Habib Bank Limited – United Arab Emirates ("UAE") Branches

FINANCIAL STATEMENTS

For the year ended December 31, 2019

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INDEPENDENT AUDITORS' REPORTS

KPMG

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Independent Auditors' Report

To the Regional General Manager of Habib Bank Limited, United Arab Emirates Branches

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Habib Bank Limited, United Arab Emirates Branches ("the Bank"), which comprise the statement of financial position as at 31 December 2019, the income statement, statements of other comprehensive income, changes in 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 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 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 Code of Ethics for Professional Accountants (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.

- 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.

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

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

Emilio Pera
Registration No.: 1146
Dubai, United Arab Emirates
Date: 29 MAR 2020

Habib Bank Limited - UAE Branches

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 AED '000	2018 AED '000
ASSETS			
Cash and balances with the UAE Central Bank	5	711,716	276,956
Due from other banks	6	201,108	142,432
Due from the Head Office and other branches	7	133,331	141,900
Loans and advances	8	1,376,753	1,403,261
Investment securities	9	253,817	299,130
Customer acceptances		23,730	10,336
Deferred tax asset	28	41,460	36,347
Other assets	10	56,739	64,211
Property and equipment	11	20,857	14,935
TOTAL ASSETS		2,819,511	2,389,508
LIABILITIES AND EQUITY			
LIABILITIES			
Due to other banks	12	731	130
Due to the Head Office and other branches	13	89,027	46,387
Customer deposits	14	2,180,116	1,854,250
Customer acceptances		23,730	10,336
Other liabilities	15	65,975	45,888
TOTAL LIABILITIES		2,359,579	1,956,991
EQUITY			
Allocated capital	17	373,072	373,072
Statutory reserve	18	22,282	20,532
Retained earnings		53,796	38,049
Fair value and other reserve	19	10,782	864
TOTAL EQUITY		459,932	432,517
TOTAL LIABILITIES AND EQUITY		2,819,511	2,389,508

These financial statements were authorised for issue on March 29, 2020 by:

Regional General Manager

Regional Head - Finance

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

The attached notes 1 to 34 form an integral part of these financial statements.

INCOME STATEMENT

For the year ended 31 December 2019

	Notes	**_2019_** **_AED '000_**	_2018_ _AED '000_
Interest income	22	**82,930**	64,510
Interest expense	23	**(22,593)**	(10,373)
Net interest income		**60,337**	54,137
Fee and commission income	24	**18,550**	18,451
Other income	25	**11,421**	11,257
Net operating income		**90,308**	83,845
Operating expenses	26	**(72,371)**	(85,478)
Profit /(loss) before net impairment charge and taxation		**17,937**	(1,633)
Impairment allowance on loans and advances	8	**(4,289)**	(68,030)
Impairment reversal on off-balance sheet obligations		**578**	341
Impairment allowance on investments	19	**(3,248)**	(1,903)
Net impairment charge		**(6,959)**	(69,592)
Profit / (loss) before taxation		**10,978**	(71,225)
Taxation	28	**6,519**	770
NET PROFIT / (LOSS) FOR THE YEAR		**17,497**	(70,455)

The independent auditors' report is set out on pages 1 to 3.
The attached notes 1 to 34 form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	**2019 AED '000**	2018 AED '000
NET PROFIT/(LOSS) FOR THE YEAR		**17,497**	(70,455)
Other comprehensive income / (loss)			
Other comprehensive income to be reclassified to income statement in subsequent periods			
Net unrealised profit/(loss) on investment securities measured at fair value through OCI- net of tax	19	**6,670**	(1,049)
Impairment on investments securities under IFRS 9	19	**3,248**	1,913
Other comprehensive income for the year		**9,918**	864
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**27,415**	(69,591)

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Habib Bank Limited - UAE Branches

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Allocated capital AED'000	*Statutory reserve AED'000*	*Retained earnings AED'000*	*Fair value and other reserve AED'000*	*Total AED'000*
As at 1 January 2019	373,072	20,532	38,049	864	432,517
Profit for the year	-	-	17,497	-	17,497
Other comprehensive income for the year	-	-	-	9,918	9,918
Total comprehensive income for the year	-	-	17,497	9,918	27,415
Transfer to statutory reserve	-	1,750	(1,750)	-	-
As at 31 December 2019	**373,072**	**22,282**	**53,796**	**10,782**	**459,932**
As at 1 January 2018	373,072	20,532	119,523	-	513,127
Loss for the year	-	-	(70,455)	-	(70,455)
Other comprehensive loss for the year	-	-	-	864	864
Total comprehensive income/(loss) for the year	-	-	(70,455)	864	(69,591)
Profit repatriated during the year	-	-	(11,019)	-	(11,019)
As at 31 December 2018	373,072	20,532	38,049	864	432,517

The independent auditors' report is set out on pages 1 to 3.
The attached notes 1 to 34 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	**2019 AED '000**	2018 AED '000
OPERATING ACTIVITIES			
Net profit/(loss) before taxation		**10,978**	(71,225)
Adjustment for:			
Depreciation/Amortisation	26	**11,817**	3,453
Impairment loss on credit losses - net		**6,959**	69,483
Loss on disposal of property and equipment		**74**	64
Gain on sale of fair value through OCI securities		**(282)**	-
Interest expense on lease liability against right-of-use assets		**92**	-
Provision for employees' end of service benefits	16	**1,081**	1,044
Cash generated from operations before changes in operating assets and liabilities		**30,719**	2,819
Changes in operating assets and liabilities:			
Reserves with the UAE Central Bank		**23,192**	280,454
Due from other banks		**(36,730)**	-
Due from the Head Office and other branches		**7,393**	9,217
Loans and advances		**19,549**	(55,847)
Other assets		**8,878**	(6,774)
Due to the Head Office and other branches		**50,489**	(35,797)
Customer deposits		**325,866**	(337,300)
Lease liability against right-of-use-assets		**2,673**	-
Other liabilities		**18,794**	(56,457)
		450,823	(199,685)
Payments for employees' end of service benefits	16	**(1,275)**	(1,413)
Income tax paid		**(1,278)**	(13,620)
Net cash generated from/(used in) operating activities		**448,270**	(214,718)
INVESTING ACTIVITIES			
Proceeds from sale of investment securities		**262,863**	-
Purchase of investment securities		**(207,350)**	(198,266)
Purchase of property and equipment	11	**(17,813)**	(3,299)
Net cash generated from/(used in) investing activities		**37,700**	(201,565)
FINANCING ACTIVITY			
Repatriation of profit to head office		**-**	(11,019)
Net cash used in financing activity		**-**	(11,019)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**485,970**	(427,302)
Cash and cash equivalents at 1 January		**270,294**	697,596
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	29	**756,264**	270,294

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

The attached notes 1 to 34 form an integral part of these financial statements.

1 ESTABLISHMENT AND OPERATIONS

Habib Bank Limited operates as a branch of Habib Bank Limited with its Head Office ("Head Office") in Pakistan. In the United Arab Emirates ("UAE"), it operates through its eight branches (2018: eight branches) located in the emirates of Abu Dhabi, Dubai and Sharjah under a license issued by the Central Bank of the UAE ("UAE Central Bank"). Habib Bank Limited, is listed on the Pakistan Stock Exchange.

The principal activities of Habib Bank Limited - UAE Branches (hereafter these branches are referred to as the "Bank") are to provide retail and corporate banking services in the UAE. These financial statements represent the combined statement of financial position and results of the eight branches (2018: eight branches) of the Bank in the UAE. The registered address of the Bank is P.O. Box 888, Dubai, UAE.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E including UAE Federal Law No. 2 of 2015 ("Companies Law").

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

- derivative financial instruments are measured at fair value;
- financial assets at fair value through other comprehensive income;

The preparation of financial statements in conformity with IFRS as issued by the IASB requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the 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 4.

2.2 Changes in accounting policies

The accounting policies set out below have been applied consistently to all the years presented in these financial statements, except changes in accounting policies resulting from the adoption of IFRS 16 as described below:

IFRS 16 Leases

During the year, IFRS 16 - Leases, became applicable to Banks. IFRS 16 replaces existing guidance on accounting for leases, including IAS 17 - Leases, International Financial Reporting Interpretations Committee (IFRIC) 4 - Determining whether an Arrangement contains a Lease, Standard Interpretations Committee (SIC) -15 - Operating Leases - Incentives, and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces an on-balance sheet lease accounting model for leases entered into by the lessee. A lessee recognizes a right-of use asset representing its right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as either finance or operating leases.

The Bank applied IFRS 16 using the modified retrospective approach from 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

IFRS 16 Leases (continued)

The Bank has recognised liabilities in respect of leases which had previously been classified as operating leases under IAS 17, Leases. These liabilities are measured as the present value of the remaining lease payments, discounted using the Bank's incremental weighted average borrowing rate of 3% per annum as at January 1, 2019. Remeasurements of lease liabilities only occur in cases where the terms of the lease are changed during the lease tenor and are recognised as adjustments to the related right-of-use assets after the date of initial application.

On adoption of IFRS 16, the associated right-of-use assets were initially measured at the amount equal to the lease liability, adjusted by the amount of prepaid lease payments recognised in the statement of financial position immediately before the date of initial application. On subsequent measurement, right-of-use assets are stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of the lease liability.

Right-of-use assets are depreciated over their expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which the leases are entered into. No depreciation is charged in the month in which the leases mature or are terminated.

Impact on financial statements

Impact on Statement of Financial Position

The effect of this change in accounting policy, which is applied with retrospective effect, is as follows:

	December 31, 2019	*January 01, 2019*
	AED'000	*AED'000*
Increase in fixed assets - Right-of-use assets	**8,251**	14,690
Decrease in other assets - prepayments	**-**	(8,328)
Increase in other assets	**8,251**	6,362
Increase in other liabilities - lease liability against right-of-use assets	**(2,673)**	(6,362)
Increase in net assets	**5,578**	-

Impact on Profit and Loss account

	December 31, 2019
	AED'000
Increase in mark-up expense - lease liability against right-of-use assets	**92**
Increase / (decrease) in administrative expenses:	
- Rent expense	**(7,719)**
- Depreciation on right-of-use assets	**7,719**
	-
Decrease in profit before tax	**92**
Decrease in tax	**(18)**
Decrease in profit after tax	**74**

While implementing IFRS 16, the Bank has used a single discount rate methodology for each portfolio of leases with similar characteristics.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies

Financial Instruments

a) Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Classification

On initial recognition, a financial asset is classified as measured in the following categories:

i) Amortised cost; and
ii) Fair value through other comprehensive income (FVOCI)
iii) Fair value through profit or loss (FVTPL)

***i)* Financial assets at amortised cost**

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 SPPI.

***ii)* Financial assets at fair value through other comprehensive income (FVOCI)**

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 SPPI.

***iii)* Fair value through profit or loss (FVTPL)**

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank 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.

All financial assets and liabilities are classified at amortised cost except for investment securities which are classified as fair value through OCI.

b) Fair value measurement

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

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ‘active’ if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Instruments (continued)

b) Fair value measurement (continued)

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, which reflects the significance of inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Assets

(a) Business model assessment

The Bank makes an assessment of the objective of a business model in which a financial asset is held at portfolio level, because this reflects the way the business is managed and information is provided to the management. The assessment is not determined by a single factor or activity. Instead, the Bank considers all relevant information available at the date of the assessment. The information considered includes:

- The stated policies and objectives for the business and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio and the financial asset held within the portfolio is evaluated and reported to the management;
- The risks that affect the performance of the portfolio and, in particular, the way in which those risks are managed;
- How the managers of the business are compensated; 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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), the Bank considers the contractual terms of the instrument.

For the purpose 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.

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 Bank considers:

- contingent events that would change the amount and timing of cashflows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Assets (continued)

b) Subsequent measurement

The Bank measures financial instruments, such as derivatives and certain fixed income instruments, at fair value at each reporting date.

Financial asset classified as at FVOCI or FVTPL are subsequently measured at fair value. Financial assets not carried at fair value are subsequently measured at amortised cost using the effective interest method, less expected credit allowances.

c) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition except in the period after the Bank changes its business model for managing financial assets. If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank’s financial assets. During the current and previous financial year there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on 'Modification of financial assets' and 'Derecognition of financial assets' described in note 2.3 (f) and 2.3 (g) respectively).

d) Impairment

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

- Loans and advances
- Debt investment securities
- Unfunded exposure

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank has applied low credit risk exemption to cash and balances with the UAE Central Bank, due from other banks, due from the Head Office and other branches.

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12 months ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the life time expected credit losses (LTECL). LTECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Assets (continued)

d) Impairment (continued)

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for 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 Bank 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;

However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, as the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and
- for letter of credit and financial guarantee contracts, the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original Effective Interest Rate (EIR), regardless of whether it is measured on an individual basis or a collective basis.

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

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

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

Details of these statistical parameters / inputs are as follows:

- PD – PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Bank and assessed using rating tools tailored to the various categories of counterparties and exposures.
- EAD – EAD represents the expected exposure in the event of a default. The Bank derives 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.
- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Assets (continued)

d) Impairment (continued)

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 Bank assesses whether financial assets carried at amortised cost and debt securities 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. Credit-impaired financial assets are referred to as Stage 3 assets. 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 lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Assets (continued)

d) Impairment (continued)

Default definition

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

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

- the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank 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 Bank.

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

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by supranational organisations such as the International Monetary Fund.

The scenario probability weightings applied in measuring ECL are as follows.

	2019			*2018*		
At 31 December	**Base**	**Upside**	**Downside**	Base	Upside	Downside
Scenario probability weighting	**70%**	**10%**	**20%**	80%	10%	10%

The Bank has identified and documented key drivers of credit risk and credit losses for financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key drivers for credit risk for wholesale portfolios are: GDP growth and oil prices.

Non-retail portfolio

The non-retail portfolio comprises of loans which are managed individually by the Relationship Managers (RMs) with oversight from the Credit Risk team of the Bank. These loans are appraised at least annually based on the financial information, other qualitative information and account conduct of the customer.

A non-retail customer is identified as at default if the customer is materially delinquent for more than 90 days on any of its credit obligation.

Retail portfolio

The retail portfolio comprises of loans that are managed at a product level, and based on approved product programs. A retail account is identified as default if the customer is delinquent for more than 90 days. The default rate analysis for the retail portfolio is performed at the account level.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Assets (continued)

d) Impairment (continued)

Assessment of significant increase in credit risk

The Bank monitors all financial assets, issued loan commitments, letters of credit and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The assessment is performed on at least quarterly basis for each individual exposure.

Quantitative thresholds are established for the significant increase in the credit based on the movement in credit rating. In addition to quantitative criteria the Bank has a proactive Early Warning Indicator (EWI) framework, based on which the Credit Risk team performs a portfolio quality review on a monthly basis. The objective of the same is to identify potentially higher risk customers within the performing customers.

Multiple macro economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different macro economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment. The following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation;
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macroeconomic information is incorporated as part of the internal rating model.

The quantitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Bank has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 installments (for quarterly installments) have been made or 12 months (for installments longer than quarterly) curing period is met.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Assets (continued)

d) Impairment (continued)

Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve;
- for loan commitments and financial guarantee contracts: generally, as a provision in other liabilities; and
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.

e) Write-off

Loans and advances and debt securities are written-off when the Bank has no reasonable expectations of recovering the financial asset (either partially or in full). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written-off.

Recoveries of amounts previously written-off are included in 'recoveries' in the income statement and statement of other comprehnesive income.

f) Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and / or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified, the Bank assesses whether this modification results in derecognition. In accordance with the Bank’s policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is material, the Bank deems the arrangement is substantially different leading to derecognition.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Assets (continued)

f) Modification of financial assets (continued)

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the income statement. Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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 interest income calculated using the effective interest rate method.

g) Derecognition of financial assets

The Bank 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 Bank 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.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Assets (continued)

g) Derecognition of financial assets (continued)

On derecognition of a financial asset in its entirety, the difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain / loss allocated to it that had been recognised in other comprehensive income (OCI) is recognised in income statement.

Financial liabilities

a) Classification

The Bank classifies its financial liabilities in amortised cost.

Financial liabilities at amortised cost

Financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. These 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 effective interest rate (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.

b) Modification of financial liabilities

The Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is materially different from the discounted present value of the remaining cash flows of the original financial liability.

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 derecognised and consideration paid is recognised in the income statement. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

c) Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's 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 Bank 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.

Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Derivative financial instruments

a) Classification
The Bank enters into derivative financial instruments including forwards and swaps in the foreign exchange markets.

b) Initial and subsequent measurement
In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

Due from banks
Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less allowance for expected credit loss, if any.

Loans and advances
Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

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

Investment securities
The 'investment securities' caption in the statement of financial position includes debt securities measured at FVOCI. For debt securities measured at FVOCI, gains and losses are recognised in OCI.

Acceptances
Acceptances arise when the Bank 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 Bank and is therefore recognised as a financial liability in the statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Acceptances have been considered within the scope of IFRS 9 - Financial Instruments for the purpose of calculation of expected credit loss and are valued at amortized cost and continued to be recognised as a financial liability in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

Offsetting financial instruments
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.

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, balance in current and call accounts and placements with original maturity of less than three months with insignificant credit risk excluding the statutory deposit required to be maintained with the UAE Central Bank and deposits under lien.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items plus their incidental costs. Depreciation is computed on the straight line method at rates calculated to reduce the cost of assets to their estimated residual values over their expected useful live.

	Years
Leasehold improvements	5
Furniture, fixtures, and office equipment	5-10
Motor vehicles	10
Computers and accessories	3-10

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in other income in the income statement.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount being the higher of the fair value less cost to sell and value in use.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if required.

Right-of-use assets and their related lease liability

Right-of-use assets

On initial recognition, right-of-use assets are measured at an amount equal to initial 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 be incurred to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

Right-of-use assets are subsequently stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of lease liability. The remeasurement of lease liability will only occur in cases where the terms of the lease are changed during the lease tenor.

Right-of-use assets are depreciated over their expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which the leases are entered into. No depreciation is charged in the month in which the leases mature or are terminated.

Lease liability against right-of-use assets

The lease liabilities are initially measured as the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also remeasured to reflect any reassessment or change in lease terms. These remeasurements of lease liabilities are recognised as adjustments to the carrying amount of related right-of-use assets after the date of initial recognition.

Each lease payment is allocated between a reduction of the liability and a finance cost. The finance cost is charged to the profit and loss account as markup expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Taxation

Provision for taxation is made in respect of the Bank's operations in the Emirates of Sharjah, Abu Dhabi and Dubai whereby tax is payable at the rate of 20% of the adjusted net profit generated during the year in each of the Emirates, in accordance with the relevant legislation of the Emirate.

Deferred tax

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

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

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

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

Deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

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

Borrowings, customer deposits and due to other banks

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the EIR.

Employees' end of service benefits

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

The Bank provides end of service benefits to its expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Provisions

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

Revenue recognition

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.

Fees and commission

Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Bank to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Bank based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer.

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

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);

- income earned from the provision of services is recognised as revenue as the services are provided; and

- other fees and commission income and expense are recognised as the related services are performed or received.

Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in United Arab Emirates Dirhams(AED), which is the Bank's functional and presentation currency, rounded to the nearest thousands, unless otherwise stated.

(b) Transactions and balances

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

c) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Derivative product types

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Bank enters into a variety of derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and interest rate swap.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets when these are quoted instruments or else by reference to recent market transactions, other valuation techniques including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Forwards

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement.

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

2.4 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

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

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3)

3 FINANCIAL RISK MANAGEMENT

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

The Bank's risk management policies as approved by the Head Office are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems. These policies provide written principles for overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, market risk, liquidity risk, and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter party will cause financial loss to the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, due from other banks, investment securities and other receivables. There is also credit risk in financial arrangements not reflected on the statement of financial position such as credit commitments.

Internal credit risk ratings
In order to minimise credit risk, the Bank maintains the Bank's credit risk grading to categorise exposures according to their degree of risk of default. The Bank's credit risk grading framework comprises various categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The Bank measures credit risk of loans and advances to customers and to financial institutions at a counterparty level by using an internally developed technique named "Obligor Risk Rating" (ORR) considering various factors over a scale of 1 to 12 points. The better the customer credit strength the lower is the grade. This credit risk measurement technique is embedded in the Bank's daily operational management.

Classification	Grades	Risk significance
Performing	1 - 8	Exceptional to Weak
Performing	9	Watch list
Non-performing	10	Substandard
Non-performing	11	Doubtful
Non-performing	12	Loss

Measurement of ECL
As explained in note 2.3 (e), the Bank measures ECL considering the risk of default over the maximum contractual period over which the entity is exposed to credit risk. However, for financial instruments such as overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance to terminate a loan commitment or guarantee.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Restructured and renegotiated loans

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

Exposure to credit risk

The Bank measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and expected credit allowances, if any.

2019	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Loans and advances	***AED'000***			
Performing	**906,118**	**488,644**	**-**	**1,394,762**
Non-performing	**-**	**-**	**315,637**	**315,637**
Allowance for impairment losses	**(11,677)**	**(8,889)**	**(313,080)**	**(333,646)**
Net carrying amount	**894,441**	**479,755**	**2,557**	**1,376,753**

	Stage 1	***Stage 2***	***Stage 3***	***Total***
Unfunded advances	***AED'000***			
Performing	**60,069**	**118,059**	**-**	**178,128**
Allowance for impairment losses	**(6)**	**(232)**	**-**	**(238)**
Net carrying amount	**60,063**	**117,827**	**-**	**177,890**

	Stage 1	***Stage 2***	***Stage 3***	***Total***
Debt securities	***AED'000***			
Performing	**253,817**	**-**	**-**	**253,817**
Allowance for impairment losses	**(5,161)**	**-**	**-**	**(5,161)**

2018	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Loans and advances	*AED'000*			
Performing	924,735	496,468	-	1,421,203
Non-performing	-	-	326,904	326,904
Allowance for impairment losses	(9,007)	(13,629)	(322,210)	(344,846)
Net carrying amount	915,728	482,839	4,694	1,403,261

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Unfunded advances	*AED'000*			
Performing	219,331	148,504	-	367,835
Allowance for impairment losses	(597)	(219)	-	(816)
Net carrying amount	218,734	148,285	-	367,019

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities	*AED'000*			
Performing	299,130	-	-	299,130
Allowance for impairment losses	(1,913)	-	-	(1,913)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

(a) *Loans and advances renegotiated*

The breakdown of the gross carrying amount of renegotiated financial assets, along with the fair value of related collateral held by the Bank as security, are as follows:

	2019			*2018*		
	Corporate loans AED '000	***Retail loans AED '000***	***Total AED '000***	*Corporate loans AED '000*	*Retail loans AED '000*	*Total AED '000*
Renegotiated financial assets	**66,735**	**-**	**66,735**	96,580	-	96,580
Estimated fair value of collateral	**105**	**-**	**105**	4,184	-	4,184

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries and countries.

The credit risk is primarily managed by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

(a) Collateral

As part of the Bank's credit risk management policies and practices, it obtains security where deemed necessary for loans and advances. The principal collateral types include:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Personal and corporate guarantees.

Longer-term finance and lending to corporate entities are generally secured; revolving credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank may obtain additional collaterals from the counterparty as soon as impairment indicators are observed for the relevant loans and advances.

Collaterals held as security for financial assets other than loans and advances are determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

Analysis of collateral by type is presented in the following table:

	2019	*2018*
	AED '000	*AED '000*
Cash Margin and Liens	**100,314**	140,751
Guarantee	**44,827**	7,573
Mortgage	**26,314**	9,116
	171,455	157,440

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Risk limit control and mitigation policies (continued)

(b) Derivatives

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank, which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements and entering into forward contracts with other banks, which forms as a back to back commitment to purchase and sell a contract, resulting in limited credit exposure to the Bank.

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2019	*2018*
	AED '000	*AED '000*
Credit risk exposures relating to assets reflected on and off statement of financial position are as follows:		
Balances with the UAE Central Bank	**692,321**	252,158
Due from other banks	**201,108**	142,432
Due from the Head Office and other branches	**133,331**	141,900
Loans and advances (gross):		
Corporate loans	**1,702,604**	1,736,679
Retail loans	**7,795**	11,428
Investment securities	**253,817**	299,130
Customer acceptances	**23,730**	10,336
Other assets	**59,945**	59,923
	3,074,651	2,653,986
Contingent liabilities	**154,398**	357,499
Undrawn credit commitments	**588,078**	500,592
	742,476	858,091
At 31 December	**3,817,127**	3,512,077

The above table represents a worst case scenario of credit risk exposure to the Bank, without taking account of any collateral held or other credit enhancements attached. For assets reflected on the statement of financial position, the exposures set out above are based on gross amounts.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Repossessed assets

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

Repossessed collateral

During 2019, the Bank has not taken possession of any collateral held as security other than bank deposits most of which has been utilised in settlement of credit facilities (2018: Nil).

Investment securities

Investment securities mainly comprise of debt securities issued by various governments and local / foreign reputable organisations.

The table below presents an analysis of investment securities by rating agency designation, based on Moody's ratings or equivalent:

	2019 AED '000	*2018 AED '000*
AAA to A-	**-**	152,915
BBB to B-	**253,817**	146,215
Total	**253,817**	299,130

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

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

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

	2019 AED '000	***2018 AED '000***
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	**25,965**	**25,365**
Less: Stage 1 and Stage 2 provisions under IFRS 9	**25,965**	**25,365**
General provision transferred to the impairment reserve	**-**	**-**
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**313,080**	**322,210**
Less: Stage 3 provisions under IFRS 9	**313,080**	**322,210**
Specific provision transferred to the impairment reserve	**-**	**-**
Total provision transferred to the impairment reserve	**-**	**-**

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure

The following tables summarise the Bank's main credit exposure at their carrying amounts as categorised by the industry sectors of its counterparties.

2019	*Financial institutions AED '000*	*Textile AED '000*	*Construction & real estate AED '000*	*Wholesale & retail trade AED '000*	*Other industries AED '000*	*Individuals AED '000*	*Total AED '000*
Balances with the UAE Central Bank	**692,321**	**-**	**-**	**-**	**-**	**-**	**692,321**
Due from other banks	**201,108**	**-**	**-**	**-**	**-**	**-**	**201,108**
Due from the Head Office and other branches	**133,331**	**-**	**-**	**-**	**-**	**-**	**133,331**
Loans and advances							
- Corporate loans	**765,338**	**15,472**	**35,094**	**405,604**	**445,012**	**36,084**	**1,702,604**
- Retail loans	**-**	**-**	**-**	**-**	**-**	**7,795**	**7,795**
Investment securities	**57,003**	**-**	**-**	**-**	**196,814**	**-**	**253,817**
Customer acceptances	**-**	**5,549**	**-**	**4,719**	**13,462**	**-**	**23,730**
Other assets	**37,304**	**-**	**-**	**-**	**22,641**	**-**	**59,945**
As at 31 December 2019	**1,886,405**	**21,021**	**35,094**	**410,323**	**677,929**	**43,879**	**3,074,651**

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure (continued)

2018	*Financial institutions AED '000*	*Textile AED '000*	*Construction & real estate AED '000*	*Public sector AED '000*	*Wholesale & retail trade AED '000*	*Other industries AED '000*	*Individuals AED '000*	*Total AED '000*
Balances with the UAE Central Bank	252,158	-	-	-	-	-	-	252,158
Due from other banks	142,432	-	-	-	-	-	-	142,432
Due from the Head Office and other branches	141,900	-	-	-	-	-	-	141,900
Loans and advances								
- Corporate loans	909,442	15,837	48,967	-	464,873	275,760	21,800	1,736,679
- Retail loans	-	-	-	-	-	-	11,428	11,428
Investment securities	203,517	-	-	-	-	95,613	-	299,130
Customer acceptances	-	-	-	-	6,718	3,618	-	10,336
Other assets	36,484	-	-	-	-	23,439	-	59,923
As at 31 December 2018	1,685,933	15,837	48,967	-	471,591	398,430	33,228	2,653,986

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure (continued)

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of the year-end.

For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties:

	UAE	***OECD***	***Other Asian countries***	***Others***	***Total***
	AED'000	***AED'000***	***AED '000***	***AED'000***	***AED'000***
31 December 2019					
Balances with the UAE Central Bank	**692,321**	**-**	**-**	**-**	**692,321**
Due from other banks	**14,515**	**185,846**	**746**	**1**	**201,108**
Due from the Head Office and other branches	**-**	**5,173**	**128,158**	**-**	**133,331**
Loans and advances:					
- Corporate loans	**806,537**	**183,387**	**619,596**	**93,084**	**1,702,604**
- Retail loans	**7,795**	-	-	-	**7,795**
Investment securities	**-**	**-**	**197,499**	**56,318**	**253,817**
Customer acceptances	**23,730**	**-**	**-**	**-**	**23,730**
Other assets	**59,945**	**-**	**-**	**-**	**59,945**
	1,604,843	**374,406**	**945,999**	**149,403**	**3,074,651**

	UAE	*OECD*	*Other Asian countries*	*Others*	*Total*
	AED'000	*AED'000*	*AED '000*	*AED'000*	*AED'000*
31 December 2018					
Balances with the UAE Central Bank	252,158	-	-	-	252,158
Due from other banks	-	105,377	37,055	-	142,432
Due from the Head Office and other branches	-	6,324	135,576	-	141,900
Loans and advances:					
- Corporate loans	882,429	192,741	647,057	14,480	1,736,707
- Retail loans	11,400	-	-	-	11,400
Investment securities	118,492	43,518	118,689	18,431	299,130
Customer acceptances	10,336	-	-	-	10,336
Other assets	59,923	-	-	-	59,923
	1,334,738	347,960	938,377	32,911	2,653,986

OECD represents Organisation for Economic Corporation and Development. This includes United States, Canada, Australia, Japan, United Kingdom, Turkey and other European countries.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk

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

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

Foreign exchange risk

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

	AED	*USD*	*Euro*	*GBP*	*Other*	*Total*
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
As at 31 December 2019						
Assets						
Cash and balances with the UAE Central Bank	668,013	43,703	-	-	-	711,716
Due from other banks	-	112,388	19,520	67,737	1,463	201,108
Due from the Head Office and other branches	-	125,984	6	3,748	3,593	133,331
Loans and advances	401,907	757,381	217,465	-	-	1,376,753
Investment securities	-	253,817	-	-	-	253,817
Customer acceptances	14,588	9,142	-	-	-	23,730
Other assets	54,403	64,110	497	18	28	119,056
	1,138,911	1,366,525	237,488	71,503	5,084	2,819,511
Liabilities						
Due to other banks	731	-	-	-	-	731
Due to the Head Office and other branches	3,927	85,100	-	-	-	89,027
Customer deposits	1,434,706	571,717	99,986	71,276	2,431	2,180,116
Customer acceptances	14,588	9,142	-	-	-	23,730
Other liabilities	49,576	15,734	353	304	8	65,975
	1,503,528	681,693	100,339	71,580	2,439	2,359,579
Net financial position	(364,617)	684,832	137,149	(77)	2,645	459,932

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Foreign exchange risk (continued)

	AED	*USD*	*Euro*	*GBP*	*Other*	*Total*
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
As at 31 December 2018						
Assets						
Cash and balances with the UAE Central Bank	221,133	55,823	-	-	-	276,956
Due from other banks	-	81,709	17,426	42,117	1,180	142,432
Due from the Head Office and other branches	-	134,663	91	6,092	1,054	141,900
Loans and advances	459,489	767,928	175,844	-	-	1,403,261
Investment securities	100,000	155,612	-	43,518	-	299,130
Customer acceptances	4,187	6,149	-	-	-	10,336
Other assets	61,550	52,879	360	704	-	115,493
	846,359	1,254,763	193,721	92,431	2,234	2,389,508
Liabilities						
Due to other banks	130	-	-	-	-	130
Due to the Head Office and other branches	2,994	43,393	-	-	-	46,387
Customer deposits	1,143,473	473,042	142,057	94,383	1,295	1,854,250
Customer acceptances	4,187	6,149	-	-	-	10,336
Other liabilities	35,242	10,534	5	99	8	45,888
	1,186,026	533,118	142,062	94,482	1,303	1,956,991
Net financial position	(339,667)	721,645	51,659	(2,051)	931	432,517

The tables below indicate the currencies to which the Bank has exposure on assets and liabilities. The analysis calculates the effect of a reasonably possible increase in the currency rate against the AED, with all other variables held constant (a possible equal decrease in the currency rate against the AED will have an equal and opposite effect). A negative amount in the table reflects a potential net reduction in profit and loss, while a positive amount reflects a net potential increase in profit and loss. As AED and USD are pegged currencies, these do not embed any foreign exchange risk.

	2019		*2018*	
	Change in currency rate in %	***Effect on profit and loss AED'000***	*Change in currency rate in %*	*Effect on profit and loss AED'000*
Currency				
Euro	**±10**	**13,715**	±10	5,166
GBP	**±10**	**(8)**	±10	(205)
Others	**±10**	**265**	±10	93

Price risk

The Bank mainly holds debt securities, issued by various governments and local / foreign reputable organisations, which are carried at fair value. The Bank's exposure to price risk is dependent on the economical and political factors of these respective countries. The Bank manages the price risk through diversification and placing limits on individual and total debt securities portfolio. Reports on the debt securities portfolio are submitted to the Bank's senior management on a regular basis. The Head Office Investment Committee reviews and approves all debt securities investment decisions. A 10% increase / decrease in value of Bank's financial assets measured at fair value through OCI will result in an increase / decrease in the Bank's equity by AED 25,382 thousand (2018: AED 29,913 thousand).

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Interest rate risk

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

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's assests and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Upto 3 months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing AED'000*	*Total AED'000*	*Effective interest rate (%)*
At 31 December 2019							
Assets							
Cash and balances with the UAE Central Bank	270,000	-	-	-	441,716	711,716	1.94
Due from other banks	67,738	36,730	-	-	96,640	201,108	1.73
Due from the Head Office and other branches	36,730	89,254	-	-	7,347	133,331	5.16
Loans and advances	166,438	856,807	366,569	4,948	(18,009)	1,376,753	4.27
Investment securities	-	-	40,363	213,454	-	253,817	5.06
Customer acceptances	-	-	-	-	23,730	23,730	-
Other assets	-	-	-	-	119,056	119,056	-
Total financial assets	540,906	982,791	406,932	218,402	670,480	2,819,511	
Liabilities							
Due to other banks	-	-	-	-	731	731	-
Due to the Head Office and other branches	-	55,852	-	-	33,175	89,027	1.68
Customer deposits	327,757	951,818	-	-	900,541	2,180,116	1.17
Customer acceptances	-	-	-	-	23,730	23,730	-
Other liabilities	-	-	-	-	65,975	65,975	-
Total liabilities	327,757	1,007,670	-	-	1,024,152	2,359,579	
Interest sensitivity gap	213,149	(24,879)	406,932	218,402	(353,672)	459,932	

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Interest rate risk (continued)

	Upto 3 months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing AED'000*	*Total AED'000*	*Effective interest rate (%)*
At 31 December 2018							
Assets							
Cash and balances with the UAE Central Bank	-	-	-	-	276,956	276,956	-
Due from other banks	130,295	-	-	-	12,137	142,432	1.22
Due from the Head Office and other branches	51,973	82,690	-	-	7,237	141,900	4.05
Loans and advances	289,724	914,051	210,123	7,305	(17,942)	1,403,261	3.93
Investment securities	-	-	200,853	98,277	-	299,130	3.10
Customer acceptances	-	-	-	-	10,336	10,336	-
Other assets	-	-	-	-	115,493	115,493	-
Total financial assets	471,992	996,741	410,976	105,582	404,217	2,389,508	
Liabilities							
Due to other banks	-	-	-	-	130	130	-
Due to the Head Office and other branches	-	35,797	-	-	10,590	46,387	1.01
Customer deposits	434,029	586,966	-	-	833,255	1,854,250	0.53
Customer acceptances	-	-	723	-	9,613	10,336	-
Other liabilities	-	-	-	-	45,888	45,888	-
Total liabilities	434,029	622,763	723	-	899,476	1,956,991	
Interest sensitivity gap	37,963	373,978	410,253	105,582	(495,259)	432,517	

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Interest rate risk (continued)

Interest rate risk is also assessed by measuring the impact of a reasonably possible change in interest rate movements. The Bank assumes a fluctuation in interest rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	Interest income AED '000	*Interest expense AED '000*
As at 31 December 2019		
Fluctuation in yield by 25 bps	**4,937**	**2,827**
As at 31 December 2018		
Fluctuation in yield by 25 bps	4,668	2,442

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank manages its liquidity in accordance with UAE Central Bank requirements and the Bank's internal guidelines mandated by ALCO. The UAE Central Bank has prescribed reserve requirements on deposits at 1% and 14% on time and demand deposits respectively. The UAE Central Bank also imposes mandatory 1:1 lending to stable resources ratio whereby loans and advances (combined with financial guarantees and inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the UAE Central Bank. ALCO of the Bank monitors liquidity ratios on a regular basis.

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash outflows based on the current applicable interest rates.

At 31 December 2019	*Up to 3 months AED '000*	*3 months to 1 year AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
Due to other banks	**731**	**-**	**-**	**-**	**731**
Due to the Head Office and other branches	**89,027**	**-**	**-**	**-**	**89,027**
Customer deposits	**1,408,183**	**777,061**	**-**	**-**	**2,185,244**
Other liabilities	**65,975**	**-**	**-**	**-**	**65,975**
	1,563,916	**777,061**	**-**	**-**	**2,340,977**

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

At 31 December 2018	*Up to 3 months AED '000*	*3 months to 1 year AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
Due to other banks	130	-	-	-	130
Due to the Head Office and other branches	46,387	-	-	-	46,387
Customer deposits	1,270,450	586,962	-	-	1,857,412
Other liabilities	45,888	-	-	-	45,888
	1,362,855	586,962	-	-	1,949,817

3.4 Operational risk

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

3.5 Fair value of financial assets and liabilities

Financial assets consist of cash and balances with the UAE Central Bank, due from other banks, due from the Head Office and other branches, loans and advances, investment securities, accrued interest, other receivables and customer acceptances. Financial liabilities consist of due to other banks, due to the Head Office and other branches, customer deposits, customer acceptances, accrued income and other payables.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The fair values of financial instruments are not materially different from their carrying values.

Analysis of financial instruments recorded at fair value by level of the fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments which are carried at fair value by the following valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at year end, investment securities classified as FVOCI amounted to AED 253,817 thousand (2018: AED 299,130 thousand) as mentioned in note 9, of which investment securities amounting to AED 253,817 thousand (2018: 199,130 thousand) were falling under level 1 category and no investment securities were falling under level 3 (2018: 100,000 thousand).

During the year, there was no movement between the level 1 and level 2 of the fair value hierarchy. During current or prior year, bank has not classified any financial instrument in level 3 of the fair value hierarchy.

3 FINANCIAL RISK MANAGEMENT (continued)

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the UAE Central Bank;
- To safeguard the Bank's 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.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the UAE Central Bank. The required information is filed with the regulators on a quarterly and annual 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.

Minimum transitional arrangements as per CBUAE are as follows:

Capital element

Minimum common equity tier 1 ratio	7.00%
Minimum tier 1 capital ratio	8.50%
Minimum capital adequacy ratio	10.50%
Capital conservation buffer	2.50%
Countercyclical buffer	0.32%

The capital adequacy ratio as per Basel III framework is given below:

	2019	*2018*
	AED '000	*AED '000*
Tier 1 capital		
Allocated capital	**373,072**	373,072
Statutory reserves	**22,282**	20,532
Retained earnings	**53,796**	38,049
Fair value and other reserves	**2,529**	864
Regulatory adjustments		
Deferred tax assets	**(1,506)**	-
Goodwill and other intangibles	**(302)**	(102)
Total Tier 1 capital	**449,871**	432,415
Tier 2 capital		
Collective impairment provision	**20,827**	21,137
Total Tier 2 capital	**20,827**	21,137
Total capital base	**470,698**	453,552
Risk Weighted Assets		
Credit risk	**1,666,141**	1,690,940
Market risk	**2,828**	880
Operational risk	**197,654**	273,788
Total risk weighted assets	**1,866,623**	1,965,608
Capital Adequacy Ratio (%)	**25.22**	23.07
Tier 1 capital to risk weighted assets ratio (%)	**24.10**	22.00

3 FINANCIAL RISK MANAGEMENT (continued)

3.7 Credit Quality Analysis

As of 31 December 2019

	Stage 1		***Stage 2***		***Stage 3***		***Total***	
	Exposure AED '000	***ECL AED '000***	***Exposure AED '000***	***ECL AED '000***	***Exposure AED '000***	***ECL AED '000***	***Exposure AED '000***	***ECL AED '000***
Cash and balances with the UAE Central Bank	**711,716**	**-**	**-**	**-**	**-**	**-**	**711,716**	**-**
Due from other banks	**201,108**	**-**	**-**	**-**	**-**	**-**	**201,108**	**-**
Due from the Head Office and other branches	**133,331**	**-**	**-**	**-**	**-**	**-**	**133,331**	**-**
Loans and advances	**906,118**	**11,677**	**488,644**	**8,889**	**315,637**	**313,080**	**1,710,399**	**333,646**
Investment securities	**253,817**	**5,161**	**-**	**-**	**-**	**-**	**253,817**	**5,161**
Other assets	**59,945**	**-**	**-**	**-**	**-**	**-**	**59,945**	**-**
Unfunded exposure	**60,069**	**6**	**118,059**	**232**	**-**	**-**	**178,128**	**238**
	2,326,104	**16,844**	**606,703**	**9,121**	**315,637**	**313,080**	**3,248,444**	**339,045**

The impairment allowance against financial instruments classified as FVOCI is routed through other comprehensive income and not deducted from carrying value in the statement of financial position.

3 FINANCIAL RISK MANAGEMENT (continued)

3.8 Fair value of financial instruments

As of 31 December 2019	***FVOCI - Debt instruments AED '000***	***Amortised Cost AED '000***	***Carrying Value AED '000***
Financial Assets			
Cash and balances with the UAE Central Bank	**-**	**711,716**	**711,716**
Due from other banks	**-**	**201,108**	**201,108**
Due from the Head Office and other branches	**-**	**133,331**	**133,331**
Loans and advances	**-**	**1,376,753**	**1,376,753**
Investment securities	**253,817**	**-**	**253,817**
Other assets		**56,739**	**56,739**
	253,817	**2,479,647**	**2,733,464**
Financial Liabilities			
Due to other banks	**-**	**731**	**731**
Due to the Head Office and other branches	**-**	**89,027**	**89,027**
Customer deposits	**-**	**2,180,116**	**2,180,116**
Other liabilities	**-**	**65,975**	**65,975**
	-	**2,335,849**	**2,335,849**

As of 31 December 2018	*FVOCI - Debt instruments AED '000*	*Amortised Cost AED '000*	*Carrying Value AED '000*
Financial Assets			
Cash and balances with the UAE Central Bank	-	276,956	276,956
Due from other banks	-	142,432	142,432
Due from the Head Office and other branches	-	141,900	141,900
Loans and advances	-	1,403,261	1,403,261
Investment securities	299,130	-	299,130
Other assets		64,211	64,211
	299,130	2,028,760	2,327,890
Financial Liabilities			
Due to other banks	-	130	130
Due to the Head Office and other branches	-	46,387	46,387
Customer deposits	-	1,854,250	1,854,250
Other liabilities	-	45,888	45,888
	-	1,946,655	1,946,655

*The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values due to several factors including short term nature of the portfolio, and also no increase in risk profile of the financial instruments and the respective market rates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

In particular, considerable management judgment is required in respect of the following issues:

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

Significant increase in credit risk
As explained in note 2.3 (e), ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets 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 Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

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 2.3 (e) for details of the characterics considered in this judgement. The Group 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 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 group 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.

Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. 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 2.3 (e) for more details on ECL.

Key sources of estimation uncertainty
The following are key estimations that have been used in the process of applying the Bank's accounting policies:

Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Income taxes
The Bank is subject to income taxes in the United Arab Emirates. Significant estimates are required to determine the provision for income taxes. The Bank recognises liabilities for anticipated tax based on significant estimates of the amount of tax that will be due. Where the final outcome is different from the amounts that were initially recorded, such differences will impact the provision for income tax.

Deferred tax
Deferred tax is recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

5 CASH AND BALANCES WITH THE UAE CENTRAL BANK

	2019	*2018*
	AED '000	*AED '000*
Cash in hand	**19,395**	24,798
With the UAE Central Bank in:		
Statutory deposits	**138,595**	161,787
Current accounts	**283,726**	90,371
Placements	**270,000**	-
	711,716	276,956

The statutory deposits with the UAE Central Bank are not available to finance the day to day operations of the Bank.
Placements with the UAE Central Bank are at rate 1.5% per annum (2018: Nil).

6 DUE FROM OTHER BANKS

	2019	*2018*
	AED '000	*AED '000*
Placements with original maturity over 3 months	**36,730**	-
Placements with original maturity equal to / less than 3 months	**67,738**	130,295
Current accounts	**96,640**	12,137
	201,108	142,432

Placements with other banks are at rates 0.15% to 3.5% per annum (2018: 0.75% to 3.0%).

7 DUE FROM THE HEAD OFFICE AND OTHER BRANCHES

	2019	*2018*
	AED '000	*AED '000*
Placements with original maturity over 3 months	**75,297**	82,690
Placements with original maturity equal to / less than 3 months	**50,687**	51,973
Current accounts	**7,347**	7,237
	133,331	141,900

Placements with head office and other branches are at rates 1.5% to 7.9% per annum (2018: 3.5% to 8.9%).

8 LOANS AND ADVANCES

	2019 AED '000	2018 AED '000
Corporate loans	**1,702,604**	1,736,679
Retail loans	**7,795**	11,428
Total	**1,710,399**	1,748,107
Less:		
Allowance for impairment	**(333,646)**	(344,846)
Net loans and advances	**1,376,753**	**1,403,261**

8.1 Analysis of gross loans and advances

	2019 AED '000	2018 AED '000
Loans	**833,894**	683,629
Overdrafts	**96,293**	124,751
Loans against trust receipts	**262,606**	266,567
Bills discounted	**517,606**	673,160
Total	**1,710,399**	1,748,107

8.2 An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows

	Stage 1	Stage 2	Stage 3	Total
	AED'000			
Gross exposure at 1 January 2019	**924,735**	**496,468**	**326,904**	**1,748,107**
Transfer to Stage 1	**32,068**	**(32,068)**	**-**	**-**
Transfer to Stage 2	**(162,930)**	**162,930**	**-**	**-**
Transfer to Stage 3	**-**	**(14,102)**	**14,102**	**-**
Net additions / (repayments)	**112,245**	**(124,584)**	**(9,880)**	**(22,219)**
Amounts written off	**-**	**-**	**(15,489)**	**(15,489)**
At 31 December 2019	**906,118**	**488,644**	**315,637**	**1,710,399**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	AED'000			
Gross exposure at 1 January 2018	1,140,826	279,161	312,584	1,732,571
Transfer to Stage 2	(339,385)	339,385	-	-
Transfer to Stage 3	(49,676)	(8,356)	58,032	-
Net additions / (repayments)	172,970	(113,722)	(6,021)	53,227
Amounts written off	-	-	(37,691)	(37,691)
At 31 December 2018	924,735	496,468	326,904	1,748,107

8.3 Allowance for impairment

	Stage 1	Stage 2	Stage 3	Total
	AED'000			
ECL allowance at 1 January 2019	**9,007**	**13,629**	**322,210**	**344,846**
Net impairment charge / (reversals)	**2,670**	**(4,740)**	**6,359**	**4,289**
Amounts written off	**-**	**-**	**(15,489)**	**(15,489)**
At 31 December 2019	**11,677**	**8,889**	**313,080**	**333,646**

8 LOANS AND ADVANCES (continued)

8.3 Allowance for impairment (continued)

2018	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
		AED'000		
ECL allowance at 1 January 2018	5,932	20,484	288,091	314,507
Net impairment charge / (reversals)	3,075	(6,855)	71,810	68,030
Amounts written off	-	-	(37,691)	(37,691)
At 31 December 2018	9,007	13,629	322,210	344,846

9 INVESTMENT SECURITIES

	2019 ***AED '000***	*2018* *AED '000*
Fair value through OCI securities	**253,817**	299,130
Allowances for expected credit losses	**5,161**	1,913

Fiduciary activities

The Bank acts as a trustee/manager and in other capacities that results in holding or placing of assets in a fiduciary capacity on behalf of customers.

These assets and income arising from these assets are not included in the Bank's financial statements as the risk and rewards incidental to ownership of these assets lie with the client.

As at 31 December 2019, the Bank held bonds with a market value of AED 5.89 million (2018: AED 7.45 million) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, these bonds are not included as part of the bank's own portfolio.

10 OTHER ASSETS

	2019 ***AED '000***	*2018* *AED '000*
Interest receivable	**20,522**	20,511
Prepayments	**2,219**	10,427
Others	**42,057**	41,332
Less: Provision held against other assets	**(8,059)**	(8,059)
	56,739	64,211

10.1 During 2012, the Bank acquired a property collateralised against loans and advances as a result of a settlement agreement with its customer. The property had been transferred to Head Office and receivable of AED 33.083 million was recognised in consideration for the transfer of the property. Total receivable from Head Office as at December 31, 2019 is AED 37.304 million (2018: AED 36.484 million).

11 PROPERTY AND EQUIPMENT

	2019 AED'000	*2018 AED'000*
Capital work in process	**391**	1,442
Tangible fixed assets	**20,197**	13,391
Intangible assets	**269**	102
	20,857	14,935

	Leasehold improvements AED'000	***Furniture, fixture and office equipment AED'000***	***Computer and accessories AED'000***	***Motor vehicles AED'000***	***Right of use assets AED'000***	***Total AED'000***
Cost:						
1 January 2019	9,751	10,415	4,680	742	-	25,588
Impact of initial adoption of IFRS 16	-	-	-	-	14,690	14,690
Additions during the year	1,354	939	386	-	1,280	3,959
Disposals during the year	(549)	(433)	(113)	-	-	(1,095)
31 December 2019	**10,556**	**10,921**	**4,953**	**742**	**15,970**	**43,142**
Accumulated depreciation:						
1 January 2019	4,223	4,369	3,245	360	-	12,197
Depreciation charge for the year (note 26)	1,845	1,671	464	70	7,719	11,769
Relating to disposals during the year	(540)	(368)	(113)	-	-	(1,021)
31 December 2019	**5,528**	**5,672**	**3,596**	**430**	**7,719**	**22,945**
Net book value:						
31 December 2019	**5,028**	**5,249**	**1,357**	**312**	**8,251**	**20,197**

	Leasehold improvements AED'000	***Furniture, fixture and office equipment AED'000***	***Computer and accessories AED'000***	***Motor vehicles AED'000***	***Right of use assets AED'000***	***Total AED'000***
Cost:						
1 January 2018	9,010	6,563	5,792	742	-	22,107
Additions during the year	4,696	4,609	243	-	-	9,548
Disposals during the year	(3,955)	(757)	(1,355)	-	-	(6,067)
31 December 2018	**9,751**	**10,415**	**4,680**	**742**	**-**	**25,588**
Accumulated depreciation:						
1 January 2018	6,653	3,668	4,139	290	-	14,750
Depreciation charge for the year (note 26)	1,520	1,399	461	70	-	3,450
Relating to disposals during the year	(3,950)	(698)	(1,355)	-	-	(6,003)
31 December 2018	**4,223**	**4,369**	**3,245**	**360**	**-**	**12,197**
Net book value:						
31 December 2018	**5,528**	**6,046**	**1,435**	**382**	**-**	**13,391**

12 DUE TO OTHER BANKS

	2019	2018
	AED '000	AED '000
Current accounts	**731**	130
	731	130

13 DUE TO THE HEAD OFFICE AND OTHER BRANCHES

	2019	2018
	AED '000	AED '000
Current accounts	**33,175**	10,590
Borrowings with original maturity equal to / less than 3 months	**5,363**	35,797
Borrowings with original maturity over 3 months	**50,489**	-
	89,027	**46,387**

Borrowings are obtained at interest rate of 0% to 5% per annum (2018: 0%).

14 CUSTOMER DEPOSITS

	2019	2018
	AED '000	AED '000
Current deposits	**864,861**	788,899
Time deposits	**965,260**	637,132
Savings deposits	**314,315**	383,863
Others	**35,680**	44,356
	2,180,116	**1,854,250**

At 31 December 2019, 12 customers accounted for 33% (2018: 20%) of total customer deposits. At 31 December 2019, deposits amounting to AED 100 million (2018: AED 141 million) were held as cash collateral for loans and advances to customers.

15 OTHER LIABILITIES

	2019 AED '000	2018 AED '000
Manager's cheques	**21,193**	18,878
Accrued interest payable	**8,929**	5,508
Provision for employees' end of service benefits (note 16)	**6,020**	6,214
Income tax payable	**-**	1,278
Unclaimed deposits	**13,811**	-
Lease liability against right-of-use-assets	**2,673**	-
Others	**13,111**	13,194
Expected credit loss on unfunded exposure	**238**	816
	65,975	**45,888**

16 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2019 AED '000	2018 AED '000
Balance as at 1 January	**6,214**	6,583
Charge for the year (note 27)	**1,081**	1,044
Paid during the year	**(1,275)**	(1,413)
At 31 December	**6,020**	6,214

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law, for their period of service up to the end of the year. The provision relating to end of service benefit is included in other liabilities.

U.A.E. National employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labour Law No. 7 of 1999, the Bank is required to contribute between 12.5% - 15% of the "contribution calculation salary" of U.A.E. payroll costs to the retirement benefit scheme to fund the benefits. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Bank with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the income statement.

The Bank provides for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed based on a projected unit credit method.

17 ALLOCATED CAPITAL

The assigned capital of the Bank is AED 373,072 thousand (2018: AED 373,072 thousand) and is provided by the Head Office.

18 STATUTORY RESERVE

In accordance with Article 82 of the UAE Union Law Number 10 of 1980, as amended, 10% of the profit for the year is required to be transferred to a statutory reserve which is non-distributable. Allocations to this reserve are required to be made until such time as the balance in this reserve equals 50% of the allocated capital.

19 FAIR VALUE AND OTHER RESERVES

	2019	2018
	***AED* ‘000**	*AED* ‘000
Fair value through OCI investment securities		
At 1 January	**864**	-
Net unrealised gain/(loss) on Fair value through OCI securities	**6,670**	(1,049)
Impairment on investments securities under IFRS 9	**3,248**	1,913
At 31 December	**10,782**	864

20 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional 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 notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk. All such derivatives are due less than one year.

	Assets 2019 AED ’000	***Liabilities 2019 AED ’000***	***Notional amount 2019 AED ’000***	*Assets 2018 AED ’000*	*Liabilities 2018 AED ’000*	*Notional amount 2018 AED ’000*
Derivatives held for trading:						
Forward foreign exchange contracts	**-**	**1,261**	**1,260,345**	503	-	863,972
Interest rate swaps	-	-	-	-	-	1,603
	-	**1,261**	**1,260,345**	503	**-**	865,575

21 CONTINGENCIES AND COMMITMENTS

	2019 AED '000	*2018 AED '000*
Letters of credit	**77,690**	148,350
Letters of guarantee	**76,708**	209,149
Interest rate swaps	**-**	1,603
Forward foreign exchange contracts	**1,260,345**	863,972
Undrawn credit commitments	**588,078**	500,592

21 CONTINGENCIES AND COMMITMENTS (continued)

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Forward foreign exchange contracts comprise commitments to purchase or sell foreign currencies on behalf of customers and in respect of the Bank's proprietary activity.

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

22 INTEREST INCOME

	2019	*2018*
	AED '000	*AED '000*
Interest income on:		
- loans and advances	**59,637**	48,193
- due from the Head Office, branches and other banks	**7,888**	11,002
- investment securities	**15,405**	5,315
	82,930	64,510

23 INTEREST EXPENSE

	2019	*2018*
	AED '000	*AED '000*
Interest expense on:		
- customer deposits	**20,435**	9,711
- due to the Head Office, branches and other banks	**2,158**	662
	22,593	10,373

24 FEE AND COMMISSION INCOME

	2019	*2018*
	AED '000	*AED '000*
Letters of credit / guarantees	**7,685**	6,531
Loan Processing fee	**4,459**	1,860
Interbank fund transfer	**714**	740
Incidental charges	**1,299**	4,069
Basic Banking charges	**655**	1,596
Remittance income	**1,193**	1,593
Others	**2,545**	2,062
	18,550	18,451

25 OTHER INCOME

	2019 AED '000	2018 AED '000
Foreign exchange income	**8,754**	9,954
Gain on sale of investment	**282**	-
Miscellaneous income	**2,385**	1,303
	11,421	11,257

26 OPERATING EXPENSES

	2019 AED '000	2018 AED '000
Staff costs (note 27)	**46,050**	44,457
Professional consultancy	**1,288**	15,045
Rent and insurance	**689**	9,648
Communication costs	**910**	1,088
Depreciation (note 11)	**11,769**	3,450
Amortisation	**48**	3
Branch license fee	**2,105**	2,116
Others	**9,512**	9,671
	72,371	85,478

No social contributions were made during the year ended 31 December 2019 (2018: Nil).

27 STAFF COSTS

	2019 AED '000	2018 AED '000
Salaries and allowances	**42,841**	40,665
Charge for employees' end of service benefits (note 16)	**1,081**	1,044
Medical expenses	**2,128**	2,748
	46,050	44,457

28 TAXATION

The taxable income is calculated after making certain adjustments to the net profit before tax for the year and is based on management's best estimate. The components of income tax expense for the year are:

	2019 AED '000	2018 AED '000
Current tax:		
- current income tax	**-**	-
- adjustment in respect of current income tax of prior years	**-**	12,510
	-	12,510
Deferred tax :		
- Relating to origination and reversal of temporary differences	**(5,013)**	(13,280)
- Relating to carried forward tax losses	**(1,506)**	-
	(6,519)	**(770)**

28 TAXATION (continued)

28.1 Reconciliation between taxation (benefit) / expense and accounting profit

	2019	*2018*
	AED '000	*AED '000*
Net profit for the year before taxation	**10,978**	(71,225)
Tax on income @ 20% (2018: 20%)	**2,196**	-
- Prior year current tax	**-**	12,510
- Disallowed provisions	**(7,209)**	(13,280)
- Carried forward tax losses	**(1,506)**	-
Income tax benefit for the year	**(6,519)**	**(770)**

28.2 Deferred tax asset

Deferred taxes are calculated on all temporary differences using an effective tax rate of 20%.
The movement on the deferred tax account on provision is as follows:

2019	**At Jan 1**	**Recognised in P&L A/C**	**Recgonised in OCI**	**At Dec 31**
		AED '000		
Deductible Temporary Differences on				
- Tax losses carried forward	**-**	**1,506**	**-**	**1,506**
- Provision against advances, off balance sheet etc.	**36,347**	**5,013**	**-**	**41,360**
	36,347	**6,519**	**-**	**42,866**
Taxable Temporary Differences on				
- Surplus on revaluation of investments	**-**	**-**	**1,406**	**1,406**
	36,347	**6,519**	**(1,406)**	**41,460**

2018	*At Jan 1*	*Recognised in P&L A/C*	*Recgonised in OCI*	*At Dec 31*
		AED '000		
Deductible Temporary Differences on				
- Tax losses carried forward	-	-	-	-
- Provision against advances, off balance sheet etc.	23,067	13,280	-	36,347
	23,067	13,280	-	36,347

29 CASH AND CASH EQUIVALENTS

	2019	*2018*
	AED '000	*AED '000*
Cash and balances with the UAE Central Bank (excluding statutory deposits)	**573,121**	115,169
Due from other banks	**164,378**	142,432
Due from the Head Office and other branches	**58,034**	59,210
	795,533	316,811
Due to other banks	**(731)**	(130)
Due to the Head Office and other branches	**(38,538)**	(46,387)
	756,264	270,294

30 MATURITY PROFILE OF ASSETS AND LIABILITIES

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The table below analyses assets and liabilities of the Bank at the reporting date into relevant maturity groupings based on the remaining period to the contractual maturity

	Up to 3 months AED '000	*3 months to 1 year AED '000*	*Up to 1 year Subtotal AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*More than 1 year Subtotal AED '000*	*No fixed maturity AED '000*	*Total AED '000*
At 31 December 2019								
Assets								
Cash and balances with the UAE Central Bank	**711,716**	**-**	**711,716**	**-**	**-**	**-**	**-**	**711,716**
Due from other banks	**164,378**	**36,730**	**201,108**	**-**	**-**	**-**	**-**	**201,108**
Due from the Head Office and other branches	**76,399**	**56,932**	**133,331**	**-**	**-**	**-**	**-**	**133,331**
Loans and advances	**404,078**	**778,167**	**1,182,245**	**178,538**	**15,970**	**194,508**	**-**	**1,376,753**
Investment securities	**18,503**	**-**	**18,503**	**232,884**	**2,430**	**235,314**	**-**	**253,817**
Customer acceptances	**23,730**	**-**	**23,730**	**-**	**-**	**-**	**-**	**23,730**
Deferred tax asset	**-**	**-**	**-**	**-**	**-**	**-**	**41,460**	**41,460**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**56,739**	**56,739**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**20,857**	**20,857**
Total Assets	**1,398,804**	**871,829**	**2,270,633**	**411,422**	**18,400**	**429,822**	**119,056**	**2,819,511**

30 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

	Up to 3 months AED '000	*3 months to 1 year AED '000*	*Up to 1 year Subtotal AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*More than 1 year Subtotal AED '000*	*No fixed maturity AED '000*	*Total AED '000*
Liabilities								
Borrowings from other banks	**731**	**-**	**731**	**-**	**-**	**-**	**-**	**731**
Due to the Head Office and other branches	**38,538**	**50,489**	**89,027**	**-**	**-**	**-**	**-**	**89,027**
Customer deposits	**1,656,788**	**523,328**	**2,180,116**	**-**	**-**	**-**	**-**	**2,180,116**
Customer acceptances	**23,730**	**-**	**23,730**	**-**	**-**	**-**	**-**	**23,730**
Other liabilities	**-**	**-**	**-**	**-**	**6,192**	**6,192**	**59,783**	**65,975**
Total liabilities	**1,719,787**	**573,817**	**2,293,604**	**-**	**6,192**	**6,192**	**59,783**	**2,359,579**
Net liquidity gap	**(320,983)**	**298,012**	**(22,971)**	**411,422**	**12,208**	**423,630**	**59,273**	**459,932**
Capital and reserves								
Allocated capital								**373,072**
Statutory reserve								**22,282**
Retained earnings								**53,796**
Fair value reserve								**10,782**
Total								**459,932**

30 MATURITY PROFILE OF ASSETS AND LIABILITIES

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The table below analyses assets and liabilities of the Bank at the reporting date into relevant maturity groupings based on the remaining period to the contractual maturity

	Up to 3 months AED '000	*3 months to 1 year AED '000*	*Up to 1 year Subtotal AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*More than 1 year Subtotal AED '000*	*No fixed maturity AED '000*	*Total AED '000*
At 31 December 2018								
Assets								
Cash and balances with the UAE Central Bank	276,956	-	276,956	-	-	-	-	276,956
Due from other banks	142,432	-	142,432	-	-	-	-	142,432
Due from the Head Office and other branches	77,575	64,325	141,900	-	-	-	-	141,900
Loans and advances	634,734	640,286	1,275,020	123,775	4,466	128,241	-	1,403,261
Investment securities	50,000	195,343	245,343	53,787	-	53,787	-	299,130
Customer acceptances	9,613	723	10,336	-	-	-	-	10,336
Deferred tax asset	-	-	-	-	-	-	36,347	36,347
Other assets	-	-	-	-	-	-	64,211	64,211
Property and equipment	-	-	-	-	-	-	14,935	14,935
Total Assets	1,191,310	900,677	2,091,987	177,562	4,466	182,028	115,493	2,389,508

30 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

	Up to 3 months AED '000	*3 months to 1 year AED '000*	*Up to 1 year Subtotal AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*More than 1 year Subtotal AED '000*	*No fixed maturity AED '000*	*Total AED '000*
Liabilities								
Borrowings from other banks	130	-	130	-	-	-	-	130
Due to the Head Office and other branches	46,387	-	46,387	-	-	-	-	46,387
Customer deposits	1,420,794	433,456	1,854,250	-	-	-	-	1,854,250
Customer acceptances	9,613	723	10,336	-	-	-	-	10,336
Other liabilities	-	-	-	-	6,796	6,796	39,092	45,888
Total liabilities	1,476,924	434,179	1,911,103	-	6,796	6,796	39,092	1,956,991
Net liquidity gap	(285,614)	466,498	180,884	177,562	(2,330)	175,232	76,401	432,517
Capital and reserves								
Allocated capital								373,072
Statutory reserve								20,532
Retained earnings								38,049
Fair value reserve								864
Total								432,517

In the above table, all current account and saving account balances have been classified as maturing in upto 3 months column. However, in normal course of events, and based on historical trend all of them are not withdrawn within three months.

31 OTHER MATTERS

HBL UAE defines compliance risk as the risk of legal or regulatory sanctions, material financial loss or loss to reputation that HBL UAE may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, and codes of conducts applicable to its banking activities. The compliance function independently monitors and challenges the extent to which HBL UAE complies with laws, regulations and internal policies, including customer due diligence, know your customers (KYC) and anti-money laundering.

The Compliance Department is headed by Head of Compliance in UAE who reports independently to functional head in Head office Compliance Department and also has an administrative reporting line to Country Head of UAE. Compliance risks are identified, assessed, mitigated, monitored and reported to the Country Senior Management , Head Office and to Board committee (as the case may be) or where necessary to the regulators. In 2018, the Group has initiated various initiatives under the umbrella of ‘Business Transformation group wide wherein the Group’s management is working alongside with an external expert to improve the overall compliance process within the Bank and has continued to enhance its controls related to Financial Crime Risk e.g. know your customers (KYC), countering terrorist financing and sanctions regulations, etc. Policies / procedures and systems were updated / upgraded to ensure compliance with changes in anti-money laundering and countering terrorist financing laws and guidance by regulators.

The Bank seeks to comply with all applicable laws and regulations but may be subject to regulatory inspections from time to time, the outcome of which are generally difficult to predict and are not expected to be material.

32 SUBSEQUENT EVENT

The outbreak of the Covid-19 virus pandemic in 2020 has impacted the banking sector in general worldwide. The Bank’s Management is currently monitoring the situation as it evolves in order to assess any potential financial impact.

33 COMPARATIVE FIGURES

Certain comparative figures have been reclassified where necessary to conform to current year’s presentation. Recoveries against written off acounts amounting to AED 109 thousand has been reclassified from provision reversal to other income.

34 RELATED PARTIES

Related parties include the Head Office, key management personnel and entities controlled, jointly controlled or significantly influenced by such parties. A number of banking transactions are entered into with the Head Office and other branches in the normal course of business. The terms and conditions of these transactions are agreed between the Bank and related parties.

	2019	*2018*
	AED'000	*AED'000*
Related party balances		
Advances		
Head office and other branches	**42,052**	44,284
Other related parties	**63,054**	49,731
	105,106	94,015
Deposits		
Key management personnel	**1,350**	1,300
Director	**134**	46
	1,484	1,346
Due from related parties		
Head office and other branches	**7,347**	7,237
Outstanding placements due from related parties		
Head office and other branches	**125,984**	134,663
Due to related parties		
Head office and other branches	**89,027**	46,387
Other related parties	**200**	130
	89,227	46,517
Other assets		
Receivable from Head office (Note 10.1)		
Interest receivable	**690**	392
Other liabilities		
Other related parties	**1,901**	-
Transactions during the year		
Mark-up / return / interest earned		
Head office and other branches	**6,269**	8,531
Other related parties	**1,987**	1,437
Associates	**-**	33
	8,256	10,001
Mark-up / return / interest expensed		
Head office and other branches	**1,218**	400
Director	**-**	32
	1,218	432
Fee income	**597**	51
Other expenses	**-**	30
Remuneration paid to key management personnel	**1,258**	1,578

During the year, the Bank has not recorded any impairment of the amounts due from related parties.