DOHA BANK (Q.P.S.C.)
UNITED ARAB EMIRATES
(UAE) BRANCHES

FINANCIAL STATEMENTS
For the year ended

31 DECEMBER 2020

Doha Bank (Q.P.S.C.) United Arab Emirates (UAE) Branches

Financial statements
For the year ended 31 December 2020

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Independent Auditors' Report

To the Head Office of Doha Bank (Q.P.S.C.) – UAE Branches

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Doha Bank (Q.P.S.C.) – UAE Branches ("the Bank"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss, comprehensive income, changes in head office equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management 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 their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Bank's financial reporting process.

Auditors' 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 auditors' 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.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank 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

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates
Date : 13 APR 2021

Doha Bank (Q.P.S.C.) - United Arab Emirates (UAE) Branches

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 AED '000	2019 AED '000
ASSETS			
Cash and balances with U.A.E. Central Bank	3	**281,121**	441,715
Due from Head Office and overseas branches	4	**108,940**	381,148
Due from banks and other financial institutions	10	**160,971**	257,510
Loans and advances	5	**1,621,728**	1,779,605
Investment securities	6	**72,164**	70,687
Deferred tax asset	7	**179,396**	179,396
Other assets	8	**6,711**	6,495
Acceptances	27	**20,349**	2,240,782
Property and equipment	9	**10,003**	9,003
TOTAL ASSETS		**2,461,383**	5,366,341
LIABILITIES AND HEAD OFFICE EQUITY			
LIABILITIES			
Due to Head Office and overseas branches	4	**864,132**	408,002
Due to banks and other financial institutions	10	**393,671**	-
Customers' deposits	11	**612,511**	2,037,348
Other liabilities	12	**27,521**	39,198
Acceptances	27	**20,349**	2,240,782
TOTAL LIABILITIES		**1,918,184**	4,725,330
HEAD OFFICE EQUITY			
Allocated capital	13	**900,000**	900,000
Statutory reserve	14	**2,595**	2,595
Fair Value reserve	6	**1,351**	1,969
Accumulated losses		**(360,747)**	(263,553)
TOTAL HEAD OFFICE EQUITY		**543,199**	641,011
TOTAL LIABILITIES AND HEAD OFFICE EQUITY		**2,461,383**	5,366,341

Nelson Rajan Quadros
Doha Bank - UAE
13 April 2021

The Independent Auditor's report is set out on page 1 to 3

The attached notes on pages 9 to 49 form an integral part of the financial statements.

STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2020

	Notes	2020 AED '000	2019 AED '000
Interest income	15	**92,277**	110,235
Interest expense	16	**(39,253)**	(76,874)
NET INTEREST INCOME		**53,024**	33,361
Net fees and commission income	17	**8,841**	11,996
Other income	18	**1,940**	6,090
OPERATING INCOME		**63,805**	51,447
General and administrative expenses	19	**(27,817)**	(27,251)
Depreciation	9	**(3,317)**	(4,950)
OPERATING EXPENSES		**(31,134)**	(32,201)
OPERATING PROFIT FOR THE YEAR BEFORE PROVISION FOR IMPAIRMENT AND TAXATION		**32,671**	19,246
Impairment allowance on loans and advances, net	5	**(130,124)**	(124,575)
Impairment reversal on other financial assets, net	25	**303**	1,258
LOSS FOR THE YEAR BEFORE TAX		**(97,150)**	(104,071)
Tax (credit) for the year	7	**(44)**	(365)
LOSS FOR THE YEAR		**(97,194)**	(104,436)

The Independent Auditor's report is set out on page 1 to 3

The attached notes on pages 9 to 49 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	*2019*
	AED '000	*AED '000*
LOSS FOR THE YEAR	**(97,194)**	(104,436)
OTHER COMPREHENSIVE INCOME		
Net unrealized gain on investment securities measured at fair value through OCI	**(7,507)**	1,969
ECL on investment securities measured at fair value through OCI	**6,889**	-
Other comprehensive (loss) / income for the year	**(618)**	1,969
Total comprehensive loss for the year	**(97,812)**	(102,467)

The Independent Auditor's report is set out on page 1 to 3

The attached notes on pages 9 to 49 form an integral part of the financial statements.

STATEMENT OF CHANGES IN HEAD OFFICE EQUITY

For the year ended 31 December 2020

	Allocated Capital	*Statutory reserve*	*Fair Value reserve*	*Accumulated losses*	*Total*
	AED'000	***AED'000***	***AED'000***	***AED'000***	***AED'000***
Balance at 1 January 2019	900,000	2,595	-	(159,117)	743,478
Transition impact of IFRS 9	-	-		-	-
Loss for the year	-	-	-	(104,436)	(104,436)
Other Comprehensive income	-	-	1,969	-	1,969
Total comprehensive loss for the year	-	-	1,969	(104,436)	(102,467)
Balance at 31 December 2019	900,000	2,595	1,969	(263,553)	641,011
Loss for the year	-	-	-	(97,194)	(97,194)
Other Comprehensive income	-	-	(618)	-	(618)
Total comprehensive loss for the year	**-**	-	(618)	(97,194)	97,812
Balance at 31 December 2020	**900,000**	**2,595**	**1,351**	**(360,747)**	**543,199**

The Independent Auditor's report is set out on page 1 to 3

The attached notes on pages 9 to 49 form an integral part of the financial statement

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	**2020** **AED '000**	2019 AED '000
OPERATING ACTIVITIES			
Loss for the year before Tax		**(97,150)**	(104,071)
Adjustments for:			
Depreciation	9	**3,317**	4,950
Loss on disposal of fixed assets		**-**	93
Finance cost		**98**	271
Impairment allowance on loans and advances, net		**130,124**	124,575
Impairment reversal on other financial assets, net		**(303)**	(1,258)
Operating profit before changes in operating assets and liabilities		**36,086**	24,560
Changes in operating assets and liabilities:			
Statutory cash reserve with U.A.E. Central Bank		**189,177**	(116,997)
Increase in Certificate of Deposit		**(80,000)**	-
Loans and advances		**27,753**	(101,469)
Due to Head Office after three months		**697,870**	-
Other assets		**2,220,217**	(1,849,870)
Due to banks and other financial institutions		**393,671**	(183,650)
Customer's deposits		**(1,424,837)**	480,411
Other liabilities		**(2,226,528)**	1,839,660
Cash (used in) / generated from operations		**(166,591)**	92,645
Income tax paid	7	**(365)**	(16,998)
Net cash (used in) / generated from Operating activities		**(166,956)**	75,647
INVESTING ACTIVITIES			
Purchase of property and equipment	9	**(268)**	(96)
Investment Securities		**(8,280)**	(69,118)
Net cash used in Investing activities		**(8,548)**	(69,214)
FINANCING ACTIVITIES			
Payment of Lease Liabilities		**(2,920)**	(3,215)
Net cash used in Financing activities		**(2,920)**	(3,215)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(178,424)**	3,218
Cash and cash equivalents at 1 January		**462,146**	458,928
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	**283,722**	462,146

The Independent Auditor’s report is set out on page 1 to 3

The attached notes on pages 9 to 49 form an integral part of the financial statements.

1 ACTIVITIES

The financial statements of Doha Bank (Q.P.S.C.) - United Arab Emirates (UAE) Branches (the "Branches") relate to the activities of the Abu Dhabi and Dubai Branches of Doha Bank (Q.S.C.) (the "Head Office"). Doha Bank (Q.S.C.) is listed on the Doha Securities Market.

The Branches operate under separate licences issued by the UAE Central Bank and are engaged in banking activities. Dubai branch was incorporated on 18 July 2007 and Abu Dhabi branch started its operations from 27 November 2012.

The registered address of the Branches are as follows:

- Dubai Branch - P.O. Box 125465, Dubai, United Arab Emirates
- Abu Dhabi Branch - P.O. Box 27448, Abu Dhabi, United Arab Emirates

These financial statements reflect the activities of the Dubai and Abu Dhabi Branches only and exclude all transactions, assets and liabilities of the Head Office and other branches of the Head Office outside United Arab Emirates.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Changes in accounting policies

There are certain new and amended standards, issued by International Accounting Standards Board (IASB), interpretations and amendments that are mandatory for the Branches' accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or do not have any significant effect on the Branches' operations and therefore not detailed in these financial statements.

b) Basis of preparation

The financial statements of the Branches have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB), and applicable requirements of the United Arab Emirates Laws. The Branches have assessed their ability to continue as a going concern and are satisfied that they have the resources to continue in business for the foreseeable future. The ability of the Branches to continue as a going concern are dependent upon the continuity of the regulatory permit granted to continue in operations. The Branches have full regulatory permit for such purposes and also the support from their Head Office in Doha to fund ongoing liquidity requirements. Accordingly, these financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Branches' accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2(r).

c) Basis of measurement

The financial statements are prepared under the historical cost basis except for derivative financial instruments which are carried at fair value through profit or loss ("FVTPL") and investments in bonds that have been measured at fair value through other comprehensive income ('FVOCI')

d) Functional and Presentation currency

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

e) Financial assets and financial liabilities

i) Recognition and initial measurement

The Branches initially recognises loans and advances, and deposits on the date on which they are originated. All other 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 marketplace.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial assets and financial liabilities (continued)

ii) Classification

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

Assessment whether contractual cash flows are solely payments of principal and interest

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial assets and financial liabilities (continued)

ii) Classification (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest ("the SPPI test"), the Branches considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Branches considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, terms that limit the Branches claim to cash flows from specified assets and features that modify consideration of the time value of money. Instruments failing SPPI will be measured at FVTPL.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Branches changes its business model for managing financial assets. The reclassification takes place from the start of the first reporting period following the change.

Financial liabilities

The Branches classifies its financial liabilities in the categories of fair value through profit or loss; and amortised cost.

i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred 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 manages together and has a recent actual pattern of short-term profit-taking; or

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination 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 IFRS 9 permits the entire hybrid (combined) contract to be designated as at fair value through profit or loss.

ii) Financial liabilities at amortised cost

Other financial liabilities, including deposits and 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.

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 EIR 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.

iii) Derecognition

Derecognition of financial assets

The Branches derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Branches neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Branches recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Branches retains substantially all the risks and rewards of ownership of a transferred financial asset, the Branches continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial assets and financial liabilities (continued)

iii) Derecognition (continued)

Derecognition of financial assets (continued)

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Branches monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Derecognition of financial liabilities

The Branches derecognises financial liabilities when, and only when, the Branches' obligations are discharged, cancelled, or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income statement.

When the Branches exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

iv) Modification of financial assets and liabilities

Financial Assets

If the terms of a financial asset are modified, the Branches evaluate whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Branches recalculates the gross carrying amount of the financial asset based on the revised cash flows of the financial assets and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the income statement. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as income.

Financial Liabilities

The Branches derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the income statement.

v) Offsetting

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial assets and financial liabilities (continued)

vi) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate.

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 of a liability reflects its non-performance risk.

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.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price in an active market for that instrument. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. 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. For investments in equity instruments where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

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.

All assets and liabilities for which fair value is measured are categorised and disclosed in the financial statements as follows

- Level 1 - Traded in the active market based on closing bid price.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. Valuation is derived from recent arm’s length transaction, comparison to similar instruments for which market observable prices exists.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. Valuation techniques include discounted cash flow method, book value method or other relevant valuation techniques commonly used by market participants.

vii) Identification and measurement of impairment

The Branches recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial assets and financial liabilities (continued)

vii) Identification and measurement of impairment (continued)

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

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

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

Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Branches expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Branches if the commitment is drawn down and the cash flows that the Branches expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Branches expects to recover.

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

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

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

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

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

Loans and advances to customers (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

f) Revenue recognition

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:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Revenue recognition (continued)

Interest income and expense
Interest income and expense for all interest bearing financial instruments except at FVTPL, are presented in 'interest income' and 'interest expense' in the income statement on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial assets or financial liabilities.

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

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

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised over time as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised over time on a straight-line basis over the commitment period. In case of these services, the control is considered to be transferred over time as the customer is benefited from these services over the tenure of the service period. Other fee and commission expense relate mainly to transaction the services are received.

g) Cash and cash equivalents

Cash and cash equivalents consist of notes and coins on hand, due from banks including head office and overseas branches, and unrestricted balances with UAE Central Bank with original maturities not exceeding three months net of due to banks including head office and overseas branches with original maturity not exceeding three months.

h) Due from banks

Due from banks and loans and advances to customers are initially measured at the transaction price which is the fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except for the financial assets which are classified to be measured at FVTPL.

The effective interest rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability.

i) Investment securities

The 'investment securities' includes debt securities measured at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest income using the effective interest method;
- Expected credit losses and reversals; and
- Foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of profit or loss.

j) Property and equipment

Property and equipment other than freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Branches. Ongoing repairs and maintenance are expensed as incurred.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in the statement of profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Property and equipment (continued)

Depreciation is provided on all property and equipment, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful lives and generally recognised in statement of profit and loss.

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

Office equipment	5 years
Furniture and fixtures	7 years
Computer equipment	3 years
Motor vehicles	5 years
Right of use of assets	2 to 3 years

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

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

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

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

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

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

— temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Branches are able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

— taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Branches.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Branches expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Provisions

Provisions are recognised when the Branches have a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and where appropriate, the risk specific to the liability.

n) End of service benefits

With respect to the Branches' national employees, the Branches contribute to the pension scheme for UAE nationals under the UAE General Pension and Social Security law in accordance with Federal Law No. (7), 1999 for Pension and Social Security. This is a defined contribution pension plan and the Branches' contributions are charged to the statement of profit or loss in the period to which they relate. In respect of this scheme, the Branches have an obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

The Branches provide for end of services benefits to other employees based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement, subject to completion of minimum services 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 Laws.

o) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at value dates of the transaction. All monetary assets and liabilities in foreign currencies outstanding at the year-end are translated into UAE Dirhams at rates of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated into UAE Dirhams using the spot exchange rate at the date the values were determined. Gains or losses on translation are included in the statement of profit or loss. Non-monetary assets and liabilities carried at cost are not re translated subsequent to their initial recognition. Any resultant gains or losses are taken to the statement of profit or loss.

p) Contingent liability

To meet the financial needs of customers, the Branches enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Branches.

Letters of credit and guarantees (including standby letters of credit) commit the Branches to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. For details, refer note 22.

q) Acceptances:

Acceptances arise when the Branches is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due.

After acceptance, the instrument becomes an unconditional liability (time draft) of the Branches and is therefore recognized as a financial liability in the statement of financial position with a corresponding contractual right of reimbursement from the customer recognized as a financial asset.

Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and continued to be recognized as a financial liability in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

r) Use of estimates and judgements

The Branches makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year and the resultant provisions and fair value. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Use of estimates and judgements (continued)

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

i) Income taxes/ Deferred tax asset
The Branches are subject to income taxes in each of the two Emirates in the UAE that it operates in. There are certain transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Branches recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

ii) Financial asset classification
Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

iii) Significant increase in credit risk
ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Branches takes into account qualitative and quantitative reasonable and supportable forward-looking information.

iv) Models and assumptions used
The Branches use various models and assumptions in measuring fair value of financial assets as well as in estimating ECLs. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 2 (e) (vii) for more details on ECL.

v) Establishing groups of assets with similar credit risk characteristics
When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 2 (e) (vii) for details of the characteristics considered in this judgement. The Branches monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is an appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that Branches of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

s) Leases

At inception of a contract the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Branches allocates the consideration in the contract to each lease component on the basis of its relative standalone prices. However, for the leases of office premises the Branches has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Branches recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Branches by the end of the lease term or the cost of the right-of-use asset reflects that the Branches will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset which is determined on the

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Leases (continued)

As a lessee (continued)

same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined the Branches' incremental borrowing rate. Generally, the Branches uses its incremental borrowing rate as the discount rate.

The Branches determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Branches are reasonably certain to exercise, lease payments in an optional renewal period if the Branches are reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Branches are reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Branches' estimate of the amount expected to be payable under a residual value guarantee, if the Branches changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Branches presents right-of-use assets in 'Property and equipment and lease liabilities in other liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Branches has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Branches recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

t) Financial Guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of customers to secure loans, overdrafts, and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given, being the premium received. Subsequent to initial recognition, the branches liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the statement of income any fee income earned over the period, and the best estimate of the expenditure required settling any financial obligation arising as a result of the guarantees at the reporting date.

u) Derivatives held for trading purposes

The branches derivative trading instruments includes forward foreign exchange contracts. The branches sell these derivatives to customers in order to enable them to transfer, modify or reduce current and future risks. These derivative instruments are fair valued as at the end of reporting date and the corresponding fair value changes is taken to the consolidated income statement.

v) Impairment of non-financial assets

The carrying amounts of the branches non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Impairment of non-financial assets (continued)

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

w) New standards and interpretations issued but not yet effective

A number of new or amendments to existing standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Branches has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Branches' financial statements:

- COVID-19-Related Rent Concessions - Amendment to IFRS 16 (Effective on 1 January 2021)
- Interest Rate Benchmark Reform - Phase 2, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Effective on 1 January 2021)
- Onerous Contracts – Cost of Fulfilling a Contract - Amendments to IAS 37 (Effective on 1 January 2022)
- Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16 (Effective on 1 January 2022)
- Reference to the Conceptual Framework - Amendments to IFRS 3 (Effective on 1 January 2022)
- Annual Improvements to IFRS Standards 2018 – 2020 (Effective on 1 January 2022)
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (Effective on 1 January 2023)
- IFRS 17 – "Insurance Contracts" (Effective on 1 January 2023)

3 CASH AND BALANCES WITH U.A.E CENTRAL BANK

	2020	*2019*
	AED '000	*AED '000*
Cash on hand	**14,525**	13,564
Balances with the UAE Central Bank		
- Current Accounts	**2,531**	147,909
- Statutory Cash Reserve	**21,048**	210,225
- Certificate of Deposits	**140,017**	70,017
- Placement with UAE CB	**103,000**	-
	281,121	441,715

Effective 28 October 2020, the CBUAE introduced new regulations regarding reserve requirements for deposit-taking licensed financial institutions. Under the new regulation, deposit-taking licensed institutions are allowed to draw on their reserve balances held in the CBUAE on any day up to 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that the daily average requirements over a 14-day reserve maintenance period is met. The level of reserves required changes periodically in accordance with business requirements and the directives of the Central Bank.

Cash and balances with UAE Central Bank are classified under stage 1 as per IFRS 9. Impairment on cash and balances with U.A.E Central Bank has been measured on 12-month expected loss basis and reflects the short maturities of exposures. The Branches consider that these balances have low credit risk based on external credit ratings of the counterparties. Certificate of Deposits has an interest rate of 0.11% to 0.12% having maturity in May 2021.

4 RELATED PARTY TRANSACTIONS

Related Party
A party is considered to be related to the Branches if:

- The party, directly or indirectly through one or more intermediaries,
  a. controls, is controlled by, or is under common control with, the Branch;
  b. has an interest in the Branches that gives it significant influence over the Branch; or
  c. has joint control over the Branch;
- The party is an associate.
- The party is a jointly controlled entity.
- The party is a member of the key management personnel of the Branches.

4 RELATED PARTY TRANSACTIONS (continued)

- The party is a close member of the family of key management personnel
- The party is an entity that is controlled, jointly controlled, or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any key management personnel
- The party is a post-employment benefit plan for the benefit of the employees of the Branch, or of any entity that is a related party of the Branches.

Related parties represent the Head Office and its branches, directors and key management personnel of the Head Office and its branches, and entities controlled, jointly controlled, or significantly influenced by such parties. The terms of these transactions are approved by the Head Office management.

The Branches maintain current accounts with the Head Office in Doha and other branches abroad and conducts banking transactions with them as part of its normal activities on terms approved by the head office management.

	2020	2019
	AED '000	*AED '000*
Due from Head Office and its branches:		
Due within three months	**108,940**	381,148
Due to Head Office and its branches:		
Due within three months	**166,262**	408,002
Due after three months	**697,870**	-
	864,132	408,002

Related party transactions, which arise in the ordinary course of business, included in the statement of profit or loss are as follows:

	2020	2019
	AED '000	*AED '000*
Transactions with Head Office and its branches		
Interest Income (Note 15)	**1,381**	10,492
Interest Expense (Note 16)	**9,524**	20
Head Office charges (Note 19) *	**2,493**	3,152

*Head Office charges are capped to 2.5% of interest and non-interest income of the Branches.

Compensation of key management personnel is as follows:

	2020	2019
	AED '000	*AED '000*
Salaries and other benefits	**864**	903
End of service benefits	**383**	151
	1,247	**1,054**

Loans and advances to Board of Directors of the Head Office granted on 16th November 2015 amounting to AED 14,442 thousand (2019: AED 15,580 thousand) has an interest rate of 3.5% and maturity is on 30th Sep 2032.

5 LOANS AND ADVANCES

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

The following table presents the Branches loans and advances to customers:

5 LOANS AND ADVANCES (continued)

a) By type

	2020	*2019*
	AED '000	*AED '000*
Term Loans	**1,934,926**	2,198,225
Overdrafts	**70,100**	117,235
Bills discounting	**612,256**	441,410
	2,617,282	2,756,870
Less:		
Expected Credit Losses (ECL) allowance on stage 1 and 2	**(25,540)**	(43,188)
ECL Allowance on stage 3	**(970,014)**	(934,077)
	(995,554)	(977,265)
	1,621,728	1,779,605

An analysis of change in ECL allowances is as follows

	Stage 1	***Stage 2***	***Stage 3***	***Total***
	AED '000	***AED '000***	***AED '000***	***AED '000***
ECL allowance at 1 January 2020	601	42,587	934,077	**977,265**
Net (reversals) / impairment charge	(450)	(17,199)	153,953	**136,304**
Interest not recognised	-	-	160,926	**160,926**
Recoveries	-	-	(6,373)	**(6,373)**
Amounts written off	-	-	(272,568)	**(272,568)**
As at 31 December 2020	**151**	**25,388**	**970,015**	**995,554**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	AED '000	*AED '000*	*AED '000*	*AED '000*
ECL allowance at 1 January 2019	1,037	50,188	891,652	942,877
Net (reversals) / impairment charge	(436)	(7,601)	149,284	141,247
Interest not recognised	-	-	171,969	171,969
Recoveries	-	-	(3,790)	(3,790)
Amounts written off	-	-	(275,038)	(275,038)
As at 31 December 2019	601	42,587	934,077	977,265

	2020	*2019*
	AED '000	*AED '000*
a) Impairment allowance on loans and advances, net		
Net impairment charge for the year	**136,304**	141,247
Recoveries during the year	**(6,373)**	(3,790)
Recoveries during the year - from written off	**193**	(12,882)
	130,124	124,575

	2020	*2019*
	AED '000	*AED '000*
b) By Sector		
Corporate Lending	**2,500,194**	2,608,825
Retail Lending	**117,088**	148,045
	2,617,282	2,756,870

5 LOANS AND ADVANCES (continued)

	2020 AED '000	2019 AED '000
c) By Economic Segment		
Wholesale and retail trade	**889,634**	1,073,882
Services	**817,443**	763,311
Construction	**353,239**	411,923
Transport and telecommunication	**218,130**	218,130
Personal Loans	**117,088**	148,045
Manufacturing	**221,748**	141,579
	2,617,282	2,756,870

	2020 AED '000	2019 AED '000
c) By Geographic Area		
Within UAE	**2,178,900**	2,407,690
Outside UAE	**438,382**	349,180
	2,617,282	2,756,870

	2020 AED '000	2019 AED '000
c) By Currency		
UAE Dirhams	**2,117,088**	2,334,770
US Dollars	**496,980**	418,600
Euro	**3,214**	3,500
	2,617,282	2,756,870

Set out below are the gross loans and advances by past due and non-past due balances:

	2020 AED '000	2019 AED '000
Impaired	**1,247,087**	1,068,504
Past Due but not impaired	**115,560**	52,580
Neither past due nor impaired	**1,254,635**	1,635,786
	2,617,282	2,756,870

6 INVESTMENT SECURITIES

The analysis of investment securities is detailed below:

	2020 AED '000	2019 AED '000
Investment Securities (Bonds) measured at FVOCI -Fair Value	**72,164**	70,687

By Geographic Area	2020 AED '000	2019 AED '000
Within UAE	**-**	-
Outside UAE	**72,164**	70,687
	72,164	70,687

a) Fair Value Reserve

The reserve comprises of fair value changes recognized on fair value through other comprehensive income (FVOCI):

6 INVESTMENT SECURITIES (continued)

	2020 AED '000	2019 AED '000
Balance as of 1st January	**1,969**	-
Impact of Revaluation	**(7,507)**	1,969
ECL on Investment at Fair Value through OCI	**6,889**	-
Balance as of 31st December	**1,351**	1,969

b) Below table sets out the credit quality of investment securities

	2020 AED '000	2019 AED '000
Investment grade - Aaa to Baa3	**7,972**	70,687
Sub-Investment grade - Ba1 to Caa3	**64,192**	-
	72,164	70,687

7 TAXATION

	2020 AED '000	2019 AED '000
Statement of profit and loss		
Current income tax:		
Current income tax charge	-	365
Adjustment in respect of current income tax of previous year	**44**	-
	44	365
Deferred tax:		
Deferred tax for the year	**-**	**-**
The relationship between the tax expense and the accounting profit		
Accounting loss before tax	**(97,150)**	(104,071)
Tax at the applicable rate of 20%	**(19,430)**	(20,815)
Tax effects of expenses not deductible for tax purpose	**62,973**	64,251
Tax effect of expenses deductible for tax purpose	**(55,788)**	(55,801)
Origination and reversal of timing differences – current year	-	-
Prior year charge	**44**	-
Net reversal of stage 1 and stage 2 impairment allowance	**(3,590)**	(1,859)
Tax effect of previous years' losses	-	(5,223)
Tax effect on current year's losses	**15,835**	19,812
Current income tax charge	**44**	365
Effective tax rate	**(0.05%)**	(0.35%)

Taxation is provided at 20% (2019: 20%) on the taxable profits for the year in the Emirate of Dubai and Abu Dhabi in which the Branches operates. The taxable profit is calculated after adding back certain provisions to the profit before taxation which management believes are likely to be disallowed as deduction by the tax authorities.

Movements in the income tax payable during the year are as follows:

	2020 AED '000	2019 AED '000
Balance at 1 January	**365**	16,998
Provided during the year	**44**	365
Income tax paid	**(365)**	(16,998)
Balance at 31 December	**44**	365

7 TAXATION (continued)

Movements in the deferred tax asset during the year are as follows:

	2020 ***AED '000***	*2019* *AED '000*
Balance at 1January	**179,396**	179,396
Net impairment losses and interest in suspense disallowed	-	-
Deferred tax asset created on tax losses	-	-
Other provisions	-	-
Balance at 31 December	**179,396**	179,396

8 OTHER ASSETS

	2020 ***AED '000***	*2019* *AED '000*
Advance Payments	**645**	472
Positive Fair Value of Forward Exchange Contracts	**1,251**	231
Others	**4,815**	5,792
	6,711	6,495

9 PROPERTY AND EQUIPMENT

	Office equipment's AED '000	***Furniture and fixtures AED '000***	***Computer equipment AED '000***	***Motor vehicles AED '000***	***Right of use Assets AED '000***	***Total AED '000***
Cost						
At 1 January 2020	**826**	**15,744**	**9,164**	**292**	**11,329**	**37,355**
	826	**15,744**	**9,164**	**292**	**11,329**	**37,355**
Additions	**-**	**-**	**268**	**-**	**4,049**	**4,317**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2020	**826**	**15,744**	**9,432**	**292**	**15,378**	**41,672**
Depreciation:						
At 1 January 2020	**798**	**15,274**	**8,968**	**265**	**3,047**	**28,352**
Charge for the year	**16**	**190**	**245**	**12**	**2,854**	**3,317**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2020	**814**	**15,464**	**9,213**	**277**	**5,901**	**31,669**
Net book value:						
At 31 December 2020	**12**	**280**	**219**	**15**	**9,477**	**10,003**

9 PROPERTY AND EQUIPMENT (continued)

	Office equipment's AED '000	*Furniture and fixtures AED '000*	*Computer equipment AED '000*	*Motor vehicles AED '000*	*Right of use Assets AED '000*	*Total AED '000*
Cost						
At 1 January 2019	820	16,156	9,141	292	-	26,409
Recognition of right of use assets on initial application of IFRS 16	-	-	-	-	11,329	11,329
Adjusted balance as at 1 Jan 2019	820	16,156	9,141	292	11,329	37,738
Additions	6	67	23	-	-	96
Disposals	-	(479)	-	-	-	(479)
At 31 December 2019	826	15,744	9,164	292	11,329	37,355
Depreciation:						
At 1 January 2019	770	14,201	8,564	253	-	23,788
Charge for the year	28	1,459	404	12	3,047	4,950
Disposals	-	(386)	-	-	-	(386)
At 31 December 2019	798	15,274	8,968	265	3,047	28,352
Net book value:						
At 31 December 2019	28	470	196	27	8,282	9,003

10 DUE FROM BANKS / DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020 AED '000	*2019 AED '000*
Due from banks		
Placement with Banks	**146,920**	246,095
Current Account	**14,106**	11,443
Less: Expected Credit Loss	**(55)**	(28)
	160,971	257,510

	2020 AED '000	*2019 AED '000*
Due to banks		
Time Deposits	**385,671**	-
Borrowings from Central Bank	**8,000**	-
	393,671	-

11 CUSTOMERS' DEPOSITS

Customers' deposits

	2020	*2019*
	AED '000	*AED '000*
By type		
Current Accounts	**111,124**	197,963
Call Accounts	**51,648**	922,283
Saving Accounts	**12,155**	11,468
Term Deposits	**412,040**	877,090
Margin Deposits	**25,544**	28,544
	612,511	2,037,348

	2020	*2019*
	AED '000	*AED '000*
By sector		
Corporate	**560,313**	1,983,702
Retail	**52,198**	53,646
	612,511	2,037,348

	2020	*2019*
	AED '000	*AED '000*
By currency		
UAE Dirham	**222,409**	653,545
US Dollar	**279,316**	1,292,950
Others	**110,786**	90,853
	612,511	2,037,348

Time/Call deposits under lien as security for loans and advances (funded and unfunded) as at 31 December 2020 amounted to AED 122,105 thousand (2019: AED 1,165,644 thousand). The interest rate on the deposits averaged 2.15% in 2020 (3.64% in 2019) per annum.

12 OTHER LIABILITIES

	2020	*2019*
	AED '000	*AED '000*
Interest Payable	**2,555**	8,184
Accounts Payable	**787**	254
Unearned Commission	**758**	345
Staff related and other provisions	**4,071**	4,289
Provision for Taxation (note 7)	**44**	365
Negative fair value of forward exchange contracts	**915**	-
Expected Credit Loss on unfunded exposure	**7,558**	14,137
Lease Liability (12.1)	**9,265**	7,968
Other	**1,568**	3,656
	27,521	39,198

Staff related and other provision includes employees' end of service benefits and pension and national insurance.

12.1 Lease Liability

	2020	*2019*
	AED '000	AED '000
At 1 January	**7,968**	10,912
Additions for the year	**4,119**	-
Finance charge for the year	**98**	271
Payment made during the year	**(2,920)**	(3,215)
Closing at 31 December	**9,265**	7,968

13 ALLOCATED CAPITAL

The assigned capital of the Branches from the Head Office is AED 900 million (2019: AED 900 million) in accordance with the letter to Central Bank of U.A.E. dated 14 December 2014.

14 STATUTORY RESERVE

As required by the UAE Federal Law No. 2 of 2015, as amended, 10% of the profit for the year is to be transferred to a statutory reserve. As such, transfers may be discontinued when the reserve equals 50% of the allocated capital. During the year the Branches incurred a net loss of AED 97,194 thousand, therefore no amount is transferred to the reserve. This reserve is not available for distribution, except under the circumstances stipulated by the Law.

15 INTEREST INCOME

	2020 AED '000	*2019 AED '000*
Loans and Advances to Customers	**85,850**	90,132
Head Office (note 4)	**1,381**	10,492
Money Market Placements	**695**	6,448
Investment Securities (Bonds)	**4,351**	3,163
	92,277	110,235

16 INTEREST EXPENSE

	2020 AED '000	*2019 AED '000*
Customers' Deposits	**27,745**	74,343
Head Office (note 4)	**9,524**	20
Money Market Deposits	**1,886**	2,240
Finance Cost	**98**	271
	39,253	76,874

17 NET FEES AND COMMISSION INCOME

	2020 AED '000	*2019 AED '000*
Commission Income on Letters of Guarantee	**2,734**	3,467
Commission Income on Letters of Credit	**1,527**	1,708
Arrangement – Factoring	**495**	1,115
Management Fees – Loans	**1,885**	2,648
Others	**2,200**	3,058
	8,841	11,996

18 OTHER INCOME

	2020 AED '000	*2019 AED '000*
Foreign Exchange gains	**1,195**	4,064
Telex, Cable and Postage charges recovered	**266**	245
Others	**479**	1,781
	1,940	6,090

19 GENERAL AND ADMINISTRATIVE EXPENSES

	2020 **AED '000**	2019 AED '000
Salaries, Allowances and Other Staff Costs	**12,629**	14,457
Communication, and Utilities and Insurance	**1,678**	1,490
Head Office charges (note 4)	**2,493**	3,152
Insurance Expenses	**1,318**	1,544
Legal and Professional	**5,687**	2,709
Others	**4,012**	3,899
	27,817	27,251

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of Statement of Cash Flows, comprise the following:

	2020 **AED '000**	2019 AED '000
Cash and Bank balances (note 3)	**14,525**	13,564
Balances with Central Bank – Current Account (note 3)	**2,531**	147,909
Due from Head Office and Branches abroad (note 4)	**108,940**	381,148
Due from Banks and Other Financial Institutions (note 10)	**160,971**	257,510
Certificate of Deposits with Central Bank (note 3)	**60,017**	70,017
Placement with UAE Central Bank	**103,000**	-
	449,984	870,148
Less: Due to Head Office and Branches abroad (note 4)	**(166,262)**	(408,002)
Cash and cash equivalents	**283,722**	462,146

Cash and cash equivalents comprise cash on hand, central bank current account, due from banks and financial institutions, due from Head Office and branches abroad, Certificate of Deposits and other short-term liquid investments that are readily convertible to a known amount of cash which are subject to an insignificant risk of changes in value and have an original maturity of not more than 3 months less due to banks and due to Head Office and overseas branches which have a maturity of not more than 3 months.

21 CONCENTRATION OF ASSETS, LIABILITY, HEAD OFFICE EQUITY AND OFF-BALANCE SHEET ITEMS.

Geographic regions

2020	***Assets AED '000***	***Liabilities and H.O. equity AED '000***	***Off Balance sheet items AED '000***
U.A.E.	**1,679,326**	**674,290**	**360,598**
Other G.C.C. countries	**162,328**	**1,786,374**	**5,403**
Rest of the World	**619,729**	**719**	**16,994**
Total	**2,461,383**	**2,461,383**	**382,995**

2019	*Assets AED '000*	*Liabilities and H.O. equity AED '000*	*Off Balance sheet items AED '000*
U.A.E.	2,318,785	1,988,564	570,615
Other G.C.C. countries	633,726	1,345,811	34,000
Rest of the World	2,413,830	2,031,966	20,145
Total	5,366,341	5,366,341	624,760

22 COMMITMENTS AND CONTINGENT LIABILITIES

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

The total outstanding contingent liabilities and commitments were as follows:

	2020 ***AED '000***	*2019* *AED '000*
Unused Facilities	**3,693**	86,002
Letters of Credit	**3,196**	63,690
Letters of Guarantees	**376,106**	475,068
	382,995	624,760
Other Commitments		
Forward Foreign Exchange Contracts	**697,658**	257,110
	697,658	257,110

Unused Facilities

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Branches monitor the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Contingent liability arising from litigations

Where appropriate, the Branches recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The Branches seek to comply with all applicable laws and regulations but may be subject to regulatory actions and investigations from time to time, the outcome of which are generally difficult to predict and can be material. As at the reporting date, the Branches have no contingent liability arising from litigation (2019: the Branches have no contingent liability arising from litigation).

23 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of its business, the Branches utilise derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. Derivative financial instruments used include current forwards, futures, and options. During the year, the Branches only entered into forward foreign exchange contracts. Derivative transactions result, to varying degrees, in credit as well as market risks.

The Branches' measure of derivative related credit risk is the cost of replacing contracts at current market rates should the counterparty defaults on or prior to the settlement date and is limited to the positive fair value of instruments that are favourable to the Branches.

Market risk arises as interest and foreign exchange rates fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Branches have established appropriate procedures and limits approved by the Head Office.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their contractual amounts. The contractual amount, recorded gross, 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 contractual amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

23 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2020			*2019*		
	Positive fair value AED '000	***Negative fair value AED '000***	***Notional amounts AED '000***	*Positive fair value AED '000*	*Negative fair value AED '000*	*Notional amounts AED '000*
Derivatives Held-for-Trading						
Forward Foreign Exchange Contracts	**1,251**	**(915)**	**697,658**	231	-	257,110

Forward foreign exchange contracts are contractual agreements to buy, sell or exchange a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market and are settled on a gross basis.

24 FAIR VALUES OF FINANCIAL INSTRUMENTS

Derivative financial instruments and investment in bonds are measured on a fair value basis. Derivatives are categorized within level 2 of fair value hierarchy and the fair value of financial instruments (investment in bonds) measured at Fair Value through other comprehensive incomes are categorized as Level 2 in the fair value hierarchy.

Other financial assets and liabilities are stated at amortised cost. These include balances with Central Bank of UAE, due from Head office and overseas branches, due from bank and other financial institutions, loans and advances, other assets (excluding derivative assets), due to head office and overseas branches, due to banks and financial institutions, customer deposits and other liabilities (excluding derivative liabilities). The fair values of these financial assets and liabilities are not materially different from the respective carrying values at 31 December 2020 since assets and liabilities are either short-term in nature or in the case of loans and advances and deposits, frequently re-priced.

25 RISK MANAGEMENT

The strategy of the Branches is to maintain a strong risk management culture and manage the risk / reward relationship within and across each of the Branches' major risk-based lines of business.

The following sections describe the several risks inherent in the banking process, their nature and how they are managed.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Branches manage credit risk by setting limits for individual borrowers and Branches of borrowers and for geographical and industry segments. The Branches also monitor credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Branches obtain security where appropriate; enter into master netting arrangements and collateral arrangements with counterparties and limits the duration of exposures.

The maximum exposure to credit risk, as at the reporting date, is represented by the carrying amount of each financial asset in the statement of financial position.

For details of the composition of the loans and advances portfolio refer to Note 5.

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

The Head Office has an internal committee which is composed of competent professional staff responsible for the study and evaluation of the existing credit facilities of each customer of the Bank. This committee is required to identify any abnormal situations and difficulties associated with a customer's position, which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

Derivative financial instruments

Credit risk in respect of derivative financial instruments is limited to those with positive fair values, as recorded in the statement of financial position.

25 RISK MANAGEMENT (continued)

Credit Risk (continued)

Maximum exposure and credit quality of financial instruments

The Branches' balances with UAE Central Bank, due from Head office, due from banks and other financial institution and other receivables are neither past due nor impaired.
The credit risk exposures relating to contingencies amounts to AED 382,995 thousand (31 December 2019: AED 624,760 thousand).

Inputs, assumptions, and techniques used for estimating impairment

The IFRS 9 model was developed at the Head Office level and decision related to significant assumptions and techniques used for estimating impairment are carried out at the Head Office level with support from the Branches for relevant inputs.

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Branches considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience. The Branches may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

In determining whether credit risk has increased significantly since initial recognition following criteria are considered:

i. Two notches downgrade for ratings from Aaa to Baa or one notch downgrade for ratings from Ba to Caa
ii. Facilities restructured during previous twelve months
iii. Facilities overdue by 60 days as at the reporting date for retail and corporate loans.

Credit risk grades
Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade.

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

Renegotiated financial assets
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Branches seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are restructured due to credit reasons in past 12 months are classified under Stage 2 based on cooling-off period.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Branches in full, without recourse by the Branches to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Branches; or
- the borrower is rated 9 or 10.

25 RISK MANAGEMENT (continued)

Credit Risk (continued)

Inputs, assumptions, and techniques used for estimating impairment (continued)

Definition of default (continued)

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

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

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

Incorporation of forward-looking information

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Branches has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on credit risk vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the “base economic scenario”) are updated from the World economic outlook: IMF country data and other reliable sources which provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the level of expected credit loss has been determined by performing statistical analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, the Branches’ Credit risk team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure plausible events are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2020 and 31 December 2020, for all portfolios the Branches concluded that three scenarios that appropriately captured the uncertainties in the macro-economic forecasts i.e. Base scenario: considering the published macro-economic forecasts, improved scenario and stressed scenario: considering the long term observed volatility in macro-economic forecast.The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The scenario weights considered for the ECL calculation as of 31 December 2020 are Base Scenario: 65%, Improved Scenario: nil and Stressed Scenario: 35% (2019: Base Scenario: 70%, Improved Scenario: 15% and Stressed Scenario: 15%). The assessment of SICR is performed based on credit risk assessment following management assessment under each of the base, and the other scenarios, multiplied by the associated scenario weightings. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a 12-month ECL (Stage 1), or lifetime ECL (Stages 2). These ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As with any economic forecasts, the likelihoods of the base forecast are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Branches considers these forecasts to represent its best estimate of the possible outcomes and the scenarios are considered to be capturing the uncertainties in the Base forecast.

25 RISK MANAGEMENT (continued)

Credit Risk (continued)

Inputs, assumptions, and techniques used for estimating impairment (continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2020 were Oil prices (Oil price 2021: $45/Barrel, 2022: $53.5/ Barrel) and Private Sector Credit Concentration % (2021: 66.6%, 2022: 65.9%).

Measurement of ECL

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

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD).

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are primarily based on internally compiled data comprising both quantitative and qualitative factors and are supplemented by external credit assessment data where available.

LGD is the magnitude of the likely loss if there is a default. The Branches estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD estimates consider the forecasted collateral value and recovery costs of any collateral that is integral to the financial asset.

EAD – EAD represents the expected exposure in the event of a default. The Branches derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. EAD is determined by the exposure at reporting date.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

25 RISK MANAGEMENT (continued)

Credit Risk (continued)

Inputs, assumptions, and techniques used for estimating impairment (continued)

	Stage 1 *AED '000*	***Stage 2*** *AED '000*	***Stage 3*** *AED '000*	***Total*** *AED '000*
Exposures subject to ECL – as at 31 December 2020				
- Loans and Advances to Customers	372,266	997,929	1,247,087	2,617,282
- Investment securities (debt)	61,508	10,656	-	72,164
- Loan commitments and Financial Guarantees	78,639	277,536	26,820	382,995
- Due from banks and balances with Central Bank	280,714	-	-	280,714
	793,127	**1,286,121**	**1,273,907**	**3,353,155**
Opening balance of impairment - as at 1 January 2019				
- Loans and advances to customers	601	42,587	934,077	977,265
- Investment securities (debt)	642	-	-	642
- Loan commitments and financial guarantees	2,037	12,100	-	14,137
- Due from banks and balances with Central Bank	28	-	-	28
	3,308	**54,687**	**934,077**	**992,072**
Charge and net transfer between stages for the year (net of foreign exchange translation)				
- Loans and advances to customers	(450)	(17,199)	153,953	136,304
- Investment securities (debt)	(381)	6,628	-	6,247
- Loan commitments and financial guarantees	(1,619)	(4,960)	-	(6,579)
- Due from banks and balances with Central Bank	(28)	55	-	27
- Recoveries during the year	-	-	(6,373)	(6,373)
	(2,478)	**(15,476)**	**147,580**	**129,626**
Other adjustments				
- Loans and advances to customers - Write off	-	-	(272,568)	(272,568)
- Loans and advances to customers - Interest suspense	-	-	160,926	160,926
- Investment securities (debt)	-	-	-	-
- Loan commitments and financial guarantees	-	-	-	-
- Due from banks and balances with Central Bank	-	-	-	-
	-	-	**(111,642)**	**(111,642)**
Closing balance of impairment as at 31 December 2020				
- Loans and advances to customers	151	25,388	970,015	995,554
- Investment securities (debt)	261	6,628	-	6,889
- Loan commitments and financial guarantees	418	7,140	-	7,558
- Due from banks and balances with Central Bank	-	55	-	55
	830	**39,211**	**970,015**	**1,010,056**

25 RISK MANAGEMENT (continued)

Credit Risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000
Exposures subject to ECL – as at 31 December 2019				
- Loans and Advances to Customers	866,985	821,543	1,068,342	2,756,870
- Investment securities (debt)	71,329	-	-	71,329
- Loan commitments and Financial Guarantees	339,725	268,235	16,800	624,760
- Due from banks and balances with Central Bank	685,689	-	-	685,689
	1,963,728	1,089,778	1,085,142	4,138,648
Opening balance of impairment - as at 1 January 2019 (under IFRS 9)				
- Loans and advances to customers	1,037	50,188	891,652	942,877
- Investment securities (debt)	-	-	-	-
- Loan commitments and financial guarantees	1,459	14,605	-	16,064
- Due from banks and balances with Central Bank	1	-	-	1
	2,497	64,793	891,652	958,942
Charge and net transfer between stages for the year (net of foreign exchange translation)				
- Loans and advances to customers	(436)	(7,601)	149,284	141,247
- Investment securities (debt)	642	-	-	642
- Loan commitments and financial guarantees	578	(2,505)	-	(1,927)
- Due from banks and balances with Central Bank	27	-	-	27
- Recoveries during the year	-	-	(3,790)	(3,790)
	811	(10,106)	145,494	136,199
Other adjustments				
- Loans and advances to customers - Write off	-	-	(275,036)	(275,036)
- Loans and advances to customers - Interest suspense	-	-	171,969	171,969
- Investment securities (debt)	-	-	-	-
- Loan commitments and financial guarantees	-	-	-	-
- Due from banks and balances with Central Bank	-	-	-	-
	-	-	(103,067)	(103,067)
Closing balance of impairment as at 31 December 2019				
- Loans and advances to customers	601	42,587	934,077	977,265
- Investment securities (debt)	642	-	-	642
- Loan commitments and financial guarantees	2,037	12,100	-	14,137
- Due from banks and balances with Central Bank	28	-	-	28
	3,308	54,687	934,077	992,072

25 RISK MANAGEMENT (continued)

Credit Risk (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are cash, securities, and charges over real estate properties and counter-guarantees.

Management monitors the market value of collateral on an on-going basis and requests additional collateral, when necessary, in accordance with underlying loan agreements. At 31 December 2020, the Branches held collateral with a fair value of AED 2,042,682 thousand (2019: AED 3,808,954 thousand) against loans and advances.

Set out below are the collateral by impaired and non-impaired due balances:

	2020	*2019*
	AED '000	*AED '000*
Impaired	**149,064**	138,033
Not impaired	**1,893,618**	3,670,921
	2,042,682	3,808,954

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

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

Pursuant to clause 6.4 of the guidance, provision is not required to be transferred to impairment reserve as provision required under IFRS 9 is more than requirement under CBUAE requirement.

Liquidity Risk

Liquidity is the on-going ability to accommodate maturing liabilities and deposit withdrawals; fund asset growth and business operations; and meet contractual obligations through unconstrained access to funding at reasonable market rates.

Liquidity risk is the risk that the Branches will encounter difficulty in raising funds to meet commitments associated with financial investments. Liquidity risk may also result from an inability to sell a financial asset quickly at close to its fair value. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the management has diversified funding sources and assets are managed with liquidity in mind and the management monitors liquidity on a daily basis. The Branches have support from Head office to meet their liquidity requirements.

25 RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The table below presents the maturity profile of the undiscounted, contractual cash flows of the Branch's financial liabilities

31 December 2020	***Within Three months AED '000***	***Three months to one year AED '000***	***One year to five years AED '000***	***Total AED '000***
Due to Head Office and overseas branches	**166,262**	**697,870**	**-**	**864,132**
Due to banks and other financial institutions				
Due to Head Office and overseas branches	**157,124**	**236,547**	**-**	**393,671**
Customers deposits	**495,858**	**117,052**	**1,902**	**614,812**
Other liabilities	**16,129**	**-**	**9,265**	**25,394**
Acceptances	**20,349**	**-**	**-**	**20,349**
Total undiscounted Liabilities	**855,722**	**1,051,469**	**11,167**	**1,918,358**

31 December 2019	*Within Three months AED '000*	*Three months to one year AED '000*	*One year to five years AED '000*	*Total AED '000*
Due to Head Office and overseas branches	408,002	-	-	408,002
Due to banks and other financial institutions	-	-	-	-
Customers deposits	1,606,114	443,597	10,141	2,059,852
Other liabilities	21,162	1,875	8,284	31,321
Acceptances	1,302,061	938,721	-	2,240,782
Total undiscounted Liabilities	3,337,339	1,384,193	18,425	4,739,957

25 RISK MANAGEMENT (continued)

Liquidity Risk (continued)

Substantially all acceptances and letters of credit commitments expire within a period not exceeding one year, and 46% (2018: 100%) of the guarantees expire within one year.

The table below summarises the maturity profile of the Branches' assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the expected maturity date. The actual maturities may differ from the maturities shown below since the borrower may have the right to prepay obligations with or without prepayment penalties, and customers' deposits might have to be repaid on demand.

The maturity profile of the assets and liabilities are as follows:

31 December 2020	***Within Three months AED '000***	***Three months to one year AED '000***	***One year to five years AED '000***	***Over five years AED '000***	***With no maturity AED '000***	***Total AED '000***
Cash and balances with UAE Central Bank	**257,159**	**-**	**-**	**-**	**23,962**	**281,121**
Due from Head Office and overseas branches	**108,940**	**-**	**-**	**-**	**-**	**108,940**
Due from banks and other financial institutions	**14,051**	**-**	**146,920**	**-**	**-**	**160,971**
Loans and advances to customers	**694,163**	**353,818**	**246,458**	**327,289**	**-**	**1,621,728**
Investment Securities	**-**	**-**	**61,508**	**10,656**	**-**	**72,164**
Deferred Tax Asset	**-**	**-**	**-**	**-**	**179,396**	**179,396**
Other assets	**6,711**	**-**	**-**	**-**	**-**	**6,711**
Acceptances	**20,349**	**-**	**-**	**-**	**-**	**20,349**
Property and equipment	**-**	**-**	**-**	**-**	**10,003**	**10,003**
Total Assets	**1,101,373**	**353,818**	**454,886**	**337,945**	**213,361**	**2,461,383**
Due to Head Office and overseas branches	**166,262**	**697,870**	**-**	**-**	**-**	**864,132**
Due to banks and other financial institutions	**157,124**	**236,547**	**-**	**-**	**-**	**393,671**
Customers deposits	**494,350**	**116,258**	**1,903**	**-**	**-**	**612,511**
Other liabilities	**18,256**	**-**	**9,265**	**-**	**-**	**27,521**
Acceptances	**20,349**	**-**	**-**	**-**	**-**	**20,349**
Total Liabilities	**856,341**	**1,050,675**	**11,168**	**-**	**-**	**1,918,184**

25 RISK MANAGEMENT (continued)

Liquidity Risk (continued)

31 December 2019	*Within Three months* *AED '000*	*Three months to one year* *AED '000*	*One year to five years* *AED '000*	*Over five years* *AED '000*	*With no maturity* *AED '000*	*Total* *AED '000*
Cash and balances with UAE Central Bank	231,490	-	-	-	210,225	441,715
Due from Head Office and overseas branches	381,148	-	-	-	-	381,148
Due from banks and other financial institutions	257,510	-	-	-	-	257,510
Loans and advances to customers	616,025	471,448	356,940	335,192	-	1,779,605
Investment Securities	-	-	39,074	31,613	-	70,687
Deferred Tax Asset	-	-	-	-	179,396	179,396
Other assets	6,495	-	-	-	-	6,495
Acceptances	1,302,062	938,720	-	-	-	2,240,782
Property and equipment	-	-	-	-	9,003	9,003
Total Assets	2,794,730	1,410,168	396,014	366,805	398,624	5,366,341
Due to Head Office and overseas branches	408,002	-	-	-	-	408,002
Due to banks and other financial institutions	-	-	-	-	-	-
Customers deposits	1,596,443	431,031	9,874	-	-	2,037,348
Other liabilities	29,487	1,549	8,162	-	-	39,198
Acceptances	1,302,062	938,720	-	-	-	2,240,782
Total Liabilities	3,335,994	1,371,300	18,036	-	-	4,725,330

25 RISK MANAGEMENT (continued)

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Branches are exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Head Office has established limits on the interest rate gaps for stipulated periods. The Branches manage this risk by matching the repricing of assets and liabilities through risk management strategies. The sensitivity of the statement of profit and loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2020. The table below summarises the Bank's exposure to interest rate risks. It includes the Branches' financial instruments at carrying amounts, categorised by the earlier of contractual re pricing or maturity dates.

31 December 2020	*Within Three months AED '000*	*Three months to one year AED '000*	*Above 1 year AED '000*	*Non Interest Sensitive AED '000*	*Total AED '000*
Cash and balances with UAE Central Bank	**243,017**	**-**	**-**	**38,104**	**281,121**
Due from Head Office and overseas branches	**-**	**-**	**-**	**108,940**	**108,940**
Due from banks and other financial institutions	**-**	**-**	**146,920**	**14,051**	**160,971**
Loans and advances to customers	**694,163**	**353,818**	**573,747**	**-**	**1,621,728**
Investment Securities	**-**	**-**	**72,164**	**-**	**72,164**
Deferred Tax Asset	**-**	**-**	**-**	**179,396**	**179,396**
Other assets	**-**	**-**	**-**	**6,711**	**6,711**
Acceptances	**-**	**-**	**-**	**20,349**	**20,349**
Property and equipment	**-**	**-**	**-**	**10,003**	**10,003**
Total Assets	**937,180**	**353,818**	**792,831**	**377,554**	**2,461,383**
Due to Head Office and overseas branches	**-**	**-**	**-**	**864,132**	**864,132**
Due to banks and other financial institutions	**-**	**-**	**-**	**393,671**	**393,671**
Customers deposits	**407,769**	**116,258**	**1,903**	**86,581**	**612,511**
Other liabilities	**-**	**-**	**-**	**27,521**	**27,521**
Acceptances	**-**	**-**	**-**	**20,349**	**20,349**
Head Office Equity	**-**	**-**	**-**	**543,199**	**543,199**
Total Liabilities and Head Office Equity	**407,769**	**116,258**	**1,903**	**1,935,453**	**2,461,383**
Total Interest Rate Sensitivity Gap	**529,411**	**237,560**	**790,928**	**(1,557,899)**	
Cumulative Interest Rate Sensitivity Gap	**529,411**	**766,971**	**1,557,899**	**-**	

25 RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

31 December 2019	*Within Three months AED '000*	*Three months to one year AED '000*	*Above 1 year AED '000*	*Non Interest Sensitive AED '000*	*Total AED '000*
Cash and balances with UAE Central Bank	70,017	-	-	371,698	441,715
Due from Head Office and overseas branches	-	-	-	381,148	381,148
Due from banks and other financial institutions	246,067	-	-	11,443	257,510
Loans and advances to customers	616,025	471,448	692,132	-	1,779,605
Investment Securities	-	-	70,687	-	70,687
Deferred Tax Asset	-	-	-	179,396	179,396
Other assets	-	-	-	6,495	6,495
Acceptances	-	-	-	2,240,782	2,240,782
Property and equipment	-	-	-	9,003	9,003
Total Assets	932,109	471,448	762,819	3,199,965	5,366,341
Due to Head Office and overseas branches	-	-	-	408,002	408,002
Due to banks and other financial institutions	-	-	-	-	0
Customers deposits	1,400,012	431,031	9,874	196,431	2,037,348
Other liabilities	-	-	-	39,198	39,198
Acceptances	-	-	-	2,240,782	2,240,782
Head Office Equity	-	-	-	641,011	641,011
Total Liabilities and Head Office Equity	1,400,012	431,031	9,874	3,525,424	5,366,341
Total Interest Rate Sensitivity Gap	(467,903)	40,417	752,945	(325,459)	
Cumulative Interest Rate Sensitivity Gap	(467,903)	(427,486)	325,459	-	

25 RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

The following table reflect the effect of 25 basis points change in interest rates, with all other variables held constant on the profit and loss statement.

	2020 ***AED '000***	*2019* *AED '000*
All Currencies	**3,895**	814

Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Head Office has set limits on positions by currencies, which are monitored daily. 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 manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. At the end of the year, the Branches had the following significant net exposures denominated in foreign currencies:

	Euro ***AED '000***	***GBP*** ***AED '000***	***AUS Dollar*** ***AED '000***	***Kuwaiti Dinar*** ***AED'000***	***Others Currencies*** ***AED'000***	***Total*** ***AED'000***
As at 31 December 2020						
Assets and long positions	**50,010**	**965**	**-**	**84,492**	**1,410,889**	**1,546,356**
Liabilities, Head Office funds and short positions	**(49,971)**	**(927)**	**-**	**(84,550)**	**(1,469,880)**	**(1,605,328)**
Net open position of the currencies	**39**	**38**	**-**	**(58)**	**(58,991)**	**(58,972)**
As at 31 December 2019						
Assets and long positions	14,944	3,026	241	367,925	5,163	391,299
Liabilities, Head Office funds and short positions	(6,310)	(1,751)	-	(67,704)	(16,903)	(92,668)
Net open position of the currencies	**8,634**	**1,275**	**241**	**300,221**	**(11,740)**	**298,631**

The following table represents the Branches sensitivity to a percentage increase or decrease in the U.A.E. Dirhams against the relevant foreign currencies with the exception of US Dollars since it is pegged to the U.A.E. Dirhams. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and the impact of a reasonable possible movement in the exchange rates were as follows:

25 RISK MANAGEMENT (continued)

Currency Risk (continued)

Currency	***Percentage***	***2020 AED'000***	*2019 AED'000*
GBP	± 3%	± 1	± 38
Euro	± 3%	± 1	± 259
AUD	± 3%	± 0	± 7
KWD	± 3%	± 1	± 9,006
Other currencies	± 3%	± 1,769	± 352

Market Risk
Market risk refers to the uncertainty of future earnings resulting from changes in interest rates, foreign exchange rates, market prices and volatilities. Due to the limited operations of the branches in Dubai and Abu Dhabi, U.A.E. (Retail and Corporate Banking) market risk exposure is measured by sensitivity analysis. There has been no change in Branches exposure to market risk and the manner in which these risks are managed and measured.

The centralized Investment Committee at Head Office approves all the investment decision for the branches. The performance of the portfolio is updated regularly to senior management including ALCO and investment committee by Financial Risk Management department at Head Office.

Operational Risk
Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process infrastructure, personnel, and other risks having an operational risk impact.

The Branches seeks to minimize actual or potential losses from operational risk failures through the operations risk management department by having a framework of policies and procedures to control and manage risks. In addition, an independent internal audit function identifies, assesses, and submits reports on these risks.

Other risks to which the Branches are exposed are regulatory risk, legal risk, and reputation risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective use of internal and external legal advisers. Reputational risk is controlled through the regular examination of issues that are considered to have reputational repercussions for the Branches, with guidelines and policies being issued as appropriate.

26 CAPITAL MANAGEMENT

Regulatory capital

The Branches objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:
- To comply with the capital requirements set by the Central Bank of U.A.E;
- To safeguard the Branches ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

The Central Bank of UAE ('CBUAE') supervises the Branches on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Branches as a whole. Effective from 2017, the capital is computed at the Branches level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Branches' regulatory capital is analysed into two tiers:

CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.

Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

26 CAPITAL MANAGEMENT (continued)

Regulatory capital (continued)

The CBUAE 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. The minimum capital adequacy requirements as set out by the Central Bank are as follows:

Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
Minimum tier 1 ratio of 8.5% of RWAs.
Total capital adequacy ratio of 10.5% of RWAs.
Capital conservation buffer – 2.5% of RWAs.
Countercyclical buffer – 0.32% of RWAs.

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

The UAE Central Bank issued Basel III capital regulation vide its notice no. CBUAE/BSD/N/2020/66 dated January 07, 2020 which was partially effective as at December 31, 2019 (as per the regulation, only Pillar II is applicable in December 2019 and the rest will be applicable from June 2020.

During the years ended 31 December 2020 and 2019, the Branches have complied in full with all its externally imposed capital requirements.

The Branches’ regulatory capital position at 31 December was as follows:

	2020	*2019*
	AED ’000	*AED ’000*
Tier 1 capital		
Allocated capital	**900,000**	900,000
Statutory reserve	**2,595**	2,595
Accumulated loss	**(360,747)**	(263,553)
	541,848	639,042
Threshold deductions	**(125,211)**	(115,492)
Total CET1 after regulatory adjustments / Tier 1 capital	**416,637**	523,550
Tier 2 capital		
Collective impairment provision on loans and advances	**23,069**	34,292
Total capital base	**439,706**	557,842
Risk-weighted assets		
Credit Risk	**1,845,537**	2,743,372
Market Risk	**79**	310,371
Operational Risk	**185,003**	256,616
Total risk-weighted assets	**2,030,619**	**3,310,359**
Capital Adequacy Ratio	***21.65%***	*16.85%*
Tier 1 Capital to Total risk-weighted assets	***20.52%***	*15.82%*

26 CAPITAL MANAGEMENT (continued)

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 primarily upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk and Credit Facility Department, and is subject to review by ALCO as appropriate.

Although maximisation 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.

27 ACCEPTANCES

The branches do not perceive any significant credit risk on acceptances. Acceptances arise when the branches are under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the branches and is therefore recognised as a financial liability in the consolidated statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

Breakup by economic segment

	2020 ***AED '000***	*2019* *AED '000*
Services	-	2,204,309
Construction	**20,349**	36,473
	20,349	2,240,782

28 COMPARATIVES

The Comparative figuers have been reclassified where necessary to preserve consistency with the current year. However, such reclassification did not have any effect on the net profit or equity for the comparative year. Comparative periods have not been restated.

29 IMPACT OF COVID-19

On 11 March 2020, the World Health Organisation ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus.

i) IASB Guidance

On 27 March 2020, the IASB issued a guidance note on accounting for expected credit losses in the light of current uncertainty arising from the Covid-19 pandemic. The guidance note states that IFRS 9 requires the application of judgement and both requires and allows entities to adjust their approach to determining ECLs in different circumstances. A number of assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold in the current environment. Entities should not continue to apply their existing ECL methodology mechanically.

Further, to assess significant increase in credit risk (SICR) IFRS 9 requires that entities assess changes in the risk of a default occurring over the expected life of a financial instrument. Both the assessment of SICR and the measurement of ECLs are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. Entities are required to develop estimates based on the best available information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, consideration should be given both to the effects of Covid-19 and the significant government support measures being undertaken.

29 IMPACT OF COVID-19 (continued)

ii) CBUAE support programs and initiatives

The UAE Central Bank has announced AED 256 billion stimulus package in an attempt to combat the above effects of COVID-19 and ease the liquidity constraints in the UAE Banking Sector, by providing relief to the local economy. The stimulus package includes the launch of the Targeted Economic Support Scheme ('TESS'), which allows banks to grant temporary relief to certain customers in the way of deferring payments, and allowing banks to apply for zero-cost funding from the Central Bank until 30 June 2021.

As required by Central Bank under the notice no CBUAE/BSD/N/2020/2019, the customers benefitting from payment deferrals under the TESS program and the customers benefitting outside the program (Non-TESS) have been split into the below two main categories:

Group 1: Customers that are temporarily and mildly impacted by the Covid-19 crisis.

This sub segment includes borrowers for which the credit deterioration is not considered significant enough to trigger a significant increase in credit risk only on account of Covid impact. Such customers are expected to face short term liquidity issues caused by business disruption / salary cuts and are expected to recover rapidly once the economic environment stabilizes. These accounts are not considered to have sufficient deterioration in credit quality to trigger a stage migration and the staging maybe retained at the pre-crisis level.

Group 2: Customers that are expected to face substantial changes in their credit worthiness beyond liquidity issues.

This sub segment includes borrowers for which the credit deterioration is more significant and prolonged, ranging beyond liquidity issues, with an extended recovery period. For customers in Group 2, there may be sufficient deterioration in credit risk to trigger a migration to stage 2 or 3.

Utilization by industry and segment of the borrowers benefited in TESS scheme as at 31 December 2020 is summarised below:

AED '000

Sector	Group 1		Group 2	
	Amount deferred	Total loans and advances	Amount deferred	Total loans and advances
Retail Loans	148	2,060	-	-
Construction	30,497	136,451	-	-
Whoesale & Retail Trade	19,347	111,661	-	-
Services	19,563	293,235	1,120	16,000
	69,555	**543,407**	**1,120**	**16,000**
Expected Credit Loss (ECL)		**22,735**		**4,000**

Below is an analysis of ECL allowance by industry sector on the bank's customers benefitting from payment deferrals under the TESS program as at 31 December 2020:

AED '000

Sector	Impairment Allowance
Retail Loans	1
Construction	10,896
Whoesale & Retail Trade	2,060
Services	13,778
ECL allowance as at 31 December 2020	**26,735**

29 IMPACT OF COVID-19 (continued)

ii) CBUAE support programs and initiatives (continued)

A case by case analysis has been performed for wholesale customers with material exposures and portfolio approach followed for retail customers and customers with smaller exposures. Based on the above considerations, customers availing TESS as at 31 December 2020 have been categorised as follows:

AED '000

Segment	Group	Staging	Number of Customers	Amount deferred	Exposure	Impairment allowance
Corporate Banking	Group 1	Stage 1	3	12,227	122,677	28
		Stage 2	10	57,180	418,669	22,706
	Group 2	Stage 3	1	1,120	16,000	4,000
Retail Banking	Group 1	Stage 1	5	136	998	0
		Stage 2	2	12	1,063	1
Total			**21**	**70,675**	**559,407**	**26,735**

Migration of staging

Stage migration of exposure since 1 January 2020, of customers benefiting from payment deferrals under the TESS program by business segment as at 31 December 2020 are summarised below:

AED '000

	Stage 1	Stage 2	Stage 3	Total
Corporate Banking				
As at 1 January 2020	180,558	410,177	-	590,735
- Transfer between stages	(35,506)	20,283	15,223	-
- Change in exposure during the year	(22,375)	(11,791)	777	(33,389)
As at 31 December 2020	**122,677**	**418,669**	**16,000**	**557,346**
Retail Banking				
As at 1 January 2020	5,856	-	-	5,856
- Transfer between stages	(1,111)	1,111	-	-
- Change in exposure during the year	(3,747)	(48)	-	(3,795)
As at 31 December 2020	**998**	**1,063**	**-**	**2,061**

Stage migration of exposure since 1 January 2020, of Non-Tess customers taking payment deferrals as at 31 December 2020 are summarised below:

	Stage 1	Stage 2	Stage 3	Total
Corporate Banking				
As at 1 January 2020	13,859	142,052	2,340	**158,251**
- Transfer between stages		(39,686)	39,686	**-**
- Change in exposure during the year	(8,103)	288	1,388	**(6,427)**
As at 31 December 2020	**5,756**	**102,654**	**43,414**	**151,824**
Retail Banking				
As at 1 January 2020	8,691	-	-	**8,691**
- Transfer between stages	(48)	48		**-**
- Change in exposure during the year	(1,131)	(33)	-	**(1,164)**
As at 31 December 2020	**7,512**	**15**	**-**	**7,527**

29 IMPACT OF COVID-19 (continued)

ii) CBUAE support programs and initiatives (continued)

Migration of staging (continued)

Out of 21 borrowers who were extended deferrement under TESS scheme, only 2 borrowers have remained active as at 31 December 2020.

30 SUBSEQUENT EVENTS

During the period between the end of the reporting period and the date of authorisation of these financial statements, there were no events that would have material effect on the operations of the Branch.