profit before taxation for the year		**213,545**	130,699
Adjustments for:			
Depreciation expense on property and equipment	15	**7,938**	8,314
Depreciation on right of use assets	34	**12,389**	-
Provision for expected credit losses	6	**181,592**	244,224
Loss on disposal of property and equipment		**194**	69
Provision for employees' end of service benefits	21(d)	**3,065**	2,849
Amortisation of premium on other financial assets	12 (e)	**(2,641)**	(456)
Cash generated from operations before changes in operating assets and liabilities		**416,082**	385,699
Changes in operating assets and liabilities:			
Due from Central Bank on statutory deposits		**(1,040)**	8,959
Due from Central Bank and banks with original maturity of more than 3 months	8(a)	**(250,000)**	50,000
Due to banks		**(58)**	8,210
Loans and advances, net		**(613,303)**	176,389
Other assets		**3,031**	(14,474)
Customers' deposits		**1,079,677**	608,126
Security deposits from customers		**(116,014)**	(223,508)
Other liabilities		**49,688**	22,432
Cash generated from operations		**568,063**	1,021,833
Income tax paid	21(a)	**(95,011)**	(54,894)
Employees' end of service benefits paid	21(d)	**(1,185)**	(2,822)
Net cash from operating activities		**471,867**	964,117
INVESTING ACTIVITIES			
Purchase of property and equipment	15	**(4,753)**	(728)
Proceeds from disposal of property and equipment		**8**	8
Purchase of investments	12(e)	**(2,564,471)**	(2,225,040)
Proceeds from redemption of investments	12(e)	**2,179,865**	1,840,476
Net cash used in investing activities		**(389,351)**	(385,284)
FINANCING ACTIVITIES			
Repayment of lease liability		**(12,158)**	-
Net cash used in financing activities		**(12,158)**	-
INCREASE IN CASH AND CASH EQUIVALENTS		**70,358**	578,833
Cash and cash equivalents at the beginning of the year		**3,104,898**	2,526,065
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27	**3,175,256**	3,104,898
Interest income received		**788,486**	706,006
Interest expense paid		**280,205**	219,955

The attached notes 1 to 35 form an integral part of these financial statements.

STATEMENT OF CHANGES IN HEAD OFFICE EQUITY
For the year ended 31 December 2019

	Designated share capital AED'000	*Statutory reserve AED'000*	*Other reserve AED'000*	*Impairment reserve AED'000*	*Asset Revaluation reserve AED'000*	*Retained earnings AED'000*	*Total Head Office equity AED'000*
Balance at 31 December 2017	620,704	310,352	23,000	-	-	863,596	1,817,652
Impact of adopting IFRS 9 at 1 January 2018 (note 11(j))	-	-	-	120,963	-	-	120,963
Deferred tax on adopting IFRS 9 at 1 January 2018 (note 14)	-	-	-	-	-	21,773	21,773
Balance at 1 January 2018	620,704	310,352	23,000	120,963	-	885,369	1,960,388
Profit for the year	-	-	-	-	-	96,755	96,755
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	96,755	96,755
Excess impairment reserve transferred to retained earnings (note 11(j))	-	-	-	(112,733)	-	112,733	-
Balance at 31 December 2018	620,704	310,352	23,000	8,230	-	1,094,857	2,057,143
Profit for the year	-	-	-	-	-	172,422	172,422
Other comprehensive income	-	-	-	-	674	-	674
Total comprehensive income for the year	-	-	-	-	674	172,422	173,096
IFRS 16 adjustment (Note 2.2 (a))	-	-	-	-	-	(1,006)	(1,006)
Shortfall transferred from retained earnings (note 11(j))	-	-	-	58,649	-	(58,649)	-
Balance at 31 December 2019	**620,704**	**310,352**	**23,000**	**66,879**	**674**	**1,207,624**	**2,229,233**

The attached notes 1 to 35 form an integral part of these financial statements.

1 ACTIVITIES

Arab Bank plc, United Arab Emirates Branches (the “Branches” or the “Bank”) were incorporated in the United Arab Emirates (“UAE”) as a commercial bank in 1971. The Head Office of the Branches is Arab Bank plc (the “Head Office”), a public shareholding bank, listed on the Amman Securities Exchange.

The Bank operates within the UAE through the following branches:

Abu Dhabi	3 branches
Dubai	3 branches
Sharjah	1 branch
Ras al-Khaimah	1 branch

These financial statements reflect the activities of the Branches in the United Arab Emirates only and exclude all transactions, assets and liabilities of the Head Office and its other branches elsewhere. Since the capital of the Branches is not publicly traded, no segmental analysis has been presented.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Branches have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), the UAE Federal Law No. (2) of 2015 and applicable regulations of the Central Bank of UAE.

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments measured at fair value;
- Financial instruments classified as fair value through profit or loss and fair value through other comprehensive income measured at fair value;
- Recognised assets and liabilities that are a hedged item in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged.

The financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Branches, rounded to the nearest thousand except when otherwise stated.

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS

The Branches have consistently applied the accounting policies same as prior year except for the changes in accounting policies resulting from adoption of new standards and interpretation.

(a) *New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2019.*

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these financial statements.

IFRS 16 Leases
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

2 ACCOUNTING POLICIES (continued)

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

(a) New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2019. (continued)

IFRS 16 Leases (continued)
The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	AED'000
Assets	
Right-of-use assets	56,746
Prepayments	(7,226)
Total assets	**49,520**
Liabilities	
Lease liability	50,526
Total liabilities	**50,526**
Total adjustment on equity:	
Retained earnings	**(1,006)**

Impact on the statement of income (increase/decrease) for the year ended 31 December 2019:

	AED'000
Rent expense	12,670
Depreciation and amortization	(12,389)
Finance costs	(841)
Net impact	**(560)**

The Bank has lease contracts for various branches and ATM locations. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as an operating lease.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.3 Leases for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

- Leases previously classified as finance leases

The Bank had no leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17).

2 ACCOUNTING POLICIES (continued)

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

(a) New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2019. (continued)

IFRS 16 Leases (continued)

- Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and the Head Office' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Bank.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Bank.

2 ACCOUNTING POLICIES (continued)

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

(a) New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2019. (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the financial statements of the Bank as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the financial statements as the Bank does not have long-term interests in its associate and joint venture.

Annual Improvements 2015-2017 Cycle

- **IFRS 3 Business Combinations**

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.
An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Bank as there is no transaction where joint control is obtained.

- **IFRS 11 Joint Arrangements**

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Bank as there is no transaction where a joint control is obtained.

2 ACCOUNTING POLICIES (continued)

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

(a) New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2019. (continued)

Annual Improvements 2015-2017 Cycle (continued)

- **IAS 12 Income Taxes**

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Bank's current practice is in line with these amendments, they had no impact on the financial statements of the Bank.

- **IAS 23 Borrowing Costs**

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Bank's current practice is in line with these amendments, they had no impact on the financial statements of the Bank.

(b) New/amended standards and interpretations issued but not yet effective

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

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

In October 2018, the IASB issued amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting Policies, 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, which provide financial information about a specific reporting entity.'

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4). IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. This standard is not applicable to the Bank.

2 ACCOUNTING POLICIES (continued)

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

(b) New/amended standards and interpretations issued but not yet effective (continued)

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by 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 nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

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

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

The Bank has not early adopted the amendments and has concluded that the uncertainty arising from IBOR reform is not affecting as it does not carry any hedge relationship as of the reporting date.

2.3 SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Branches and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense
Interest income and expense for all interest-bearing financial instruments are recognised using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability on initial recognition. When there is doubt in the collection of the principal or the interest, the recognition of interest income ceases.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

Fee and commission income
Fee and commission income is recognised at point in time when customer obtain controls over the related services as performed.

Fees and commission 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.

Income from recoveries
Recoveries in respect of defaulted loans are accounted for when recovery is virtually certain and amount can be measured reliably.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract balances
The following is recognised in the statement of financial position arising from revenue from contracts with customers:

- 'Unearned income' included under 'Other liabilities', which represent the Bank's obligation to transfer services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made, or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Bank performs.

Taxation
Taxation is provided for in accordance with local regulations for assessment of tax on branches of foreign banks operating in the Emirates of Dubai, Abu Dhabi, Sharjah, and Ras al-Khaimah.

Deferred tax
Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 statement of financial position date and are recognised to the extent that it has become 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 statement of financial position date. Deferred taxes relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currency translation
(a) Functional and presentation currency
Items included in the financial statements of the Branches are measured in UAE Dirhams (AED) which is the functional and presentation currency of the Branches, rounded to the nearest thousand except when otherwise stated.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

Fair value measurement

For those assets and liabilities carried at fair value, the Branches measure 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 Branches. 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 Branches use 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 values of non financial instruments are measured based on valuation provided by independent valuators.

The fair value of a derivative financial instrument is the equivalent of the unrealised gain or loss from marking to market the derivative financial instrument, using relevant market rates or internal pricing models.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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, branch, 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 inputs, 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 unobservable 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.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Branches determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Bank 's Valuation Committee determines the policies and procedures for both recurring fair value measurement and unquoted financial assets. External valuers are involved for valuation of significant assets, such as unquotedfinancial assets, and significant liabilities, such as contingent consideration. At each reporting date, the Valuation Committee analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Bank's accounting policies. For this analysis, the Valuation Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions notes
- Quantitative disclosures of fair value measurement hierarchy
- Investment in non-listed equity shares (discontinued operations)
- Financial instruments (including those carried at amortised cost)
- Contingent consideration

Cash and cash equivalents
Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand, non-restricted current accounts with the Central Bank and amounts due from (to) banks, including amounts due from (to) Head office and its branches abroad on demand or with an original maturity of three months or less.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments
A financial instrument is any contract that gives rise to both a financial asset for the Branches and a financial liability or equity instrument for another party or vice versa.

Date of recognition
All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Branches become a party to the contractual provisions of the instrument. This includes regular way trades: 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.

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction costs are charged off to the statement of comprehensive income.

Financial assets
All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets
For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Debt instruments, including loans and advances and investments products, are measured at amortised cost if both of the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

Financial assets at amortised cost
Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss - see below). They are subsequently measured at amortised cost using the effective interest method less any impairment (see below), with interest revenue recognised on an effective yield basis in interest income.

Subsequent to initial recognition, the Branches are required to reclassify debt instruments from amortised cost to fair value through profit or loss, if the objective of the business model changes so that the amortised cost criteria are no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Branches may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at fair value through profit or loss, if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

Financial assets at FVTOCI
At initial recognition, the Branches can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:
- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Branches manage together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in income statement when the Branches' right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at fair value through profit or loss (FVTPL)
Debt instruments that do not meet the amortised cost criteria (as described above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the income statement. The net gain or loss is recognised in the income statement.

Interest income on debt instruments as at FVTPL is included in the net gain or loss described above and is included in the income statement.

Dividend income on investments in equity instruments at FVTPL is recognised in the income statement when the Branches' right to receive the dividends is established.

Reclassification of financial assets
The financial assets are required to be reclassified if the objective of the Branches' business model for managing those financial assets changes. Such changes are expected to be very infrequent. The Branches' management determine these changes as a result of external or internal changes and must be significant to the Branches' operations and demonstrable to external parties.

If the Branches reclassify financial assets, it shall apply the reclassification prospectively from the reclassification date. Any previously recognised gains, losses or interest are not required to be restated.
If the Branches reclassify a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in the income statement.

If the Branches reclassify a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount. The reclassification day is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9

(i) Overview of expected credit losses
The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

All ECL calculation for the branches is performed at Head Office level.

The Bank recognizes loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- due from banks and financial institutions;
- financial assets that are debt instruments;
- loans and advances;
- loan commitments issued; and
- financial guarantees contracts issued.

Equity instruments are not subject to impairment testing under IFRS 9.

The provision for credit losses is based on expected credit losses over the lifetime of the asset. If there is no significant change in credit risk from inception, the provision is based on the expected 12-month credit loss.

The expected credit loss weighted by the probability of default on credit exposure within 12 months is part of the expected credit loss on the lifetime of the asset arising from financial instrument deteriorations that may occur within 12 months of the reporting date.

The expected credit losses are calculated by the probability of default for the entire lifetime of the credit exposure or within 12 months of the credit exposure either on an individual or collective basis based on the nature of the portfolio of financial instruments.

The Bank has established a policy to periodically assess whether the credit risk of the financial instrument has increased significantly from the date of initial recognition, taking into account the change in the risk of default on the remaining life of the financial instruments.

Based on the above, the Bank classifies the financial instruments into three stages, stage (1), stage (2) and stage (3), as described below:

- Stage 1 – Upon initial recognition of financial instruments, the Bank records an allowance based on credit losses expected over the next 12 months. Stage 1 also includes financial assets which have been reclassified from Stage 2.
- Stage 2 – When a financial instrument experiences a significant increase in credit risk subsequent to origination, the Bank recognizes an allowance for expected credit losses for the entire lifetime of the credit exposure. Stage 2 includes financial instruments which have seen an improvement in credit risk and have been reclassified from Stage 3.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(i) Overview of expected credit losses (continued)
The key inputs into the measurement of ECL are:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD)

For financial assets where the Bank has no reasonable expectation of recovery, either for the full amount of the outstanding amount or part of it, the carrying amount of the financial asset is reduced. It is considered as a (partial) cancellation of the financial assets.

The Bank's internal credit rating system:
The Bank's credit review and evaluation process is governed by the credit rules and policies set out in the Credit Facility Policies. The credit rating of the borrower is a key element in the credit review and evaluation. Consequently, the Bank has developed an internal rating methodology “Arab Bank's Credit Rating System” whereby the customer is evaluated according to the customer’s financial and non-financial criteria. In parallel, the Bank has also implemented the Moody's Risk Analysis System (MRA), a credit rating system issued by Moody's Credit Rating Company, which is based on financial and non-financial criteria for the evaluation of corporate customers and is equivalent to the Arab Bank Classification System. The system has been reviewed by a third party to ensure that the system outputs are properly aligned with the historical data of the bank's customers. Moody's rating system complements the Arab Bank's internal credit rating system and provides a mechanism consistent with Basel guidelines. The Moody's credit rating system is centrally managed by the Risk Management Department at Head Office level. The Corporate Business Department and the Credit Review Department represent the departments used by the system. The rating of customers' risks, whether by using the Arab Bank rating system or Moody's, is annually reviewed upon the annual review of each customer facility.

(ii) Measurement of ECL
The Bank calculates expected credit losses based on the weighted average of three scenarios to measure the expected cash deficit, discounted at an effective interest rate. The cash deficit is the difference between the cash flows due to the Bank in accordance with the contract and the expected cash flows.

The mechanism for calculating expected credit losses and key components is as follows:

- **Probability of default (PD):** The probability of default is an estimate of the probability of default over a certain period of time. Impairment may occur in a specified period during the valuation period.

- **Exposure at default (EAD):** The credit exposure at default is the estimate of the amount outstanding at a future date, taking into account expected changes to the amount after the reporting date, principal and interest, whether scheduled with a contract, expected withdrawals from facilities, or interest payable due to delayed payments.

- **Loss given default (LGD):** The loss given default is an estimate of the loss arising in a situation where the default occurs at a particular time. It represents the difference between the contractual cash flows due and the amount that the lender expects to collect from the existence of collateral. It is usually expressed as a percentage of credit exposure upon default.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(ii) Measurement of ECL (continued)
In estimating the expected credit losses, the Bank takes into account three scenarios (the base scenario, the upside scenario, the downside scenario), each with different probabilities of default, credit exposure at default, and loss given default.

The multi-scenario assessment also includes how to recover non-performing loans, including the possibility of recovering non-performing loans and the amount of collaterals or amounts expected to be collected from the sale of collateral.

Except for credit cards and other revolving loans, the maximum period for which credit losses are determined is the contractual life of the financial instruments unless the Bank has the legal right to purchase them in advance.

The mechanisms for calculating expected credit losses are summarized as follows:

- **Stage 1** – The expected credit losses are calculated as the probability of default on the credit exposure within 12 months as part of the expected credit losses on the lifetime of the asset. Accordingly, the Bank calculates the provision for the probability of default of the financial instruments within 12 months after the reporting date. These 12-month defaults are applied to the amount of credit exposure at default multiplied by the loss rate given default, discounted at the effective interest rate. This calculation is made for each of the three scenarios, as described above.

- **Stage 2** – In the event of a significant increase in credit risk from the date of initial recognition, the Bank calculates an allowance for expected credit loss for the entire lifetime of the credit exposure. The calculation mechanism is similar to the method described above, including the use of different scenarios, but the probability of default and credit exposure at default are used for the entire lifetime of the financial instrument and the expected cash deficit amount is deducted at the effective interest rate.

- **Stage 3 –** Financial instruments to which the concept of default applies, the Bank calculates the expected credit loss for the entire lifetime of the credit exposure. The calculation mechanism is similar to that used in stage 2. The probability of default is 100% and the loss rate is assumed to be greater than that applied in stages 1 and 2.

- **Loan commitment and letter of credit –** The ECL related to loan commitments and letters of credit are recognized in other liabilities. When estimating ECLs 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 of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

- **Financial guarantee contract -** The Branches’ liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of comprehensive income, 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 three scenarios. The ECLs related to financial guarantee contracts are recognized within other liabilities.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(iii) Forward-looking Expected Credit Losses approach
In the expected credit loss calculation model, the Bank relies on a wide range of future information used as inputs, for example:

- International oil prices
- Equity market indices

The inputs and models used to calculate expected credit losses may not include all market characteristics as at the date of the financial statements. As a result, qualitative adjustments are sometimes made as temporary modifications in case of significant differences.

(iv) Scenarios
Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts. The most significant period-end assumptions used for ECL estimate as at 31 December 2019 are equity market indices, represented by Abu Dhabi Securities Market General Index (ADSMI) and international oil prices. The scenarios base case, upside and downside were used for all portfolios keeping in view the following principal macroeconomic variables

Macroeconomic variables	*Scenario*	*Assigned probabilities*	*2020*	*2021*	*2022*	*2023*	*Subsequent years*
ADX General Index (ADSMI)	Base case	40%	5,831.31	5,744.52	6,110.66	6,354.25	6,715.25
	Upside	30%	6,994.89	8,055.02	9,748.70	10,160.11	10,185.31
	Downside	30%	4,337.98	3,569.87	3,591.82	3,631.48	3,847.78
Oil prices (USD per barrel)	Base case	40%	64.13	65.81	66.42	67.46	68.85
	Upside	30%	79.28	81.66	81.12	80.73	80.98
	Downside	30%	40.19	44.23	48.08	53.71	57.64

(v) Sensitivity analysis
If the macroeconomic variables (defined above) were to change by the base case, upside and downside scenarios, the ECL under stages 1 and 2 will change as follows:

Change in ECL due to change in macroeconomic variables	*Base case*	*Upside*	*Downside*
Stage 1	(12.7%)	(33.8%)	53.5%
Stage 2	(1.1%)	(16.8%)	22.0%

There has been no significant sensitivity impact on stage 3 ECL.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

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

To the extent possible, the Branches uses active market date 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 independent valuers.

Write-offs
Financial assets are written off either partially or in their entirety only when the Branches 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.

Renegotiated loans and advances
Where possible, the Branches seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets
The Branches derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Branches neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Branches recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Branches retain substantially all the risks and rewards of ownership of a transferred financial asset, the Branches continue to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the income statement, but is reclassified to retained earnings.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.
A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Branches manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Branches' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.
- Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of income.

Other financial liabilities
Other financial liabilities, include deposits and balances due to Head Office and its branches abroad, borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where 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 a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of comprehensive income.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments
The Branches enters into forward foreign exchange contracts to manage its exposure to fluctuations in exchange rates. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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. For derivatives, which do not qualify for hedge accounting and for "held for trading" derivatives, any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of comprehensive income.

Financial guarantees
Financial guarantee contracts issued by the Branches are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Hedge accounting
As part of its asset and liability management, the Branches use derivatives for hedging purpose.

When derivatives are designated as hedges, the Branches classify them as either:

- fair value hedges which hedge the change in the fair value of recognised assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

(i) Hedge documentation
At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Branches' risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Branches will assess the effectiveness of the hedging relationship on an ongoing basis.

(ii) Hedge effectiveness testing
Hedge effectiveness is measured by the Bank on a prospective basis at inception, as well as retrospectively (where applicable) and prospectively over the term of the hedge relationship.

(iii) Fair value hedge
The changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments is recognised in the income statement.

(iv) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

(v) Discontinuance of hedge accounting
The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognised in OCI remains in other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

(vi) Derivatives that do not qualify for hedge accounting
For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the period.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting
Financial assets and financial liabilities are only offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to set off the recognised amounts and the Branches intend to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and impairment in value, if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of property and equipment. Capital work in progress is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	25
Furniture, information systems and vehicles	3 - 6
Leasehold improvements	10 years or as per lease term

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of comprehensive income in the year the asset is derecognised.

Right-of-use assets
The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Subsequent to initial recognition, 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 Bank 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.

Lease liabilities
At the commencement date of the lease, the Bank 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 also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank 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, as applicable, at the lease commencement date since 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.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assets held for sale
Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the asset or disposal Branch is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Assets that are classified as held for sale are not depreciated or amortised.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in statement of comprehensive income.

Provisions
Provisions are recognised when the Branches have a present obligation (legal or constructive) as a result of a past event, 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. When the Branches expect some or all of a provision to be reimbursed, for example, under an insurance contract or through a counter guarantee, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

End of service benefits
With respect to its national employees, the Branches 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 Branches' obligations are limited to these contributions, which are expensed when due.

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

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.

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Branches' accounting policies, which are described in Note 2.3, management is required to use certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

a) Fair value of financial instruments not quoted in active markets
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of unquoted financial instruments.

b) Classification and measurement of financial assets
The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Branches' investments in securities are appropriately classified and measured.

c) Impairment of financial assets
Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Branches while determining the impact assessment, are:

2 ACCOUNTING POLICIES (continued)

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Assessment of Significant Increase in Credit Risk (SICR)

As per IFRS 9, SICR can be assessed at a collective/portfolio level if common risk characteristics are shared. Any instruments that are assessed collectively must possess shared credit risk characteristics. The Branches has followed the following criteria to determine the ECL calculation at collective basis vs on individual basis as follow:

- Retail Portfolio: on collective basis based on the product level (Loans, Housing Loans, Car Loans, and Credit Cards)
- Corporate Portfolio: individual basis at customer/ facility level
- Financial Institutions: individual basis at Bank/ facility level.
- Debt instruments measured at amortized cost: individual level at instrument level.

To assess whether the credit risk on a financial asset has increased significantly since origination, the Branches compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Branches' existing risk management processes.

The Branches' assessment of significant increases in credit risk is performed periodically for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. Significant increases in credit risk based on movement in the customer's internal credit grade and the related PDs relative to initial recognition against established thresholds.
2. Restructuring and/or Rescheduling on the customers' accounts/ facilities during the assessment period is considered as indicator for SICR.
3. Instruments which are 90 days past due have experienced a significant increase in credit risk as per the Branches' policies. Central Bank of UAE in its instructions requested to apply 90 days past due for significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39, as mentioned in the "Definition of default" below.

Curing criteria – upward ECL stage movement

The curing criteria is in line with UAE Central Bank IFRS 9 guidelines and is considered based on the combination of the following qualitative factors:

- DPD movement
- Probationary period
- Notches of ratings upward movement

From Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL)

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 2 to stage 1.
- DPD shall be ≤ 30 days over the last 12 months period; and / or
- Upward movement of risk ratings is reflected as per internally defined criteria.

From Stage 3 (Lifetime ECL – credit impaired) to Stage 2 (Lifetime ECL – not credit impaired)

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for a probationary period of 3 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 3 to stage 2.
- DPD shall be <90 days over the last 3 months period; and/or
- Upward movement of risk ratings is reflected as per internally defined criteria.

An exposure cannot be upgraded from Stage 3 to Stage 1 directly and should be upgraded to Stage 2 initially before upgrading to Stage 1 based on the above-mentioned criteria.

2 ACCOUNTING POLICIES (continued)

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios
The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment in cooperation with international expert in this area.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

The estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

The base case scenario will be based on macroeconomic forecasts (e.g.: GDP growth rate, unemployment rate, international oil prices indices). Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

Scenarios will be probability-weighted according to the best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default
The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Notwithstanding the above, the classification of credit facilities is governed by the Central Bank of UAE regulations.

The Branches has set out the definition of default where a default is considered to have occurred when either or both of the two following events have taken place:

- The obligor is considered unlikely to pay its credit obligations in full; and
- The obligor is past due for 90 days or more on any material credit obligation

Expected Life
When measuring ECL, the Branches must consider the maximum contractual period over which the Branches are exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Branches are exposed to credit risk and where the credit losses would not be mitigated by management actions.

d) Useful lives of property and equipment
The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

2 ACCOUNTING POLICIES (continued)

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

e) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

f) Tax liabilities and deferred tax assets

The deferred tax asset relating to the Branches' operations in the UAE is AED 192 million (2018: AED 148 million) (see note 14). The deferred tax assets included in this total reflected the deductible temporary differences in respect of impairment allowances on loans and advances and interest in suspense of AED 960 million (2018: AED 740 million) (see note 14).

Deductions for loan impairments for UAE tax purposes generally occur when the impaired loan is specifically approved for deduction by UAE tax authority, written off, or if earlier, when the impaired loan is sold. The tax deduction often occurs in periods subsequent to that in which the impairment is recognised for accounting purposes.

As a result, the amount of the associated deferred tax asset should generally move in line with the impairment allowance balance.

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Based on available evidence, it is assessed whether it is probable that all or a portion of the deferred tax assets will be realised, or will not be realised. The main factors which are considered include future earnings potential; cumulative losses in recent years; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset.

g) Employees end of service benefits

The Branches' carried provision for employees end of service benefits based on applicable laws and regulations. The management has determined that provision for employees end of service benefits using actuarial valuation would not be significantly different than carrying amount as the net impact of increase in salaries and discount rate would not be material.

h) Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank 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 Bank 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).

2 ACCOUNTING POLICIES (continued)

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

i) Estimating the incremental borrowing rate

The Bank 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 Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

3 INTEREST INCOME

	2019	*2018*
	AED'000	*AED'000*
Interest income calculated using the effective interest method		
Loans and advances to customers	**670,581**	647,447
Other financial assets – debt instruments	**51,723**	34,579
Due from Banks and Certificates of Deposits with Central Bank of UAE	**58,542**	32,122
	780,846	714,148
Other interest and similar income		
Interest income from derivatives	**5,740**	5,737
Interest expense on derivatives	**(5,964)**	(7,304)
	(224)	(1,567)
	780,622	712,581

4 INTEREST EXPENSE

	2019	*2018*
	AED'000	*AED'000*
Interest expense calculated using the effective interest method		
Customers' and security deposits	**277,494**	207,430
Due to banks	**14,328**	12,881
Interest Exp. Lease Contracts	**841**	-
	292,663	220,311

5 OTHER OPERATING INCOME

	2019 *AED'000*	*2018* *AED'000*
Commission income		
Over time	**90,947**	97,916
At a point in time	**45,587**	32,363
	136,534	130,279
Commission expense	**(11,311)**	(9,892)
	125,223	120,387
Net foreign currencies exchange income, net	**41,437**	30,698
Others	**2,266**	5,658
	168,926	156,743

6 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

The charge for the net impairment allowances in the statement of comprehensive income comprises of the following:

	2019 *AED'000*	*2018* *AED'000*
Provision for expected credit losses:		
Specific (Stage 3, see i below)	**163,210**	147,609
Collective (Stage 1 and 2, see ii below)	**17,695**	95,589
	180,905	243,198

i) Provisions against impaired loans and advances, net (Stage 3)/Specific provision

	2019 *AED'000*	*2018* *AED'000*
Charge for specific impairment allowance (see note 11(g))	**179,240**	156,772
Reversal upon recoveries (see note 11(g))	**(15,343)**	(8,137)
Recoveries from written off loans and advances	**(687)**	(1,026)
	163,210	147,609

ii) Provisions against impaired loans and advances, net (Stage 1 &2)/Collective provision

	2019 *AED'000*	*2018* *AED'000*
Charge for collective impairment allowance	**117,584**	140,134
Reversal upon recoveries	**(99,889)**	(44,545)
	17,695	95,589

6 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (continued)

iii) Expected credit losses (Stage 1 and 2)

	2019 AED'000	*2018 AED'000*
Loans and advances, net (note 11 (h) and 11 (i))	**71,504**	50,447
Other financial assets, at amortised cost	**493**	462
Due from banks	**41**	146
Indirect facilities (note 11 (h) and note 25 (f))	**(54,343)**	44,534
	17,695	95,589

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2019 AED'000	*2018 AED'000*
Salaries and benefits	**114,126**	118,990
Head Office charges (see note 28)	**43,098**	47,594
Services expenses (see note a)	**26,220**	25,632
Operating leases	**10,651**	25,480
IT related expenses (see note b)	**11,717**	12,775
Others	**36,296**	36,331
	242,108	266,802

a) Services expenses represent cost of transaction processing and back office support activities recharged to the Branches by Arab Company for Shared Services FZ - LLC (a 100% owned subsidiary of the Head office) (see note 28).

b) IT related expenses represent cost of IT support services recharged to the Branches by Arab Gulf-Tech for IT Services FZ-LLC (a 100% owned subsidiary of the Head office) (see note 28).

c) The social contributions (including donations and charity) made during the year ended 31 December 2019 amount to AED Nil (2018: AED Nil).

8 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE

	2019 AED'000	*2018 AED'000*
Cash on hand	**59,407**	73,622
Balances with the Central Bank of UAE:		
- Current accounts	**359,128**	13,841
- Certificates of deposit (see note a)	**1,300,000**	1,750,000
- Statutory reserves (see note b)	**805,192**	804,152
Less: ECL collective provision	**-**	-
	2,523,727	2,641,615

a) As at 31 December 2019, certificates of deposit with Central Bank of UAE, with an original maturity of more than 3 months, amounted to AED 300 million (2018: AED 50 million).

b) Statutory reserves are not available for use in the Bank's day to day operations and cannot be withdrawn without the prior approval of the Central Bank of UAE. The level of reserves required changes periodically in accordance with the directives of the Central Bank of UAE.

Cash and cash equivalents with the Central Bank of UAE were classified as Stage 1 financial assets throughout the period.

9 DUE FROM BANKS

	2019 **AED'000**	2018 AED'000
Current account	**733,953**	550,991
Time deposits (see note a below)	**854,859**	997,887
	1,588,812	1,548,878
Less: Provision for expected credit loss	**(209)**	(168)
	1,588,603	1,548,710

a) An analysis of the movement for provision for impairment is as follows:

	2019 **AED'000**	2018 AED'000
At 1 January	**168**	22
Provided during the year	**41**	146
At 31 December	**209**	168

b) Following is the geographical distribution of due from banks:

	2019 **AED'000**	2018 AED'000
Banks in the U.A.E.	**523,825**	657,307
Banks abroad	**673,513**	519,367
Related parties – abroad	**391,265**	372,036
	1,588,603	1,548,710

c) As at 31 December 2019, there were no time deposits with an original maturity of more than 3 months (2018: Nil).

10 DUE FROM HEAD OFFICE AND ITS BRANCHES ABROAD

	2019 **AED'000**	2018 AED'000
Current accounts	**50,586**	32,478
Time deposits	**239,930**	96,457
	290,516	128,935

Due from Head Office and its branches abroad are classified as Stage 1 financial assets, with no provision.

11 LOANS AND ADVANCES, NET

The composition of the loans and advances portfolio is as follows:

a) By type:

	2019 AED'000	*2018 AED'000*
Overdrafts	**3,665,273**	3,871,074
Loans	**8,576,492**	7,623,233
Bills discounted	**455,691**	551,957
Credit cards	**46,333**	88,661
Loans and advances, gross	**12,743,789**	12,134,925
Less: Interest in suspense (see note g)	**(173,534)**	(154,765)
Specific provisions for impairment (Stage 3) (see note g)	**(655,193)**	(442,748)
ECL collective impairment provision for on-balance sheet (see note h)	**(170,527)**	(170,779)
Loans and advances, net	**11,744,535**	11,366,633

b) By economic sector (Gross):

	2019 AED'000	*2018 AED'000*
Trading	**2,690,532**	2,297,348
Manufacturing	**1,890,769**	2,184,359
Construction	**2,116,953**	2,034,835
Real estate	**1,937,904**	1,964,132
Retail loans	**1,555,028**	1,396,288
Services	**1,308,448**	1,314,768
Transportation, storing and communication	**597,895**	545,889
Others	**646,260**	397,306
	12,743,789	12,134,925

c) By classification (Gross):

	2019 AED'000	*2018 AED'000*
Corporate	**11,188,761**	10,738,637
Retail	**1,555,028**	1,396,288
	12,743,789	12,134,925

d) As at 31 December 2019, the total value of non-performing loans and advances, for which interest has been suspended amounted to AED 883 million. (2018: AED 575 million) (see note 33a).

e) As at 31 December 2019, loans and advances include AED 552 million (2018: AED 681 million) of loans and advances that are past due but not impaired.

f) The Branches do not hold any significant loans and advances outside the Middle East region.

11 LOANS AND ADVANCES, NET (continued)

g) Loans and advances are stated net of interest in suspense and allowance for expected credit loss (stage 1, 2 & 3). The movements for interest in suspense and allowance for expected credit loss (stage 3) are as follows:

	31 December 2019		*31 December 2018*	
	Interest in suspense AED'000	***Allowance for expected credit loss (stage 3) AED'000***	*Interest in suspense AED'000*	*Allowance for expected credit loss (stage 3) AED'000*
Balance as at 1 January (as per IAS 39)	**154,765**	**442,748**	104,191	323,888
Excess specific provision transferred to impairment reserve on adoption of IFRS 9 (see j below)	**-**	**-**	-	(32,583)
At 1 January (adjusted as per IFRS 9)	**154,765**	**442,748**	104,191	291,305
Suspended/provided during the year (see note 6)	**61,843**	**179,240**	51,223	156,772
Reversal upon recoveries (see note 6)	**(1,171)**	**(15,343)**	(248)	(8,137)
Amounts written off during the year	**(41,903)**	**(24,543)**	(401)	(3)
Transfers from other stages	**-**	**73,091**	-	2,811
At 31 December	**173,534**	**655,193**	154,765	442,748

h) The movement in the allowance for ECL for stage 1 & 2 is as follows:

	Loans & Advances AED'000 (note 11 (a))	***Off-Balance Sheet AED'000 (note 20)***	***Other financial asssets AED'000 (notes 9 & 12)***	***Total AED'000***
At 1 January	**170,779**	**62,044**	**1,457**	**234,280**
Provided during the year, net (see note 6)	**113,361**	**3,689**	**534**	**117,584**
Released during the year	**(41,857)**	**(58,032)**	**-**	**(99,889)**
Transfers to stage 3 (see note l below)	**(71,756)**	**(1,421)**	**-**	**(73,177)**
At 31 December 2019	**170,527**	**6,280**	**1,991**	**178,798**

	Loans & Advances AED'000 (note 11 (a))	*Off-Balance Sheet AED'000 (note 20)*	*Other financial asssets AED'000 (notes 9 & 12)*	*Total AED'000*
ECL recognized under IFRS 9 on 1 January 2018 (see note i below)	123,143	17,510	849	141,502
Provided during the year, net (see note 6)	50,447	44,534	608	95,589
Transfers to stage 3 (see note l below)	(2,811)	-	-	(2,811)
At 31 December 2018	170,779	62,044	1,457	234,280

11 LOANS AND ADVANCES, NET (continued)

i) The movement in general provisions is as follows:

	2019 ***AED'000***	*2018* *AED'000*
At 1 January	**-**	229,882
Charge during the year (see note 6)	**-**	-
Transfers to ECL provision (see h above)	**-**	(141,502)
Transfers to impairment reserves (see j below)	**-**	(88,380)
At 31 December	**-**	-

j) The movement in impairment reserve against specific provision and collective provision is as follows:

	Specific provision AED'000	***Collective provision AED'000***	***Total AED'000***
As at 1 January 2019	**-**	**8,230**	**8,230**
Shortfall transferred from retained earnings	**-**	**58,649**	**58,649**
At 31 December 2019 (see note 33(a))	**-**	**66,879**	**66,879**

	Specific provision AED'000	*Collective provision AED'000*	*Total AED'000*
As at 1 January 2018	32,583	88,380	120,963
Excess transferred to retained earnings	(32,583)	(80,150)	(112,733)
At 31 December 2018 (see note 33(a))	-	8,230	8,230

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

	2019			
In AED 000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January	**10,227,126**	**1,332,337**	**575,462**	**12,134,925**
New assets originated	**3,346,646**	**880,901**	**57,021**	**4,284,568**
Assets derecognised or repaid (excluding write offs)	**(3,231,920)**	**(371,120)**	**(6,218)**	**(3,609,258)**
Transfers to Stage 1	**309,539**	**(309,539)**	**-**	**-**
Transfers to Stage 2	**(70,834)**	**70,834**	**-**	**-**
Transfers to Stage 3	**(50,607)**	**(273,026)**	**323,633**	**-**
Amounts written off	**-**	**-**	**(66,446)**	**(66,446)**
At 31 December 2019	**10,529,950**	**1,330,387**	**883,452**	**12,743,789**

11 LOANS AND ADVANCES, NET (continued)

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

	2018			
In AED 000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January	11,698,863	134,883	444,234	12,277,980
New assets originated	3,606,283	1,838,419	124,956	5,569,658
Assets derecognised or repaid (excluding write offs)	(3,330,505)	(442,318)	(6,504)	(3,779,327)
Transfers to Stage 1	227,859	(227,859)	-	-
Transfers to Stage 2	(609,159)	609,159	-	-
Transfers to Stage 3	-	(13,180)	13,180	-
Adjustments during the period	(1,366,215)	(566,767)	-	(1,932,982)
Amounts written off	-	-	(404)	(404)
At 31 December 2018	10,227,126	1,332,337	575,462	12,134,925

l) An analysis of movement in the provision for impairment for loans and advances is as follows;

	2019			
In AED 000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January	**20,069**	**150,710**	**442,748**	**613,527**
Net charge for the year	**21,159**	**50,345**	**179,240**	**250,744**
Recoveries from repaid / derecognized facilities	**-**	**-**	**(15,343)**	**(15,343)**
Transfers to Stage 1	**2,280**	**(2,280)**	**-**	**-**
Transfers to Stage 2	**(199)**	**199**	**-**	**-**
Transfers to Stage 3	**(336)**	**(71,420)**	**71,756**	**-**
Adjustments during the period	**-**	**-**	**1,335**	**1,335**
Amounts written off	**-**	**-**	**(24,543)**	**(24,543)**
At 31 December 2019	**42,973**	**127,554**	**655,193**	**825,720**

	2018			
In AED 000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January	33,612	103,396	291,330	428,338
Charge for the year	5,515	87,300	156,772	249,587
Recoveries from repaid / derecognized facilities	(19,243)	(23,148)	(8,137)	(50,528)
Transfers to Stage 1	831	(831)	-	-
Transfers to Stage 2	(10,252)	10,252	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	9,606	(26,259)	2,811	(13,842)
Amounts written off	-	-	(28)	(28)
At 31 December 2018	20,069	150,710	442,748	613,527

12 OTHER FINANCIAL ASSETS

The analysis of the Branches' other financial assets as at 31 December is as follows:

	2019 *AED'000*	*2018* *AED'000*
Measured at FVTPL		
Unquoted loans and advances	**108,830**	108,830
Measured at FVTOCI		
Unquoted equities	**2,606**	1,763
Measured at amortised cost		
Quoted bonds	**1,979,606**	1,592,359
	2,091,042	1,702,952
Less: ECL collective provision	**(1,782)**	(1,289)
	2,089,260	1,701,663

a) An analysis of the movement in the provision for impairment is as follows:

	2019 *AED'000*	*2018* *AED'000*
At 1 January	**1,289**	812
Provided during the year	**493**	1,044
Released during the year	**-**	(567)
At 31 December	**1,782**	1,289

b) By geographical area (Gross):

	2019 *AED'000*	*2018* *AED'000*
Within UAE	**1,247,391**	753,532
Outside UAE	**843,651**	949,420
	2,091,042	1,702,952
Less: ECL collective provision	**(1,782)**	(1,289)
	2,089,260	1,701,663

c) By economic sector:

	2019 *AED'000*	*2018* *AED'000*
Government and public sector	**55,186**	18,380
Governmental related enterprises - Commercial	**108,830**	108,830
Trade and business sector	**2,606**	1,763
Financial institutions	**1,924,420**	1,573,979
	2,091,042	1,702,952
Less: ECL collective provision	**(1,782)**	(1,289)
	2,089,260	1,701,663

12 OTHER FINANCIAL ASSETS (continued

d) By credit rating (for debt securities) (Gross):

	2019 *AED'000*	*2018* *AED'000*
Rated Aaa to Aa3	**399,170**	901,474
Rated A1 to A3	**1,435,274**	334,008
Rated Baa1 to Baa3	**89,976**	338,511
Rated below Baa3 and unrated - Government	**55,186**	18,366
Rated below Baa3 - others	**108,830**	108,830
	2,088,436	1,701,189
Less: ECL collective provision	**(1,782)**	(1,289)
	2,086,654	1,699,900

The above represents approved rating from External Credit Assessment Institutions (ECAI) as per Basel III Pillar 3 guidelines.

e) Movement in other financial assets:

31 December 2019	***Measured at amortised cost AED'000***	***Measured at FVTPL AED'000***	***Measured at FVTOCI AED'000***	***Total AED'000***
At 1 January 2019	**1,592,359**	**108,830**	**1,763**	**1,702,952**
Purchases during the year	**2,564,471**	**-**	**-**	**2,564,471**
Matured during the year	**(2,179,865)**	**-**	**-**	**(2,179,865)**
Change in fair value	**-**	**-**	**843**	**843**
Accrued interest and amortisation	**2,641**	**-**	**-**	**2,641**
	1,979,606	**108,830**	**2,606**	**2,091,042**
Less: ECL collective provision	**(1,782)**	**-**	**-**	**(1,782)**
At 31 December 2019	**1,977,824**	**108,830**	**2,606**	**2,089,260**

31 December 2018	*Measured at amortised cost AED'000*	*Measured at FVTPL AED'000*	*Measured at FVTOCI AED'000*	*Total AED'000*
At 1 January 2018	1,207,339	108,830	1,763	1,317,932
Purchases during the year	2,225,040	-	-	2,225,040
Matured during the year	(1,840,476)	-	-	(1,840,476)
Accrued interest and amortisation	456	-	-	456
	1,592,359	108,830	1,763	1,702,952
Less: ECL collective provision	(1,289)	-	-	(1,289)
At 31 December 2018	1,591,070	108,830	1,763	1,701,663

13 OTHER ASSETS

	2019	*2018*
	AED'000	*AED'000*
Interest receivable	**39,380**	41,280
Bankers acceptances (notes 20 and 25(d))	**319,624**	300,963
Derivative financial assets (note 26)	**75**	4,242
Prepayments	**6,353**	15,545
Other receivables	**20,755**	15,957
	386,187	377,987

14 DEFERRED TAX ASSETS

Tax Authorities in UAE review the tax calculation of the Branches on a periodic basis. As a result of the review, Tax Authorities do not allow certain allowance for expected credit losses/impairment against financial assets as tax deductible, based on their assessment. These disallowed amounts create a temporary difference in the tax base resulting in deferred tax assets, which will be utilised when Tax Authorities accept to allow the before mentioned allowances as tax deductible for purpose of taxable profit.

Following is the movement in each of the non-deductible items resulting in temporary differences:

AED'000	***31 December 2019***					*31 December 2018*			
	Impairment allowance for loans and advances to customers	***Allowance for ECL collective provision***	***Suspended interest***	***Others***	***Total***	*Impairment allowance for loans and advances to customers (Stage 3)*	*Allowance for ECL collective provision (stage 1 & 2)*	*Suspended interest*	*Total*
As at 1 January	**416,290**	**221,652**	**101,710**	**-**	**739,652**	297,427	-	55,648	353,075
Recognized on adoption of IFRS 9	**-**	**-**	**-**	**-**	**-**	(32,583)	141,502	-	108,919
As at 1 January (adjusted for adoption of IFRS 9)	**416,290**	**221,652**	**101,710**	**-**	**739,652**	264,844	141,502	55,648	461,994
Additions	**179,240**	**117,584**	**56,966**	**1,138**	**354,928**	156,772	82,961	46,310	286,043
Release	**(15,343)**	**(87,261)**	**(1,171)**	**-**	**(103,775)**	(8,137)	-	(248)	(8,385)
Write-offs	**(24,543)**	**-**	**(5,993)**	**-**	**(30,536)**	-	-	-	-
Transfers to/from other stages	**73,177**	**(73,177)**	**-**	**-**	**-**	2,811	(2,811)	-	-
As at 31 December	**628,821**	**178,798**	**151,512**	**1,138**	**960,269**	416,290	221,652	101,710	739,652

14 DEFERRED TAX ASSETS (continued)

AED'000	***31 December 2019***					*31 December 2018*			
Deferred tax movement	***Impairment allowance for loans and advances to customers***	***Allowance for ECL collective provision***	***Suspended interest***	***Others***	***Total***	*Impairment allowance for loans and advances to customers*	*Recognition on transition to IFRS 9*	*Suspended interest*	*Total*
As at 1 January	**83,260**	**44,330**	**20,343**	**-**	**147,933**	59,485	-	11,130	70,615
Recognition on transition to IFRS 9	**-**	**-**	**-**	**-**	**-**	(6,514)	28,287	-	21,773
Balance as at 1 January (adjusted for adoption of IFRS 9)	**83,260**	**44,330**	**20,343**	**-**	**147,933**	52,971	28,287	11,130	92,388
Transferred to statement of income for the year (note 21 (b))	**27,871**	**6,065**	**9,960**	**228**	**44,124**	30,289	16,043	9,213	55,545
Transfers between stages	**14,635**	**(14,635)**	-	-	-	-	-	-	-
As at 31 December	**125,766**	**35,760**	**30,303**	**228**	**192,057**	83,260	44,330	20,343	147,933

The deferred tax assets are calculated using effective tax rate of 20% on the above allowances, which are considered as temporary differences for tax purposes.

15 PROPERTY AND EQUIPMENT

	Land AED'000	*Buildings* AED'000	*Furniture, information systems and vehicles* AED'000	*Leasehold improvements* AED'000	*Total* AED'000
Cost:					
At 1 January 2018	332	-	21,345	26,527	48,204
Additions	-	-	592	136	728
Disposals	-	-	(278)	(117)	(395)
At 31 December 2018	332	-	21,659	26,546	48,537
Additions	-	-	4,695	58	4,753
Disposals	-	-	(1,067)	(2,492)	(3,559)
At 31 December 2019	**332**	-	**25,287**	**24,112**	**49,731**
Depreciation:					
At 1 January 2018	-	-	13,536	13,092	26,628
Charge for the year	-	-	2,573	5,741	8,314
Disposals	-	-	(268)	(50)	(318)
At 31 December 2018	-	-	15,841	18,783	34,624
Charge for the year	-	-	3,238	4,700	7,938
Disposals	-	-	(1,211)	(2,307)	(3,518)
At 31 December 2019	-	-	**17,868**	**21,176**	**39,044**
Net carrying amounts:					
At 31 December 2019	**332**	-	**7,419**	**2,936**	**10,687**
At 31 December 2018	332	-	5,818	7,763	13,913

16 DUE TO BANKS

	2019 ***AED'000***	*2018* *AED'000*
Due to Central Bank - UAE	-	61,521
Related parties - abroad	**67,303**	214,349
Banks abroad	**14,631**	18,104
	81,934	293,974

The above balance is classified as follows:

	2019 ***AED'000***	*2018* *AED'000*
Time deposits	**13,940**	166,931
Current accounts	**67,994**	127,043
	81,934	293,974

17 DUE TO HEAD OFFICE AND ITS BRANCHES ABROAD

	2019 ***AED'000***	*2018* *AED'000*
Time deposits	**20,500**	34,344
Current accounts	**31,117**	43,103
	51,617	77,447

18 CUSTOMERS' DEPOSITS

	2019 ***AED'000***	*2018* *AED'000*
Time deposits	**8,675,816**	8,029,116
Current accounts	**3,957,985**	3,703,475
Saving accounts	**716,778**	595,635
Call deposits	**296,977**	239,653
	13,647,556	12,567,879

19 SECURITY DEPOSITS FROM CUSTOMERS

	2019 ***AED'000***	*2018* *AED'000*
Security deposits against direct facilities	**1,461,631**	1,540,931
Security deposits against indirect facilities	**361,397**	398,157
Other security deposits	**468**	422
	1,823,496	1,939,510

20 OTHER LIABILITIES

	2019 ***AED'000***	*2018* *AED'000*
Interest payable	**87,597**	69,175
Bankers acceptances (notes 13&25d)	**319,624**	300,963
Derivative financial liabilities (note 26)	**1,323**	1,948
Collected bills	**43,473**	26,967
Other payable	**50,288**	36,438
Unearned income	**15,072**	12,203
ECL collective provisions for off-balance sheet (note 11h)	**6,280**	62,044
ECL specific provisions for off-balance sheet (note 25f)	**86**	-
	523,743	509,738

21 PROVISIONS

	2019	*2018*
	AED'000	*AED'000*
Income tax (see notes a, b and c)	**84,464**	94,228
Employees' end of service benefits (see note d)	**14,755**	12,875
	99,219	107,103

a) Movements in the provision for income tax is as follows:

	2019	*2018*
	AED'000	*AED'000*
At 1 January	**94,228**	59,633
Charge for the year	**85,247**	89,489
Payments made during the year	**(95,011)**	(54,894)
At 31 December	**84,464**	94,228

b) Taxation is provided at 20% (2018: 20%) on the profit, adjusted for taxation purposes, attributable to the operations of the Branches in each of the respective Emirates in which the Branches operate, where tax is applicable. The tax assessments up to 31 December 2018 have been agreed with the taxation authorities for Dubai and Ras Al Khaimah Branches respectively. Tax assessed by the tax authorities for the prior assessment years was within the amount of tax provision maintained by the Branches. The Branches have filed annually the tax return for Abu Dhabi and Sharjah Branches upto 31 December 2018 and settled tax due. However, to date, the tax authorities for Abu Dhabi and Sharjah Branches have not raised final tax assessments.

The components of income tax expense for the year ended 31 December are:

	2019	*2018*
	AED'000	*AED'000*
Current income tax	**84,464**	89,489
Prior year income tax adjustments	**783**	-
Total income tax	**85,247**	89,489
Deferred tax		
Relating to origination and reversal of temporary differences (see note 14)	**(44,124)**	(55,545)
Total income tax expense	**41,123**	33,944

21 PROVISIONS (continued)

c) Reconciliation between the taxation expenses and accounting profit multiplied by the Branches' statutory tax rate is as follows:

	2019 AED'000	*2018 AED'000*
Net profit for the year before taxation	**213,545**	130,699
Less: Provisions for impairment and IIS on loans disallowed in the previous years written back/off during the year upon recoveries/write offs	**(146,941)**	(8,574)
Add: Items that are not deductible in determining taxable profit	**371,306**	325,321
Less: Tax credit relating to previous year	**(15,590)**	-
Net taxable profit	**422,320**	447,446
Current tax:		
Current income tax at 20%	**84,464**	89,489
Prior year income tax adjustments	**783**	-
Total income tax	**85,247**	89,489
Deferred tax		
- Relating to origination and reversal of temporary differences (see note 14)	**(44,124)**	(55,545)
Total income tax expense (at effective tax rate of 19.26% (2018: 25.97%))	**41,123**	33,944

d) Movement in the provision for employees' end of service benefits is as follows:

	2019 AED'000	*2018 AED'000*
At 1 January	**12,875**	12,848
Charge for the year	**3,065**	2,849
Payments made during the year	**(1,185)**	(2,822)
At 31 December	**14,755**	12,875

22 SUBORDINATED LOAN

Subordinated loan represents a long term loan provided by Head Office to support the Branches' capital requirements. The details of subordinated loan are as follows:

				31 December	
	Grant date	***Maturity date***	***USD'000***	***2019 AED'000***	*2018 AED'000*
Subordinated loan	30 September 2008	30 September 2023	102,000	**374,595**	374,595

During 2017, the Head Office extended the maturity of the subordinated loan by one year till 30 September 2023. The average interest rate on subordinated loan during the year was 3.2% (2018: 3.5% per annum), calculated based on 3 months LIBOR rate +1%.

23 DESIGNATED SHARE CAPITAL

	2019 AED'000	2018 AED'000
Designated capital	**620,704**	620,704

24 RESERVES

a) Statutory reserve

In accordance with the UAE Company's Law and Regulations, the Branches have established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equalled 50% of the designated share capital. No transfers to statutory reserve were made during 2019 and 2018 as the statutory reserve had reached the limit of 50% of designated share capital. The statutory reserve is not available for distribution except under the circumstances stipulated by the relevant law.

b) Other reserve

The general reserve is established in accordance with the Head Office instructions and can be used for the purposes determined by the Head Office.

c) Impairment reserve

The impairment reserve was created in compliance with the Guidance note on implementation of IFRS 9 issued by the Central Bank of United Arab Emirates (CB UAE). The guidance note requires the Bank to maintain the impairment reserve in equity for an amount of shortfall in provision for expected credit losses as calculated under IFRS 9 compared to the amount of general provision if calculated as of 31 December 2019 per requirements of circular 28/2010 of CB UAE. The Bank assessed such shortfall to be AED 66,879 thousand (2018: AED 8,230 thousand), which is retained as impairment reserve as of 31 December 2019. The impairment reserve is not available for payment of dividend.

25 CONTINGENT LIABILITIES AND COMMITMENTS

In order to meet the financial needs of customers, the Branches enter into various revocable and irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Although these obligations may not be recognised on the statement of financial position, they contain credit risk and are therefore part of the overall risk of the Branches.

By virtue of issued letters of credit and guarantees, the Branches enter into commitments to make payments on behalf of their customers concerning certain business activities mainly for import and export purposes. These letters of credit and guarantees contain credit risk similar to those associated with loans.

a) Contractual commitments are set out by category in the following table. The amounts reflected in the table represent the maximum loss that can be recognised as of the reporting date if counterparties fail to meet the contractual terms.

	2019 AED'000	2018 AED'000
Contingent liabilities:		
Guarantees	**7,363,116**	7,043,917
Letters of credit	**482,531**	533,107
Total (see note c)	**7,845,647**	7,577,024

	2019 AED'000	2018 AED'000
Foreign currency forward contracts	**2,260,082**	2,843,981
Interest rate and cross currency swap contracts	**437,439**	367,079
Total	**2,697,521**	3,211,060

25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

b) At any time the Branches have outstanding commitments to extend credit. These commitments are in the form of approved loans facilities. The amounts reflected in the table below for commitments assume that amounts are fully made available.

	2019 AED'000	*2018 AED'000*
Loan commitments*	**2,565,172**	3,393,472

* For the year ended 31 December 2019, an amount of AED 426 million (2018: AED 1.04 billion) represent irrevocable loan commitments.

c) The maturity profile of the Branches' contingent liabilities were as follows:

31 December 2019	***Less than 1 year AED'000***	***More than 1 year AED'000***	***Total AED'000***
Letters of credit	**482,531**	**-**	**482,531**
Guarantees	**1,808,275**	**5,554,841**	**7,363,116**
Total	**2,290,806**	**5,554,841**	**7,845,647**

31 December 2018	*Less than 1 year AED'000*	*More than 1 year AED'000*	*Total AED'000*
Letters of credit	533,107	-	533,107
Guarantees	5,733,463	1,310,454	7,043,917
Total	6,266,570	1,310,454	7,577,024

d) Acceptances are recognised on balance sheet with a corresponding liability. Accordingly, these are not contingent liabilities (see notes 13 and 20).

e) An analysis of changes in the gross balance of off-balance sheet exposures (including acceptances) is as follows:

	2019			
In AED 000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January	**10,587,614**	**683,845**	**-**	**11,271,459**
Additions during the year	**2,640,133**	**83,130**	**-**	**2,723,263**
Repaid / derecognized facilities	**(2,528,116)**	**(718,095)**	**(18,068)**	**(3,264,279)**
Transfers to Stage 1	**125,622**	**(125,622)**	**-**	**-**
Transfers to Stage 2	**(22,820)**	**22,820**	**-**	**-**
Transfers to Stage 3	**-**	**(106,770)**	**106,770**	**-**
Adjustments during the period	**(261,883)**	**261,883**	**-**	**-**
At 31 December 2019	**10,540,550**	**101,191**	**88,702**	**10,730,443**

25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

e) An analysis of changes in the gross balance of off-balance sheet exposures (including acceptances) is as follows (continued):

	2018			
In AED 000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January	11,424,429	21,302	-	11,445,731
Additions during the year	-	662,543	-	662,543
Repaid / derecognized facilities	(836,815)	-	-	(836,815)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	-	-	-	-
At 31 December 2018	10,587,614	683,845	-	11,271,459

f) An analysis of changes in the provision for impairment of off-balance sheet exposures is as follows:

	2019			
In AED 000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January	**3,585**	**58,459**	**-**	**62,044**
Charged to income	**1,844**	**350**	**-**	**2,194**
Recoveries during the year	**(1,425)**	**(55,944)**	**-**	**(57,369)**
Net charge to income (increase / decrease in staging)	**-**	**(631)**	**-**	**(631)**
Transfers to Stage 1	**188**	**(188)**	**-**	**-**
Transfers to Stage 2	**(2)**	**2**	**-**	**-**
Transfers to Stage 3	**-**	**(1,421)**	**1,421**	**-**
Adjustments during the period (P/L)	**1,433**	**30**	**-**	**1,463**
Adjustments during the period (BS)	**-**	**-**	**(1,335)**	**(1,335)**
At 31 December 2019	**5,623**	**657**	**86**	**6,366**

	2018			
In AED 000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January	1,878	1,769	-	3,647
Charged to income	2,834	43,293	-	46,127
Recoveries during the year	(1,113)	(474)	-	(1,587)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Adjustments during the period	(14)	13,871	-	13,857
Amounts written off	-	-	-	-
At 31 December 2018	3,585	58,459	-	62,044

26 DERIVATIVES

In the ordinary course of business the Branches enter 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. Derivative financial instruments include forwards, futures, swaps and options. During the year, the Branches entered into forward foreign exchange and swaps (cross currency and interest rate).

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.

				Notional amounts by term to maturity		
At 31 December 2019	***Positive fair value AED'000 (note 13)***	***Negative fair value AED'000***	***Notional amount AED'000***	***Within 3 months AED'000***	***3-12 months AED'000***	***1-5 years AED'000***
Foreign exchange forward contracts	**75**	**-**	**2,260,082**	**1,765,938**	**494,144**	**-**
Cross currency & interest rate swaps	**-**	**(1,323)**	**437,439**	**-**	**183,454**	**253,985**
	75	**(1,323)**	**2,697,521**	**1,765,938**	**677,598**	**253,985**

				Notional amounts by term to maturity		
At 31 December 2018	*Positive fair value AED'000 (note 13)*	*Negative fair value AED'000*	*Notional amount AED'000*	*Within 3 months AED'000*	*3-12 months AED'000*	*1-5 years AED'000*
Foreign exchange forward contracts	2,270	(1,948)	2,843,981	2,733,713	110,268	-
Cross currency & interest rate swaps	1,972	-	367,079	-	183,625	183,454
	4,242	(1,948)	3,211,060	2,733,713	293,893	183,454

27 CASH AND CASH EQUIVALENTS

	2019	*2018*
	AED'000	*AED'000*
Cash and balances with the Central Bank of UAE (see note 8)	**2,523,727**	2,641,615
Due from banks (see note 9)	**1,588,812**	1,548,878
Due from the Head Office and its branches abroad (see note 10)	**290,516**	128,935
Due to banks (see note 16)	**(81,934)**	(293,974)
Due to Head Office and its branches abroad (see note 17)	**(51,617)**	(77,447)
	4,269,504	3,948,007
Less: ECL collective provision (see note 9)	**(209)**	(168)
	4,269,295	3,947,839
Less: Statutory deposits with Central Bank of UAE (see note 8)	**(805,192)**	(804,152)
Less: Certificates of deposit with Central Bank with an original maturity of more than 3 months (see note 8(a))	**(300,000)**	(50,000)
Add: Due to banks with an original maturity of more than 3 months	**11,153**	11,211
	3,175,256	3,104,898

28 RELATED PARTY TRANSACTIONS AND BALANCES

The Branches enter into transactions with parties that fall within the definition of a related party in accordance with International Accounting Standard 24: Related Party Disclosures. Related parties comprise the Head Office and its branches abroad. Pricing policies terms and conditions of these transactions are approved by the Branches' management.

Details of outstanding balances due from/due to related parties are set out in notes 9, 10, 16, 17 and 22.

Terms and conditions of transactions with related parties
The above mentioned outstanding balances arose from the ordinary course of business. There have been no guarantees provided or received for any related party receivables or payables. Outstanding balances at year end are unsecured. For the year ended 31 December 2019, the Branches have not made any provision for doubtful debts relating to amounts owed by related parties (2018: nil).

a) The following table shows the transactions with related parties for the relevant financial year:

	2019	*2018*
	AED'000	*AED'000*
Interest income		
Head Office and branches abroad	**5,565**	2,519
Other related parties	**7,945**	6,788
	13,510	9,307
Interest expense		
Head Office and branches abroad	**634**	277
Other related parties	**1,354**	2,090
	1,988	2,367

28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

a) The following table shows the transactions with related parties for the relevant financial year (continued):

	2019 AED'000	*2018 AED'000*
Commission income		
Other related parties	**368**	621
Head Office charges (see note 7)	**43,098**	47,594
Services expenses (see note 7a)	**26,220**	25,632
IT related expenses (see note 7b)	**11,717**	12,775
Acceptances	**2,937**	5,303
Contingent liabilities		
Letters of credit	**2,998**	1,488
Guarantees	**64,175**	73,295
	67,173	74,783

b) Compensation of key management personnel is as follows:

	2019 AED'000	*2018 AED'000*
Salaries, bonuses and other benefits	**11,629**	12,585

29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The table below sets out the Branches' classification of each class of financial assets and liabilities and their carrying amounts as at 31 December:

31 December 2019	***Financial assets at FVTPL AED'000***	***Financial assets at FVTOCI AED'000***	***Financial assets at amortised cost AED'000***	***Other financial liabilities at amortised cost AED'000***	***Financial liabilities at FVTPL AED'000***	***Total AED'000***
Financial assets						
Cash and balances with the Central Bank of UAE	**-**	**-**	**2,523,727**	**-**	**-**	**2,523,727**
Due from banks	**-**	**-**	**1,588,603**	**-**	**-**	**1,588,603**
Due from the Head Office and branches abroad	**-**	**-**	**290,516**	**-**	**-**	**290,516**
Loans and advances, net	**-**	**-**	**11,744,535**	**-**	**-**	**11,744,535**
Other financial assets	**108,830**	**2,606**	**1,977,824**	**-**	**-**	**2,089,260**
Other assets	**75**	**-**	**379,759**	**-**	**-**	**379,834**
Total financial assets	**108,905**	**2,606**	**18,504,964**	**-**	**-**	**18,616,475**

29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2019	***Financial assets at FVTPL AED'000***	***Financial assets at FVTOCI AED'000***	***Financial assets at amortised cost AED'000***	***Other financial liabilities at amortised cost AED'000***	***Financial liabilities at FVTPL AED'000***	***Total AED'000***
Financial liabilities						
Due to banks	-	-	-	**81,934**	-	**81,934**
Due to the Head Office and branches abroad	-	-	-	**51,617**	-	**51,617**
Customers' deposits	-	-	-	**13,647,556**	-	**13,647,556**
Security deposits from customers	-	-	-	**1,823,496**	-	**1,823,496**
Other liabilities	-	-	-	**522,420**	**1,323**	**523,743**
Subordinated loan	-	-	-	**374,595**	-	**374,595**
Lease contract liability	-	-	-	**38,368**	-	**38,368**
Total financial liabilities	-	-	-	**16,539,986**	**1,323**	**16,541,309**

31 December 2018	*Financial assets at FVTPL AED'000*	*Financial assets at FVTOCI AED'000*	*Financial assets at amortised cost AED'000*	*Other financial liabilities at amortised cost AED'000*	*Financial liabilities at FVTPL AED'000*	*Total AED'000*
Financial assets						
Cash and balances with the Central Bank of UAE	-	-	2,641,615	-	-	2,641,615
Due from banks	-	-	1,548,710	-	-	1,548,710
Due from the Head Office and branches abroad	-	-	128,935	-	-	128,935
Loans and advances, net	-	-	11,366,633	-	-	11,366,633
Other financial assets	108,830	1,763	1,591,070	-	-	1,701,663
Other assets	4,242	-	358,200	-	-	362,442
Total financial assets	113,072	1,763	17,635,163	-	-	17,749,998
Financial liabilities						
Due to banks	-	-	-	293,974	-	293,974
Due to the Head Office and branches abroad	-	-	-	77,447	-	77,447
Customers' deposits	-	-	-	12,567,879	-	12,567,879
Security deposits from customers	-	-	-	1,939,510	-	1,939,510
Other liabilities	-	-	-	507,790	1,948	509,738
Subordinated loan	-	-	-	374,595	-	374,595
Total financial liabilities	-	-	-	15,761,195	1,948	15,763,143

30 CONCENTRATIONS OF ASSETS AND LIABILITIES

	31 December 2019			*31 December 2018*		
	Assets AED'000	***Liabilities and Head Office equity AED'000***	***Off balance sheet items AED'000***	*Assets AED'000*	*Liabilities and Head Office equity AED'000*	*Off balance sheet items AED'000*
Geographic regions						
United Arab Emirates	**16,483,000**	**14,991,797**	**13,108,340**	15,714,670	16,288,268	14,181,556
Middle East and other countries	**2,386,930**	**1,648,900**	**-**	2,212,719	1,639,121	-
Total	**18,869,930**	**16,640,697**	**13,108,340**	17,927,389	17,927,389	14,181,556
Economic sectors						
Government and Public Sector	**2,667,326**	**305,980**	**-**	3,330,064	183,800	-
Trading and commercial	**10,043,921**	**8,633,343**	**9,941,271**	9,050,558	8,192,263	7,555,423
Retail	**1,555,028**	**6,531,728**	**-**	1,396,288	6,131,326	-
Financial institutions	**3,970,369**	**177,025**	**3,167,069**	3,379,545	338,815	6,626,133
Others	**633,286**	**992,621**	**-**	770,934	3,081,185	-
Total	**18,869,930**	**16,640,697**	**13,108,340**	17,927,389	17,927,389	14,181,556

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments held at fair value through profit and loss

Investments held for trading or designated at fair value through profit and loss represent loans and advances that provide the Branches with opportunity for returns through interest income, trading gains and capital appreciation. Included in these investments are unlisted loans and advances for which the fair values are derived from external valuation performed based on pricing done from an independent source adjusted for any additional consideration by the Bank's risk management team.

Unquoted investments held at fair value through other comprehensive income

The financial statements include holdings in unquoted securities amounting to AED 2.61 million (2018: AED 1.76 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

Fair value of financial instruments carried at amortised cost

Except as stated below, the management consider the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements to approximate their fair values:

	Carrying amount AED'000	***Fair value AED'000***
2019		
Financial assets at amortised cost	**1,979,605**	**1,985,405**
2018		
Financial assets at amortised cost	1,592,359	1,593,169

The fair value for other financial assets measured at amortised cost is based on market prices.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. They are ranked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2019	***Level 1 AED'000***	***Level 2 AED'000***	***Level 3 AED'000***	***Total AED'000***
Financial assets at FVTPL				
- Unquoted debt instruments	**-**	**108,830**	**-**	**108,830**
Financial assets at FVTOCI				
- Unquoted equity instrument	**-**	**-**	**2,606**	**2,606**
Derivative financial assets	**-**	**75**	**-**	**75**
Derivative financial liabilities	**-**	**1,323**	**-**	**1,323**

31 December 2018	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
Financial assets at FVTPL				
- Unquoted debt instruments	-	108,830	-	108,830
Financial assets at FVTOCI				
- Unquoted equity instrument	-	-	1,763	1,763
Derivative financial assets	-	4,242	-	4,242
Derivative financial liabilities	-	1,948	-	1,948

a) There were no transfers between Level 2 and Level 3 during the current year.

b) The fair value of all other financial assets and liabilities which are carried at amortized cost approximate their carrying value as at the balance sheet date and would qualify for a level 2 disclosure under IFRS.

32 CAPITAL MANAGEMENT

a) *Regulatory capital*

The Central Bank of UAE (CB UAE) sets, supervises and monitors capital requirements for the Branches as a whole.

Effective from 2017, the capital is computed using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CB UAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

Minimum Capital Requirements
The CB UAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

Additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced over and above the minimum CET1 requirement of 7%.

For 2019, CCB is effective in transition arrangement and is required to be kept at 2.5% of the Capital base. CCyB is not in effect and is not required to be kept for 2019.

Regulatory Capital
The Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 ('T2'), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- AT1 capital comprises eligible non-common equity capital instruments.
- T2 capital comprises qualifying subordinated debt and undisclosed reserve

The Branches' RWA are weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The Branches are following the standardized measurement approach for credit, market and operational risk, as per Pillar 1 of Basel III.

	2019 ***AED'000***	*2018* *AED'000*
Tier 1 Capital		
Designated share capital	**620,704**	620,704
Statutory reserve	**310,352**	310,352
General reserve	**23,000**	23,000
Retained earnings	**1,207,624**	1,094,857
Accumulated other comprehensive income	**303**	-
	2,161,983	2,048,913
Deductions from Tier 1	**(3,994)**	(2,964)
Total Tier 1 capital [A]	**2,157,989**	2,045,949
Tier 2 Capital		
Qualifying subordinated liabilities after amortization (subordinated loan) (see note 22)	**280,737**	337,136
Provision for expected credit losses (stage 1 and 2)/general provision, including impairment reserve	**204,731**	202,017
Total Tier 2 capital [B]	**485,468**	539,153
Total regulatory capital [C = A + B]	**2,643,457**	2,585,102

32 CAPITAL MANAGEMENT (continued)

a) *Regulatory capital (continued)*

	2019 AED'000	*2018 AED'000*
Credit Risk	**16,378,473**	15,612,699
Market Risk	**142,690**	10,727
Operational Risk	**1,123,858**	1,080,901
Total risk-weighted assets [D]	**17,645,021**	16,704,327
Total capital ratio	**14.98%**	15.48%
Tier 1 ratio	**12.23%**	12.25%
CET1 ratio	**12.23%**	12.25%

b) *Capital allocation*

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for these operations and activities, by finance department and risk management of the Branches, and is subject to review by the Assets and Liabilities Committee (ALCO) as appropriate.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Branches to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Branches' longer-term strategic objectives. The Branches' policies in respect of capital management and allocation are reviewed regularly by the Head Office.

33 RISK MANAGEMENT

The Branches' management has set up a strong risk management infrastructure supported by adoption of best practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

a) Credit risk management
b) Liquidity risk management
c) Market risk
   (i) Trading book
   (ii) Non-trading book
   (iii) Interest rate risk management
   (iv) Foreign currency risk management
d) Operational risk management

The Branches' management has overall responsibility for the oversight of the risk management frame work. It has established detailed policies and procedures in this regard along with high powered senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Branches.

The Credit Policy Committee, Assets and Liabilities Committee and Investment Committee work under the mandate of the management to set up risk limits and manage the overall risk in the Branches. These committees approve risk management policies of the Branches developed by the Risk Management group.

The Head Office Audit, Risk and Compliance Committee (ARCC) is an independent Branch which is responsible to review the risk policies, risk exposures and the risk managing and monitoring framework.

33 RISK MANAGEMENT (continued)

a) Credit risk management

Risk management policies relating to credit are reviewed and approved by the Branches' Credit Policy Committee (CPC) based on policies established in the Credit Policy Manual. Credit and Marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Branches further limit risk through diversification of their assets by industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Examination teams from the Risk Management Department, facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Branches' CPC and are monitored by the Credit Risk Management Division. CPC is responsible for setting credit policy of the Branches. It also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality.

Different credit underwriting procedures are followed for retail and corporate/institutional lending as described below.

(i) Retail lending

Each retail credit application is considered for approval according to a product program, which is in accordance with guidelines set out in the product policy approved by the Branches' CPC. All approval authorities are delegated by the CPC or by the Head Office. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs.

Each product program contains detailed credit criteria (such as customer demographics, income eligibility, etc) and regulatory, compliance and documentation requirements, as well as other requirements.

Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where CPC approval of the specific credit application is necessary).

(ii) Corporate lending

All credit applications for corporate lending are subject to the Branches' credit policies, underwriting standards and industry caps (if any) and to regulatory requirements.

The Branches do not lend to companies operating in industries that are considered by the Branches inherently risky and where industry knowledge specialized is required. In addition, the Branches set credit limits for all customers based on an evaluation of their credit worthiness.

All credit lines and facilities extended by the Branches are made subject to prior approval pursuant to a set of delegated credit authority limits under full supervision by CPC or Head Office.

The Branches have established limits for dealings with foreign financial institutions in order to mitigate risk. Individual country limits are defined based on a detailed credit policy defining acceptable country credit risk exposure and evaluating and controlling cross border risk. These limits are regularly reviewed by the Branches' credit risk management and periodically by the CPC.

(iii) Credit review procedures and loan classification

The Branches' Credit Review Division (the CRD) subjects the Branches' risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the UAE and Branches' internal policies in order to assist in the early identification of accrual and potential performance problems. The CRD validates the risk ratings of all commercial customers, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Branches.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(iii) Credit review procedures and loan classification (continued)
All commercial/institutional loan facilities of Branches are assigned one of ten risk ratings of the performing grades where grades 1-7 are for performing loans depending on their risk, with more severely classified exposures graded 8-10 for impaired loans. The Branches' internal rating system, which has been developed using historical loss data and customer behavioral scores, is also continually updated and strengthened in order to provide a statistically validated underpinning to customer ratings consistent with Basel III IRB guidelines.

Specific allowance for impairment of classified assets is made based on recoverability of the outstanding balance and credit risk ratings of the assets.

The Branches write off retail unpaid advances when evidences for being uncollectable are established, approval is passed based on study cases and the management approval on case-by-case basis.

The Branches also comply with IFRS, in accordance with which they assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan using original effective interest rate. As required by Central Bank of the UAE guidelines, the Branches take the higher of the loan loss provisions required under IFRS and Central Bank of UAE regulations.

(iv) Impaired loans and advances
Impaired loans and advances for which the Branches determine that it is probable that they will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 8, 9 or 10 in the Branches' internal credit risk grading system which are classified as Stage 3 under IFRS 9.

(v) Past due but not impaired loans
Loans and advances where contractual interest or principal payments are past due but the Branches believe that impairment is not appropriate on the basis of the level of security/ collateral available and/or the stage of collection of amounts owed to the Branches.

(vi) Allowances for impairment
The Branches establish an allowance for impairment losses that represents their estimate of expected credit losses in its financial assets. The main components of this allowance are a specific loss component that relates to individually significant exposures (stage 3), expected credit losses on unimpaired financial assets (stage 1 and 2), a collective loan loss allowance established for a group of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

(vii) Write-off policy
The Branches write off a loan (and any related allowances for impairment losses) when the Branches' credit administration determines that the loans are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

In certain cases, the Branches continue to carry classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to statement of comprehensive income. Accounts are written off only when all legal and other avenues for recovery or settlement are exhausted.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	*Due from banks**		*Loans and advances*		*Investments in securities and other assets*	
	2019 AED'000	*2018 AED'000*	***2019 AED'000***	*2018 AED'000*	***2019 AED'000***	*2018 AED'000*
Stage 3						
Impaired and not past due	-	-	-	-	-	-
Gross amount						
Substandard	-	-	**65,468**	3,150	-	-
Doubtful	-	-	**67,697**	18,541	-	-
Loss	-	-	**750,287**	553,771	-	-
Gross amount (note 11(d))	-	-	**883,452**	575,462	-	-
Interest suspended	-	-	**(127,652)**	(108,580)	-	-
Allowance for specific impairment	-	-	**(655,193)**	(442,748)	-	-
Net exposure	-	-	**100,607**	24,134	-	-
Stage 2						
Gross amount	-	-	**1,330,388**	1,332,338	-	-
	-	-	**1,330,388**	1,332,338	-	-
Interest suspended	-	-	**(41,251)**	(41,731)	-	-
ECL allowance for collective impairment	-	-	**(127,554)**	(150,710)	-	-
Total	-	-	**1,161,583**	1,139,897	-	-
Stage1						
Gross amount	**4,402,846**	4,319,428	**10,529,949**	10,227,125	**2,091,042**	1,702,952
Interest suspended	-	-	**(4,631)**	(4,454)	-	-
ECL allowance for collective Impairment	**(209)**	(168)	**(42,973)**	(20,069)	**(1,782)**	(1,289)
	4,402,637	4,319,260	**10,482,346**	10,202,602	**2,089,260**	1,701,663
Carrying amount	**4,402,637**	4,319,260	**11,744,535**	11,366,633	**2,089,260**	1,701,663

*Including cash and balances with Central Bank of UAE and due from the head office and its branches abroad.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Set out below is an analysis of the overall provision movement during the year

AED'000	***31 December 2019***				*31 December 2018*				
	Collective 12-month ECL	***Lifetime ECL not credit-impaired***	***Lifetime ECL credit-impaired***	***Total***	*General 28/2010*	*Collective 12-month ECL*	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	*Total*
As at 1 January (as per IAS 39)	**-**	-	-	-	229,882	-	-	323,888	553,770
Reversal on transition to IFRS 9	-	-	-	-	(141,502)	-	-	(32,583)	(174,085)
ECL recognized under IFRS 9	**-**	-	-	-	-	43,973	97,529	-	141,502
As at 1 January (adjusted opening as per IFRS 9)	**25,111**	**209,169**	**442,748**	**677,028**	88,380	43,973	97,529	291,305	521,187
Allowances for impairment made during the year	**30,458**	**87,126**	**179,240**	**296,824**	-	1,346	138,788	156,772	296,906
Write back/ recoveries made during the year	**(6,913)**	**(92,976)**	**(15,343)**	**(115,232)**	-	(20,208)	(24,337)	(8,137)	(52,682)
Amounts written-off during the year	**-**	-	**(24,543)**	**(24,543)**	-	-	-	(3)	(3)
Transfers to Stage 1	**2,468**	**(2,468)**	**-**	-	-	-	-	-	-
Transfers to Stage 2	**(201)**	**201**	**-**	-	-	-	-	-	-
Transfers to Stage 3	**(336)**	**(72,841)**	**73,177**	**-**	-	-	(2,811)	2,811	-
Other adjustments	**-**	-	-	-	(88,380)	-	-	-	(88,380)
As at 31 December	**50,587**	**128,211**	**655,279**	**834,077**	-	25,111	209,169	442,748	677,028

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Impairment reserve under the Central Bank of UAE (CBUAE) guidance
The CBUAE issued its IFRS 9 guidance on 30 April 2019 via Notice No. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance"). Pursuant to Clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2019	*2018*
	AED'000	*AED'000*
Impairment reserve: General		
Minimum required by General provisions under Circular 28/2010 of CBUAE	**245,677**	242,510
Less: Expected credit loss (Stage 1 & 2) (note 11 (h))	**178,798**	234,280
Collective provision maintained as the impairment reserve* (note 11 (j))	**66,879**	8,230
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**655,193**	442,748
Less: Stage 3 provisions under IFRS 9 (note 11 (g))	**(655,193)**	(442,748)
Specific provision transferred to the impairment reserve*	**-**	-
Total provision maintained as the impairment reserve	**66,879**	8,230

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

(viii) Collaterals held (Corporate)

The Branches hold collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and subsequently are reviewed periodically and specifically when the loan is individually assessed as impaired. For all tangible securities with the exception of real estate, collaterals are reviewed at least once a year. In the case of real estate property, collaterals are reviewed every three years or when there is material adverse changes in the real estate markets that may affect the value and liquidity of the real estate markets or financial condition of the borrowers and/or material changes in the terms of the facility. When the facilities are classified as non-performing, the property is evaluated by an independent valuer, who is a member of the approved panel. In the case of cash, stocks, shares and bonds, the valuation is performed weekly. Collaterals generally are not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

(ix) Collaterals held (Retail)

The Branches hold collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collaterals generally are not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collaterals usually are not held against investment in securities.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

At 31 December, the fair value of collaterals held were as follows:

	2019	*2018*
	AED'000	*AED'000*
Against individually assessed loans and advances		
Property	**2,628,124**	2,759,760
Equipment and vehicles	**206,614**	150,932
Cash	**1,014,740**	1,123,713
Others	**384,848**	428,969
	4,234,326	4,463,374
Against collectively assessed loans and advances		
Property	**10,116**	16,874
Cash	**63,062**	35,564
	73,178	52,438
Total	**4,307,504**	4,515,812

(x) Geographical concentration

The distributions by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

	U.A.E.	***Total***
	AED'000	***AED'000***
2019		
Impaired loans – Gross (see note 33 (a))	**883,452**	**883,452**
Interest suspended	**173,534**	**173,534**
Specific provision (Stage 3)	**655,193**	**655,193**
Expected cedit losses (Stage 1 and 2)	**170,527**	**170,527**

	U.A.E.	*Total*
	AED'000	*AED'000*
2018		
Impaired loans – Gross (see note 33 (a))	575,462	575,462
Interest suspended	154,765	154,765
Specific provision (Stage 3)	442,748	442,748
Expected cedit losses (Stage 1 and 2)	170,779	170,779

(xi) Concentration of credit risk by industry

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

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

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(xi) Concentration of credit risk by industry (continued)

	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***
Mining and manufacturing	**2,126,518**	**-**	**2,126,518**	**1,779,192**	**3,905,710**
Construction	**2,116,944**	**-**	**2,116,944**	**4,695,856**	**6,812,800**
Real Estate	**1,937,904**	**-**	**1,937,904**	**295,564**	**2,233,468**
Telecommunication and transportation	**597,895**	**-**	**597,895**	**249,308**	**847,203**
Financial institutions	**-**	**4,402,846**	**4,402,846**	**-**	**4,402,846**
Governmental	**-**	**-**	**-**	**-**	**-**
Individuals	**1,555,028**	**-**	**1,555,028**	**-**	**1,555,028**
Services	**4,409,500**	**-**	**4,409,500**	**3,710,523**	**8,120,023**
	12,743,789	**4,402,846**	**17,146,635**	**10,730,443**	**27,877,078**

	On balance sheet items				
31 December 2018	*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*
Mining and manufacturing	2,438,112	-	2,438,112	1,249,024	3,687,136
Construction	2,034,835	-	2,034,835	4,387,146	6,421,981
Real Estate	1,964,132	-	1,964,132	9,648	1,973,780
Telecommunication and transportation	545,889	-	545,889	98,662	644,551
Financial institutions	-	4,319,260	4,319,260	-	4,319,260
Governmental	-	-	-	-	-
Individuals	1,396,288	-	1,396,288	-	1,396,288
Services	3,755,669	-	3,755,669	5,526,979	9,282,648
	12,134,925	4,319,260	16,454,185	11,271,459	27,725,644

33 RISK MANAGEMENT (continued)

b) Liquidity risk management

Liquidity risk is the risk that the Branches will encounter difficulties in meeting obligations from its financial liabilities at a point of time.

The Branches manage liquidity to ensure, as far as possible, that they will always have sufficient liquidity to meet their liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branches' reputation.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Branches as a whole.

When a branch is subject to a liquidity limit imposed by its local regulator, the branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance with local regulatory limits on a daily basis.

The liquidity position is monitored daily and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

ALCO has a broad range of authority delegated by the Head Office to manage the Branches' asset and liability structure and funding strategy. ALCO meets on a monthly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rates and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCO formulates liquidity risk management guidelines for the Branches' operation. The Branches use interest rates stimulation forms to measure and monitor interest rate sensitivity and prospective fluctuation.

The key measure used by the Branches for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as cash and cash equivalents and investment in an active and liquid market less any deposits from banks, debit notes issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Branches' compliance with the liquidity limit established by the Branches' lead regulator. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Utilisation of funds to stable resources and stress testing of liquid funds vs unexpected withdrawal of liabilities. For all the measures, benchmarks are set and reviewed by ALCO on regular basis.

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

The maturities of assets, liabilities and Head Office equity as at 31 December is as follows:

31 December 2019	*Within 3 months AED'000*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*No fixed maturity AED'000*	*Total AED'000*
Assets						
Cash and balances with Central Bank of UAE	**1,050,001**	**250,000**	**-**	**-**	**1,223,726**	**2,523,727**
Deposits and balances due from banks	**854,860**	**-**	**-**	**-**	**733,743**	**1,588,603**
Deposits and balances due from Head Office and branches abroad	**239,930**	**-**	**-**	**-**	**50,586**	**290,516**
Loans and advances, net	**1,965,133**	**672,358**	**3,269,865**	**5,837,179**	**-**	**11,744,535**
Other financial assets	**812,330**	**348,893**	**414,272**	**511,159**	**2,606**	**2,089,260**
Other assets	**-**	**-**	**-**	**-**	**386,187**	**386,187**
Right-of-use assets	**-**	**-**	**-**	**44,358**	**-**	**44,358**
Deferred tax assets	**-**	**-**	**-**	**-**	**192,057**	**192,057**
Property and equipment	**-**	**-**	**-**	**-**	**10,687**	**10,687**
Total assets	**4,922,254**	**1,271,251**	**3,684,137**	**6,392,696**	**2,599,592**	**18,869,930**
Liabilities and Head Office equity						
Due to banks	**2,786**	**11,154**	**-**	**-**	**67,994**	**81,934**
Due to Head Office and branches abroad	**20,500**	**-**	**-**	**-**	**31,117**	**51,617**
Customers' deposits	**4,494,160**	**2,433,006**	**1,991,601**	**830,853**	**3,897,936**	**13,647,556**
Security deposits from customers	**416,599**	**317,306**	**609,194**	**60,147**	**420,250**	**1,823,496**
Other liabilities	**-**	**-**	**-**	**-**	**523,912**	**523,912**
Lease liability	**3,020**	**3,020**	**6,040**	**26,288**	**-**	**38,368**
Provisions	**-**	**-**	**-**	**-**	**99,219**	**99,219**
Subordinated loan	**-**	**-**	**-**	**374,595**	**-**	**374,595**
Head Office equity	**-**	**-**	**-**	**-**	**2,229,233**	**2,229,233**
Total liabilities and Head Office equity	**4,937,065**	**2,764,486**	**2,606,835**	**1,291,883**	**7,269,661**	**18,869,930**

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

31 December 2018	*Within 3 months AED'000*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*No fixed maturity AED'000*	*Total AED'000*
Assets						
Cash and balances with Central Bank of UAE	1,700,000	50,000	-	-	891,615	2,641,615
Deposits and balances due from banks	997,887	-	-	-	550,823	1,548,710
Deposits and balances due from Head Office and branches abroad	96,458	-	-	-	32,477	128,935
Loans and advances, net	2,449,957	511,808	3,329,020	5,075,848	-	11,366,633
Other financial assets	317,507	444,590	514,848	422,955	1,763	1,701,663
Other assets	-	-	-	-	377,987	377,987
Deferred tax assets	-	-	-	-	147,933	147,933
Property and equipment	-	-	-	-	13,913	13,913
Total assets	5,561,809	1,006,398	3,843,868	5,498,803	2,016,511	17,927,389
Liabilities and Head Office equity						
Due to banks	155,721	11,211	-	-	127,042	293,974
Due to Head Office and branches abroad	34,344	-	-	-	43,103	77,447
Customers' deposits	4,514,092	1,485,882	1,493,526	1,131,250	3,943,129	12,567,879
Security deposits from customers	686,554	561,740	262,050	115,298	313,868	1,939,510
Other liabilities	-	-	-	-	509,738	509,738
Provisions	-	-	-	107,103	-	107,103
Subordinated loan	-	-	-	374,595	-	374,595
Head Office equity	-	-	-	-	2,057,143	2,057,143
Total liabilities and Head Office equity	5,390,711	2,058,833	1,755,576	1,728,246	6,994,023	17,927,389

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

The tables below show undiscounted contractual cash flows on the Branches' financial liabilities:

31 December 2019	***Within 3 months AED'00***	***3 to 6 months AED'000***	***6 to 12 months AED'000***	***Over 1 year AED'000***	***No fixed maturity AED'000***	***Total AED'000***
Due to banks	**2,790**	**11,168**	**-**	**-**	**68,084**	**82,042**
Due to Head Office and branches abroad	**20,500**	**-**	**-**	**-**	**31,117**	**51,617**
Customers' deposits	**4,675,366**	**2,531,105**	**2,071,903**	**864,354**	**4,055,101**	**14,197,829**
Security deposits from customers	**437,167**	**332,972**	**639,270**	**63,116**	**440,998**	**1,913,523**
Other liabilities	**-**	**-**	**-**	**-**	**433,558**	**433,558**
Lease liability	**3,199**	**3,199**	**6,398**	**27,119**	**-**	**39,915**
Subordinated loan	**-**	**-**	**-**	**416,190**	**-**	**416,190**
Total financial liabilities	**5,139,022**	**2,878,444**	**2,717,571**	**1,370,779**	**5,028,858**	**17,134,674**

31 December 2018	*Within 3 months AED'00*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*No fixed maturity AED'000*	*Total AED'000*
Due to banks	155,792	11,215	-	-	127,099	294,106
Due to Head Office and branches abroad	34,345	-	-	-	43,104	77,449
Customers' deposits	4,673,918	1,538,491	1,546,406	1,171,303	4,082,739	13,012,857
Security deposits from customers	715,927	585,773	273,261	120,231	327,296	2,022,488
Other liabilities	-	-	-	-	440,563	440,563
Subordinated loan	-	-	-	442,575	-	442,575
Total financial liabilities	5,579,982	2,135,479	1,819,667	1,734,109	5,020,801	16,290,038

33 RISK MANAGEMENT (continued)

c) Market risk management

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and bonds and shares prices. The Branches classify exposures to market risk into either trading or non-trading or banking books.

(i) Market risk - trading books
The Branches have set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Branches periodically assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

The Branches are exposed to fluctuations in equity price risk. The table summarises the impact on profit and loss and equity from changes in prices by +/-10%. The below analysis assumes that all equities move in parallel.

	2019 AED'000	*2018 AED'000*
Other financial assets measured at FVTPL	**10,883**	10,883
Other financial assets measured at FVTOCI	**261**	176
	11,144	11,059

(ii) Market risk - non-trading or banking books
Market risk on non-trading or banking positions mainly arises from the interest rate and foreign currency exposures.

(iii) Market risk - interest rate risk management
Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Branches are exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Branches use simulation-modeling tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by ALCO. Since most of the Branches' assets and liabilities are at floating rates, deposits and loans generally reprice simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Branches' assets and liabilities are repriced during the year, thereby further limiting interest rate risk.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branches' statement of comprehensive income or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at reporting date, including the effect of hedging instruments. The sensitivity of equity is analyzed by maturity of the assets or swaps. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities.

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

(iii) Market risk - interest rate risk management (continued)
The interest rate risk as at 31 December is as follows:

31 December 2019	*Less than 3 months AED'000*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*Non-interest sensitive AED'000*	*Total AED'000*
Assets						
Cash and balances with Central Bank	1,050,001	250,000	-	-	1,223,726	2,523,727
Deposits due from banks	854,834	-	-	-	733,769	1,588,603
Deposits and balances due from Head Office and branches abroad	239,930	-	-	-	50,586	290,516
Loans and advances, net	4,525,440	1,418,033	4,414,500	1,386,562	-	11,744,535
Other financial assets	1,649,622	73,305	166,348	197,379	2,606	2,089,260
Other assets	-	-	-	-	386,187	386,187
Right-of-use assets	-	-	-	-	44,358	44,358
Deferred tax assets	-	-	-	-	192,057	192,057
Property and equipment	-	-	-	-	10,687	10,687
Total assets	8,319,827	1,741,338	4,580,848	1,583,941	2,643,976	18,869,930
Customers' deposits	4,682,478	2,323,549	1,891,616	851,978	3,897,935	13,647,556
Security deposits from customers	378,591	400,926	578,533	72,350	393,096	1,823,496
Deposits and balances due to banks	2,787	11,153	-	-	67,994	81,934
Deposits and balances due to Head Office and branches abroad	20,500	-	-	-	31,117	51,617
Other liabilities	-	-	-	-	523,912	523,912
Lease liability	3,020	3,020	6,040	26,288	-	38,368
Provisions	-	-	-	-	99,219	99,219
Subordinated loan	-	374,595	-	-	-	374,595
Head Office equity	-	-	-	-	2,229,233	2,229,233
Total liabilities and Head Office equity	5,087,376	3,113,243	2,476,189	950,616	7,242,506	18,869,930
On Balance Sheet gap	3,232,451	(1,371,905)	2,104,659	633,325	(4,598,530)	-
Cumulative interest rate sensitivity gap	3,232,451	1,860,546	3,965,205	4,598,530	-	-

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

(iii) Market risk - interest rate risk management (continued)

31 December 2018	*Less than 3 months AED'000*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*Non-interest sensitive AED'000*	*Total AED'000*
Assets						
Cash and balances with Central Bank	1,700,000	50,000	-	-	891,615	2,641,615
Deposits due from banks	997,887	-	-	-	550,823	1,548,710
Deposits and balances due from Head Office and branches abroad	96,458	-	-	-	32,477	128,935
Loans and advances, net	6,014,707	433,443	3,726,947	1,191,536	-	11,366,633
Other financial assets	799,403	246,210	413,120	241,167	1,763	1,701,663
Other assets	-	-	-	-	377,987	377,987
Deferred tax assets	-	-	-	-	147,933	147,933
Property and equipment	-	-	-	-	13,913	13,913
Total assets	9,608,455	729,653	4,140,067	1,432,703	2,016,511	17,927,389
Customers' deposits	4,819,771	1,363,287	1,843,752	597,941	3,943,128	12,567,879
Security deposits from customers	860,164	491,303	222,512	68,574	296,957	1,939,510
Deposits and balances due to banks	158,472	8,460	-	-	127,042	293,974
Deposits and balances due to Head Office and branches abroad	34,344	-	-	-	43,103	77,447
Other liabilities	-	-	-	-	509,738	509,738
Provisions	-	-	-	-	107,103	107,103
Subordinated loan	-	374,595	-	-	-	374,595
Head Office equity	-	-	-	-	2,057,143	2,057,143
Total liabilities and Head Office equity	5,872,751	2,237,645	2,066,264	666,515	7,084,214	17,927,389
On Balance Sheet gap	3,735,704	(1,507,992)	2,073,803	766,188	(5,067,703)	-
Cumulative interest rate sensitivity gap	3,735,704	2,227,712	4,301,515	5,067,703	-	-

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

(iii) Market risk - interest rate risk management (continued)
The impact of 1% sudden movement in benchmark interest rate on net income over a 12 month period as on 31 December 2019 would have been an/(a) increase/decrease in net income by AED 4.9 million (2018: AED 4.9 million).

The average effective interest rate on bank placements was 1.78% (2018: 1.32%) certificates of deposits with central bank was 2.04% (2018: 1.56%), on loans and advances 5.30% (2018: 4.92%), on customer's deposits 1.73% (2018: 1.33%) and on bank borrowings 0.82% (2018: 0.79%).

(iv) IBOR Reforms
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 Bank has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative.

Financial assets:
The Bank's IBOR exposures on floating-rate loans and advances are covered in the following table:

Currency	***2019*** ***AED'000***
USD	**837,330**
EUR	**8,236**
JPY	**17,782**
	863,348

The Bank expects that retail products will be amended in a uniform way. However, the Bank expects to participate in bilateral negotiations with the counterparties in its bespoke products, such as loans and advances issued to corporates. The Bank expects to begin amending the contractual terms of its existing floating-rate assets in Q3 2020; 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 Bank and loan counterparties.

Financial liabilities:
The Bank has floating-rate liabilities indexed to IBORs of AED 374,595 thousand denominated in USD.

d) Foreign currency risk management
Foreign currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The management has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The Branches' assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. The Branches manage exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its reporting and cash flows. The management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Branches' net material risks from foreign currencies are as follows:

	2019 ***AED'000***	*2018* *AED'000*
USD	**(376)**	(2,492)
Sterling Pounds	**351**	(27)
Euro	**16**	(89)
Japanese Yen	**96**	(255)
Qatari Riyal	**2,660**	1,021
Other	**15,290**	14,383
Net risk	**18,037**	12,541

33 RISK MANAGEMENT (continued)

d) Foreign currency risk management (continued)

The Branches' management sets policies and limits for foreign currencies transactions and periodically monitors foreign currency risks.

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as fair value hedges). A positive effect shows a potential increase in income statement or equity; whereas a negative effect shows a potential net reduction in income statement or equity.

Currency exposure as at 31 December:

31 December 2019	***Increase/decrease of 5%***	***Effect on profit***
		AED'000
Sterling Pounds	**±5%**	**4**
Japanese Yen	**±5%**	**29**
Euro	**±5%**	**72**
Qatari Riyal	**±5%**	**-**
Other	**±5%**	**(35)**

31 December 2018	*Increase/decrease of 5%*	*Effect on profit*
		AED'000
Sterling Pounds	±5%	6
Japanese Yen	±5%	29
Euro	±5%	105
Qatari Riyal	±5%	-
Other	±5%	(15)

34 LEASES

The Bank has lease contracts for branches and ATM locations used in its operations. Leases of branches generally have lease terms between 3 and 5 years, while ATM locations generally have shorter lease terms between 1 and 2 years. The Bank's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options, which are further discussed below.

The Bank also has certain leases for ATM locations with lease terms of 12 months or less and with low value. The Bank applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

34 LEASES (continued)

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	AED'000
Right-of-use assets	
As at 1 January 2019 (modified retrospective approach) (Note 2)	56,747
Additions	-
Depreciation expense	(12,389)
As at 31 December 2019	**44,358**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

Lease Liabilities	
As at 1 January 2019 (modified retrospective approach) (Note 2)	50,526
Additions	-
Accretion of interest	512
Payments during the year	(12,670)
As at 31 December 2019	**38,368**

The maturity analysis of lease liabilities are disclosed under Liquidity risk management note.

The following are the amounts recognised in profit or loss:

	AED'000
Depreciation expense of right-of-use assets	12,389
Interest expense on lease liabilities	841
Expense relating to leases of short-term and low-value assets (included in rent expenses)	10,533
Total amount recognised in profit or loss	**23,763**

The Bank had total cash outflows for leases of AED 12,158 thousand in 2019.

The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

35 COMPARATIVE FIGURES

Certain comparative figures for the year ended 31 December 2018 have been reclassified to comply with the financial statements presentation of the current year.