NATIONAL BANK OF OMAN (SAOG) – UAE BRANCHES

FINANCIAL STATEMENTS

31 DECEMBER 2020

البنك الوطني العماني
NBO

REPORT OF THE MANAGEMENT

We are pleased to submit this report and the audited financial statements of National Bank of Oman (SAOG) – United Arab Emirates Branches (the "Branches") for the year ended 31 December 2020.

Incorporation and registered offices

'National Bank of Oman SAOG (the "Bank" or the "Head Office") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail banking, wholesale banking and investment banking services. The Bank in United Arab Emirates ("UAE") operates with two branches i.e. Abu Dhabi and Dubai (the "Branches") under a commercial bank license granted by the UAE Central Bank. The registered office of the Branches is P.O. Box 3822, Abu Dhabi, UAE. Abu Dhabi Branch started its operation in 1976. Dubai Branch started its operation in December 2013.

Financial position and results

The financial position and results of the Branches for the year ended 31 December 2020 are set out in the accompanying financial statements.

The Branches recorded a total operating income of AED 25.87 million during the year ended 31 December 2020 (2019: AED 31.74 million) and incurred a net loss of AED 6.09 million for the year ended 31 December 2020 (2019: a net loss of AED 53.11 million).

Signed on behalf of the Management

Stephen Clayton
Head of International & Country Head, UAE

28 March 2021

National Bank of Oman www.nbo.ae **البنك الوطني العماني**
فـرع دبـي: ص.ب ٦٦١٠٦، دبـي، الإمـارات الـعـربـيـة الـمـتـحـدة، هـاتـف: ٣٠٤٩٤٠٠ (٠٤)، فـاكـس: ٣٣٨٧١٨٧، ٣٣٨٧١٨٥، ٣٣٨٧١٨٣ (٠٤)، بـريـد إلـكـتـرونـي: askus@nbo.om
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National Bank of Oman (SAOG), UAE Branches

Financial statements
31 December 2020

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Independent Auditors' Report

To the Head Office of National Bank of Oman (SAOG) - UAE Branches

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Bank of Oman (SAOG) - UAE Branches ("the Bank"), which comprise the statement of financial position as at 31 December 2020, the 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 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Bank for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 30 April 2020.

Other Information

Management is responsible for the other information. The other information comprises the report of the management ('the Report').

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

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

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.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates
Date: 31 MAR 2021

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 AED'000	2019 AED'000
Assets			
Cash and balances with the UAE Central Bank	7	**97,850**	134,781
Due from banks	8	**98,168**	10,687
Due from Head Office and overseas branches	25	**27,488**	2,536
Customers' indebtedness for acceptances	5	**20,790**	8,252
Loans and advances to customers	9	**402,754**	555,590
Investment securities	10	**170,111**	218,798
Property and equipment	11	**12,263**	15,320
Deferred tax asset	22	**67,779**	67,779
Other assets	12	**2,971**	27,393
Total assets		**900,174**	1,041,136
Liabilities			
Due to banks, Head Office and overseas branches	25,26	**79,584**	301,409
Deposits from customers	13	**527,058**	435,199
Liabilities under acceptances	5	**20,790**	8,252
Other liabilities	14	**10,617**	23,237
Total liabilities		**638,049**	768,097
Equity			
Branch capital	15	**390,375**	390,375
Legal reserve	15	**29,061**	29,061
Accumulated losses		**(184,657)**	(203,140)
Fair value reserve		**46**	4,864
Impairment reserve – specific	4.2	**-**	21,879
Impairment reserve – general	4.2	**-**	2,700
Total equity		**234,825**	245,739
Funding from Head Office			
Placement from Head Office	16, 25	**27,300**	27,300
Total equity and funding from Head Office		**262,125**	273,039
Total Liabilities, Equity and Funding from Head Office		**900,174**	1,041,136
Commitments and contingent liabilities	27	**158,122**	166,316

Abdullah Zahran Al Hinai
Chief Executive Officer

Stephen Clayton
Head of International& Country Head, UAE

The attached notes 1 to 31 form an integral part of these financial statements. The independent auditors' report on financial statements is set out on pages 1 to 4.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Notes	**2020** AED'000	2019 AED'000
Operating income			
Interest income	17	**27,724**	32,858
Interest expense	17	**(9,360)**	(12,698)
Net interest income	17	**18,364**	20,160
Net fees and commission income	18	**4,408**	8,147
Net foreign exchange gain		**1,736**	1,937
Other operating income	19	**1,365**	1,497
Total operating income		**25,873**	31,741
Operating expenses			
Staff costs		**(17,945)**	(20,645)
Depreciation	11	**(4,474)**	(3,735)
Other operating expenses	20	**(6,755)**	(9,020)
Total operating expenses		**(29,174)**	(33,400)
Loss from operations before impairment losses		**(3,301)**	(1,659)
Net impairment charge	4.2	**(2,795)**	(40,028)
Loss before income tax		**(6,096)**	(41,687)
Income tax, net	21	**-**	(11,424)
Net loss for the year		**(6,096)**	(53,111)
Other comprehensive income to be classified to profit or loss in subsequent periods			
Net (loss) / gain on FVOCI securities		**(4,818)**	12,524
Tax effect of net results on FVOCI securities		**-**	(2,505)
Other comprehensive (loss) / gain for the year		**(4,818)**	10,019
Total comprehensive loss for the year		**(10,914)**	(43,092)

The attached notes 1 to 31 form an integral part of these financial statements. The independent auditors' report on financial statements is set out on pages 1 to 4.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Branch capital AED'000	*Legal reserve* AED'000	*Accumulated losses* AED'000	*Fair value reserve* AED'000	*Impairment reserve – specific* AED'000	*Impairment reserve – general* AED'000	*Total* AED'000
At 1 January 2020	**390,375**	**29,061**	**(203,140)**	**4,864**	**21,879**	**2,700**	**245,739**
Total comprehensive loss for the year	-	-	(6,096)	(4,818)	-	-	(10,914)
Transfer to IFRS Reserve	-	-	24,579	-	(21,879)	(2,700)	-
At 31 December 2020	**390,375**	**29,061**	**(184,657)**	**46**	**-**	**-**	**234,825**
At 1 January 2019	325,375	29,061	(138,494)	(5,155)	8,507	4,537	223,831
Total comprehensive (loss)/ income for the year	-	-	(53,111)	10,019	-	-	(43,092)
Capital Injection	65,000	-	-	-	-	-	65,000
Transfer to IFRS Reserve	-	-	(11,535)	-	13,372	(1,837)	-
At 31 December 2019	390,375	29,061	(203,140)	4,864	21,879	2,700	245,739

The attached notes 1 to 31 form an integral part of these financial statements. The independent auditors' report on financial statements is set out on pages 1 to 4.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	Notes	*2020* AED'000	2019 AED'000
Cash flows from operating activities			
Loss before income tax		**(6,096)**	(41,687)
Adjustments for:			
Depreciation	11	**4,474**	3,735
Net impairment charges	4.2	**9,610**	42,646
Provision for employees' end of service benefits	23	**56**	640
Dividend Income		**-**	(2,291)
Amortisation of premium		**506**	1,021
		8,550	4,064
Changes in:			
Due from banks and head office		**(36,562)**	14,692
Loans and advances to customers		**143,282**	(2,323)
Other assets		**24,422**	(20,352)
Due to banks, Head Office and overseas branches		**(235,072)**	-
Statutory reserve with CB UAE		**12,180**	3,123
Deposits from customers		**91,859**	(19,939)
Other liabilities		**(9,982)**	4,230
		(1,323)	(16,505)
Income tax paid	21	**(1,469)**	(4,624)
End of service benefits paid	23	**(1,225)**	(256)
Net cash used in operating activities		**(4,017)**	(21,385)
Cash flows from investing activities			
Purchase of property and equipment	11	**(1,419)**	(12,294)
Sale/(Purchase) of investment securities		**43,309**	(127,820)
Dividend Income		**-**	2,291
Net cash from (used in) investing activities		**41,890**	(137,823)
Cash flows from financing activity			
Increase in Branch Capital		**-**	65,000
Net cash from financing activity		**-**	65,000
Net increase / (decrease) in cash and cash equivalents		**37,873**	(94,208)
Cash and cash equivalents at 1 January		**54,978**	149,186
Cash and cash equivalents at 31 December	24	**92,851**	54,978

1 Legal status and activities

National Bank of Oman SAOG (the "Bank" or the "Head Office") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail banking, wholesale banking and investment banking services. The Bank in the United Arab Emirates ("UAE") operates with two branches i.e. Abu Dhabi and Dubai (the "Branches") under a commercial bank licence granted by the UAE Central Bank. The registered office of the Branches is P.O. Box 3822, Abu Dhabi, UAE. Abu Dhabi Branch started its operation in 1976. Dubai Branch started its operation in December 2013.

The principal activities of the Branches are granting of loans, advances and the provision of other commercial banking services.

The Branches employed 51 employees as of 31 December 2020 (31 December 2019: 62 employees).

The financial statements were authorised for issue by the Branches' management on 28 March 2021.

2 Basis of preparation

2.1 Statement of compliance

The financial statements of the Branches have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB), and applicable requirements of the United Arab Emirates Laws including the UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") and the Decretal Federal Law No. (14) of 2018.

2.2 Basis of measurement

The financial statements have been prepared on a historical cost basis except for investments at FVOCI which are measured at fair value.

2.3 Functional and presentation currency

These financial statements have been presented using the UAE Dirham ("AED"), which is the functional currency of the Branches. Financial information presented in AED has been rounded to nearest thousand except when otherwise stated.

2.4 Significant accounting judgments and estimates

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2.4.1 Going concern

The management has made an assessment of the Branches' ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Even though there are losses in current year along with accumulated losses incurred to date, the Branches continues to maintain a strong capital base with the support of the Head Office. The Head Office during the year 2019 infused capital of AED 65 million in cash. The regulatory capital of the Branches as at 31 December 2020 is 31% (2019: 26%), which is higher than the regulatory requirement of 10.5% (2019: 10.5%). Management believes that it has adequate liquidity and funding in order to meet its cash flow requirements as and when these fall due. In addition, the Branches' manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to its stakeholders. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Branches' ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2 Basis of preparation (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.2 Financial Instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2020 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.

- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2020 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

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

Assessment of Significant Increase in Credit Risk

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

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

1. The branches have established thresholds for significant increases in credit risk based on movement in Probability of Default relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Branches' ECL calculation will have forecasts of the relevant macroeconomic variables.

2 Basis of preparation (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.2 Financial Instruments (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (continued)

The Branches' estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

Scenarios are probability-weighted according to the branches best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities.

Sensitivity assessment due to movement in each macro-economic variable and the respective weights under the three scenarios is periodically assessed by the branches.

In some instances, the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Branches' Governance process for oversight.

Definition of default

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

Expected life

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

Governance

In addition to the existing risk management framework, the Bank has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee comprises of senior representatives from Chief executive office, finance, risk management and internal audit and will be responsible for reviewing and approving key inputs and assumptions used in the Bank's ECL estimates. It also assesses the appropriateness of the overall allowance results to be included in the Branches' financial statements.

2 Basis of preparation (continued)

2.4 Significant accounting judgments and estimates (continued)

2.4.3 Impairment losses on loans and advances

The Branches reviews their individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the branches make judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks.

2.4.4 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Currently the branches does not hold any unquoted investments.

2.4.5 Deferred tax assets

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

2.5 **Standards, amendments and interpretations effective in 2020 and relevant for the Branches' operations**

For the year ended 31 December 2020, the Branches has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2020.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The adoption of these standards and interpretations has not resulted in any major changes to the Branches' accounting policies.

2 Basis of preparation (continued)

2.6 Standards issued but not yet effective

The number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; the Branches has not early adopted the new and amended standards in preparing of these financial statements. Based upon assessment of the Branches, these will not have any material impact on financial statements of the Branches.

3 Significant accounting policies

The Branches has consistently applied the following accounting policies to all periods presented in these financial statements except for the policies mentioned in note 2.5.

3.1 Financial instruments – initial recognition

3.1.1 Date of recognition and initial measurement

The Branches initially recognise loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they 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 Branches 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. When the fair value of financial instruments at initial recognition differs from the transaction price, the Branches accounts for the Day 1 profit or loss, as described below.

3.1.2 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Branches recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

3.1.3 Measurement categories of financial assets and liabilities

The Branches classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either in line with the requirements of IFRS 9:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities

3.2.1 Due from banks, Loans and advances to customers, financial investments at amortised cost

The Branches measures due from banks, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

On initial recognition of an equity investment that is not held for trading, the Branches may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

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

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Branches original expectations, the branches does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.1 Due from banks, Loans and advances to customers, financial investments at amortised cost (continued)

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Branches considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Branches considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Branches claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Branches also holds a portfolio of long-term fixed rate loans for which the Branches has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Branches has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

3.2.2 Debt instruments at FVOCI

The Branches apply the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

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

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 Equity instruments at FVOCI

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

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Branches benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3.2.4 Financial guarantees, letters of credit and undrawn loan commitments

The Branches issue financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the branches liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, under IFRS 9 – an ECL provision.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 27.

3.2.5 Financial liabilities

Under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The amount presented separately in OCI related to changes in own credit risk of a designated financial liability at FVTPL are not recycled to profit or loss, even when the liability is derecognised and the amounts are paid. Instead, own credit gains and losses should be reclassified to retained earnings within equity upon derecognition of the relevant liability.

3 Significant accounting policies (continued)

3.3 Derecognition of the financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Branches have transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Branches have transferred substantially all the risks and rewards of the asset, or (b) the Branches have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branches have transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the branches continuing involvement in the asset. In that case, the Branches also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branches retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branches could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss for the year.

3.4 Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Branches evaluate whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Branches recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income. 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.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities
The Branches derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of total comprehensive income.

3 Significant accounting policies (continued)

3.5 Impairment of financial assets

The branches recognise loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments. The Branches measure loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition which they are measured as 12-month ECL.

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.

3.5.1 Measurement of ECL

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

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

3.5.2 Overview of the ECL principles

The Branches have been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss (12 month ECL).

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

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

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

3 Significant accounting policies (continued)

3.5 Impairment of financial assets (continued)

3.5.2 Overview of the ECL principles (continued)

Based on the above process, the Branches group its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1

When financing is first recognised, the Branches recognise an allowance based on 12 month ECLs. Stage 1 financing exposure also includes facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2

When a financing exposure has shown a significant increase in credit risk since origination, the Branches records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

Stage 3

Financing exposure considered credit-impaired. The branches records an allowance for the LTECLs.

At initial recognition of a financial asset, the branches recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

Stage 1

Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses.

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses with revenue being calculated based on the gross amount of the asset.

Stage 3

There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

3.5.3 The calculation of ECLs

The branches calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that are expected to be received.

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

• PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

• EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.

• LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the BRanches would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis where the financial instruments are grouped based on product type risk characteristics.

Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts. The most significant year-end assumptions used for ECL estimate includes using different scenarios (base case, upside and downside) and key drivers like GDP.

3 Significant accounting policies (continued)

3.5 Impairment of financial assets (continued)

3.5.4 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:

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Branches cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Branches 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. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *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.

3.5.5 Debt instruments measured at fair value through OCI
The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3.5.6 Credit cards and other revolving facilities
The Branches product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Branches have the right to cancel and/or reduce the facilities with one day's notice. The Branches does not limit their exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Branches expectations of the customer behaviour, its likelihood of default and the Branches' future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Branches' expectations, the period over which the Branches calculate ECLs for these products, is five years for corporate and seven years for retail products.

3.6 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 derecognized 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.

3 Significant accounting policies (continued)

3.7 Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Branches on terms that the Branches would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Branches 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.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3.8 Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Branches determine 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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the branches procedures for recovery of amounts due.

3 Significant accounting policies (continued)

3.9 Foreign currency

Foreign currency transactions are recorded at rates of exchange ruling at the value date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

Forward foreign exchange contracts are translated into AED at mid-market rates of exchange at the reporting date. Foreign currency differences arising on translation are recognised in profit or loss. However, foreign currency differences arising from the translation of equity instruments classified as FVOCI are included in other comprehensive Income.

3.10 Revenue recognition

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

Interest and similar income and expense
Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at fair value through profit or loss. Interest income on interest bearing financial assets classified at FVOCI under IFRS 9, is recorded by using EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

The carrying amount of the financial asset or financial liability is adjusted if the Branches' revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'.

Fee and commission income
The Branches earn fee and commission income from a diverse range of services it provides to its customers. 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 Branches to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under IFRS 15, fee income is measured by the Branches based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Branches recognises revenue when it transfers control over a product or service to a customer.

Dividend income
Dividend income is recognised when the Branches' right to receive the payment is established.

3 Significant accounting policies (continued)

3.11 Leases

At inception of a contract, the Branches assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

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

The Branches recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office property.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Branches determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.
Lease payments included in the measurement of the lease liability comprise the following:

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

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

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

The Branches presents right-of-use assets in ‘property and equipment’ and lease liabilities in ‘other liabilities’ in the statement of financial position.

3 Significant accounting policies (continued)

3.12 Taxation

Current tax
Taxation is provided for in accordance with the instructions of the Department of Private Affairs of His Highness Shaikh Zayed Bin Sultan Al Nahyan, dated 11 September 2003 for Abu Dhabi and tax for Dubai Branch is paid in accordance with local regulations for assessment of tax on branches of foreign banks operating in Emirate of Dubai.

Income tax is recognised in the statement of comprehensive income for the year. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

3 Significant accounting policies (continued)

3.13 Determination of fair values

A number of the Branches' accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Branches.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

The Branches also compare each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Branches 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.

3 Significant accounting policies (continued)

3.14 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branches in the management of their short-term commitments.

3.15 Property and equipment

3.15.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in statement of profit or loss.

3.15.2 Subsequent costs

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

3.15.3 Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Branches will obtain ownership by the end of the lease term. Land is not depreciated.
The estimated useful lives of significant items of property and equipment are as follows:

- Leasehold improvements	Over the lease terms 3 to 5 years
- Motor vehicles	4 years
- Furniture	3 to 10 years
- Equipment	5 to 20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.15.4 Impairment

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit and loss.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses are recognised in the statement of profit or loss.

3 Significant accounting policies (continued)

3.16 Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit and loss.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses are recognised in the statement of comprehensive income.

3.17 Provisions

A provision is recognised if, as a result of a past event, the Branches have 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 pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.18 Staff terminal benefits

The terminal benefits are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE and Oman labour laws. Entitlement to these benefits is usually based upon the employees' length of service and completion of minimum service period. The expected costs of these benefits are accrued over the period of employment.

3.19 Financial guarantees

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

4 Financial risk management

4.1 Introduction and overview

The Branches have exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk

This note presents information about the Branches' exposure to each of the above risks, the Branches' objectives, risk management frameworks, policies and processes for measuring and managing risk, and the Branches' management of capital.

Risk management framework
The overall responsibility for risk management in the Branches is vested with the Board of Directors of the Bank. The Board authorises appropriate credit, liquidity and market risk policies as well as suitable operational guidelines based on the recommendation of management. Approval authorities are delegated to different functionaries, including the UAE Country Manager, in the hierarchy depending on the amount, type of risk and collateral security. The Bank has established various committees that decide on all risk issues.

The Branches' risk management policies are established to identify and analyse the risks faced by the Branches, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

4.2 Credit risk

Credit risk is the risk of financial loss to the Branches if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Branches seek to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. The Branches also monitor credit exposures and continually assesses the credit worthiness of counterparties. They also obtain security when appropriate.

Management of credit risk
Credit Risk is managed within the regulatory requirements of the Central Bank of UAE; risk framework provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures

Corporate credit
Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The Branches follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Branches has implemented a customised Moody’s Risk Analyst model for risk rating corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the Branches in the management of credit risk.

4 Financial risk management (continued)

4.2 Credit risk (continued)

Corporate credit (continued)
In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. Further, the Branches continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

Loan review mechanism
The Branches has an independent Loan Review Mechanism Division (LRM) with a mandate for constantly evaluating the quality of the loan book, and the balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc. In addition to the above the LRM team reviews the Branches' effectiveness of approved internal controls and procedures to ensure robust and sound practices are being followed by all stake holders. LRM also performs independent ad hoc reviews, investigations and assessments as directed by management on areas of concern relating to the credit approval process and/or the analysis processes within the Branches. Significant findings are reported to the CRO, the MRC and potentially to the BRC where warranted.

Risk mitigation policies
The Branches manage limits and controls concentrations of credit risk in particular, with respect to individual counterparties and groups, and industries. The Branches structures the levels of credit risk it undertakes 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 and reviewed periodically by the Management Credit Committee and Board Risk Committee.

Outbreak of Coronavirus (COVID-19)

The World Health Organization officially declared COVID-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the Branches have witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries & sectors.

Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. Many GCC economies have already commenced the vaccination drive. The Central Banks in Oman and in the UAE had instituted a host of measures to protect the stability of country's economy.

4 Financial risk management (continued)

4.2 Credit risk (continued)

Government measures (continued)

In line with other global regulators, the Central Bank of the UAE, under the Targeted Economic Support Scheme ("TESS") has facilitated the provision of temporary relief from the payments of principal and/or interest/profit on outstanding loans for all affected private sector corporates, SMEs and individuals with specific conditions. Additionally, the program seeks to facilitate additional lending and liquidity capacity as banks, through the relief of existing capital and liquidity buffers, which have been further elaborated on in the sections below. These measures include deferral of loan installments for the affected borrowers including corporates and SMEs.

Impact of COVID-19 on the Branches

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration has been given both to the effects of COVID-19 and the significant Government support measures being undertaken. Relief measures, such as payment holidays, will not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment has been exercised to measure ECLs at this time. When it is not possible to reflect such information in the models, management overlays or adjustments has been considered. This is also broadly consistent with guidelines issued by other regulators within the GCC.

The IFRS 9 Steering Committee of the Bank is primarily responsible for overseeing the Bank's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. SME customers are evaluated separately and any short term cash flow mismatches are supported by the Bank.

The Branches continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. The Branches continually reviews its precautionary and administrative measures in response to changes on the ground.

As per the requirements of the CBUAE, the Branches has divided its customers benefitting from the payment deferrals into two groups as follows:

Group 1 : are the customers who are not expected to face substantial change in their creditworthiness beyond liquidity issue caused by the COVID-19 crisis.

For these customers, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers are subject to ongoing monitoring for any changes in their creditworthiness for the appropriateness of their grouping and IFRS 9 staging.

Group 2 : customers that are significantly expected to be impacted by COVID-19.

For these customers, there is a sufficient deterioration in credit risk to trigger IFRS 9 stage migration, The Branches continues to monitor the creditworthiness of these customer, particularly indications of potential inability to pay any of their obligations as and when they become due.

Impact on SICR:

The exercise of the deferment option by a customer, in its own, is not considered by the Branches as triggering SICR. However, as part of the Branches credit evaluation process especially given the current economic situation due to after effects of lock down, the Branches has obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging have been adjusted.

4 Financial risk management (continued)

Impact on ECL:
The Branches' models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance where the Bank operates, could not be reliably modelled, at present. As a consequence, the existing models generated results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments have been made. The Branches expects that post-model adjustments will be applied for the foreseeable future.

Management overlays made in estimating the reported ECL as at 31 December 2020 are set out as follows:

As on the reporting date the collective provision held by the Branches through management overlays amounts to 2.8% of total impairment based on latest available PD term structure and macro-economic forecasts. This is in addition to the existing ECL provision considered on a conservative practices to mitigate any unforeseen impacts in the portfolio. The Branches will continue to reassess and appropriately adjust such management overlays on a regular basis throughout the affected period.

Management overlays:

Given the ever evolving nature of the current health and economic crisis, the Branches' management is of the view that the forward looking macro-economic data and the PD term structures published by the economists and rating agencies during 2020 is yet to reasonably reflect the impact of the economic disruption caused by Covid-19 and also to fully factor in the financial intervention by the relevant state authorities.

Hence, based on regulatory and IASB's guidance, as a measure of prudence, wherever necessary, the Branches has applied management judgment overlays, while computing its ECL with an intention to collectively cover the,

- Customer, industry, sector specific evolving credit risk and appetite,
- Impact of recent external ratings and resultant change in the PD term structures,
- Impact of Covid-19 & depressed oil prices available in latest forward looking information and
- Mitigating impacts of government support measures to the extent possible

In determining above, the management has considered following assumptions:

- Oil price used by the Branches around $52/bbl (31 December 2019: $65.7/bbl)

The following table shows a comparison of the Branches' allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2020 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

	At 31 December 2020		*At 31 December 2019*	
Sensitivity of impairment estimates	**ECL AED 000's**	**Impact on ECL AED 000's**	ECL AED 000's	Impact on ECL AED000's
ECL on non-impaired loans under IFRS9	**13,114**		7,420	
Simulations				
Upside case - 100% weighted	**11,253**	**1,861**	6,462	957
Base case - 100% weighted	**12,986**	**128**	7,482	(63)
Downside scenario - 100% weighted	**15,104**	**(1,989)**	8,314	(895)

4 Financial risk management (continued)

4.2 Credit risk (continued)

Accounting for modification loss:

In case of retail customers, the Branches plans to add the simple interest accrued during the deferral period to the total outstanding and has either extend the original maturity period of the loan or increase the installments. As retail loans have shorter tenor behaviourally, modification loss does not have material impact on the carrying value.

With regard to corporate loans the Branches had extended deferrals only for the principal repayments. A vast majority of customers were servicing the interest accruing on the loans. In rare circumstances, where the deferrals were for the entire installments the corresponding modification loss has not resulted in any significant impact to the carrying value.

Stage-wise analysis of customers benefiting from payment deferrals

The following table contains an analysis of the deferred amount of principal outstanding and accrued interest / profit pertinent to loans and advances of the customers, who have been provided with such benefits, and the related ECL:

AED'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances and acceptances	36,000	35,279	-	71,279
Off–balance sheet exposures	-	-	-	-
Total exposure to customers benefiting from payment deferrals	**36,000**	**35,279**	**-**	**71,279**
Total ECL on exposure to customers benefiting from payment deferrals	22	538	-	560
Of Which:				
Deferred amount	2,250	16,809	-	19,059
Allowances for impairment (ECL)	22	538	-	560
Carrying amount	**2,228**	**16,271**	**-**	**18,499**

As at 31st Dec 2020 the Branches does not have any exposures benefiting on payment deferral under group 2.

Impact on the Capital Adequacy

In response to this crisis, the Branches continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the liquidity, funding and capital position of the Branches remains strong and is well placed to absorb the impact of the current disruption.

4 Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk

The Branches measure their exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The carrying amounts of financial assets represent the maximum credit exposure.

	Loans and advances		***Investment securities***		***Others***		***Total***	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*	***2020***	*2019*
	AED'000	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*
Loans	**497,884**	594,019	**-**	-	-	-	**497,884**	594,019
Overdrafts	**118,200**	208,745	**-**	-	-	-	**118,200**	208,745
Trust receipt	**92,706**	61,198	**-**	-	-	-	**92,706**	61,198
Bills discounted	**15,068**	9,587	**-**	-	-	-	**15,068**	9,587
Investment Securities – Debt (FVOCI)	**-**	-	**37,373**	37,861	-	-	**37,373**	37,861
Investment Securities – Debt (Amortized Cost)	**-**	-	**132,794**	133,210	-	-	**132,794**	133,210
Cash and balances with the UAE Central Bank	**-**	-	**-**	-	**97,850**	134,781	**97,850**	134,781
Due from banks	**-**	-	**-**	-	**98,336**	10,687	**98,336**	10,687
Due from Head Office and Overseas branches	**-**	-	**-**	-	**27,488**	2,536	**27,488**	2,536
Customers' indebtedness for acceptances	**-**	-	**-**	-	**20,790**	8,252	**20,790**	8,252
Other assets	**-**	-	**-**	-	**2,971**	27,393	**2,971**	27,393
Total	**723,858**	873,549	**170,167**	171,071	**247,435**	183,649	**1,141,460**	1,228,269
Allowance for Credit Losses	**(321,104)**	(317,959)	**(56)**	(102)	**(2,596)**	(3,415)	**(323,756)**	(321,476)
Carrying amount, net	**402,754**	555,590	**170,111**	170,969	**244,839**	180,234	**817,704**	906,793

4 Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk (continued)

	Loans and advances		*Investment securities*		*Others*		*Total*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*	***2020***	*2019*
	AED'000	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*
Stage 1& 2	**392,318**	476,963	**170,167**	171,071	**247,435**	183,649	**809,920**	831,683
Allowances for Credit Loss	**(10,463)**	(3,902)	**(56)**	(102)	**(2,596)**	(3,415)	**(13,115)**	(7,419)
Carrying amount, net	**381,855**	473,061	**170,111**	170,969	**244,839**	180,234	**796,805**	824,264
Stage 3	**331,540**	396,586	**-**	-	-	-	**331,540**	396,586
Allowances for Credit Loss	**(310,641)**	(314,057)	-	-	-	-	**(310,641)**	(314,057)
Carrying amount, net	**20,899**	82,529	**-**	-	-	-	**20,899**	82,529
Carrying amount, net	**402,754**	555,590	**170,111**	170,969	**244,839**	180,234	**817,704**	906,793

4 Financial risk management (continued)

4.2 Credit risk (continued)

An ageing analysis of the Branches' loans which are past due but not impaired is set out below:

	Loans in arrears 1-30 days AED'000	*Loans in arrears 31-60 days AED'000*	*Loans in arrears 61-89 days AED'000*	*Total AED'000*
Loans and advances to customers at 31-Dec-20	**10**	**-**	**12,259**	**12,269**
31-Dec-19	1,221	10	-	1,231

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	12-Month ECL AED'000	*Lifetime ECL not credit - impaired AED'000*	*Lifetime ECL credit - impaired AED'000*	*Total AED'000*
31-Dec-20				
Loans and advances to customers				
Performing loans (Grades 1-5)	**231,887**	**102,627**	**-**	**334,514**
Performing loans (Grades 6)	**-**	**45,545**	**-**	**45,545**
Performing loans (Grades 7)	**-**	**12,259**	**-**	**12,259**
Non-performing loans (Grades 8-10)	**-**	**-**	**331,540**	**331,540**
Gross loans and advances to customers	**231,887**	**160,431**	**331,540**	**723,858**
Loss allowance-carrying amount	**294**	**10,165**	**310,645**	**321,104**
Credit related contingent items				
Performing loans (Grades 1-5)	**65,075**	**45,925**	**-**	**111,000**
Performing loans (Grades 6)	**-**	**67,233**	**-**	**67,233**
Performing loans (Grades 7)	**-**	**-**	**-**	**-**
Non-performing loans (Grades 8-10)	**-**	**-**	**679**	**679**
Total gross loans and advances to customers	**65,075**	**113,158**	**679**	**178,912**
Loss allowance-carrying amount	**43**	**2,385**	**-**	**2,428**
Due from banks and money market placements	**98,336**	**-**	**-**	**98,336**
Loss allowance-carrying amount	**168**	**-**	**-**	**168**
Investment securities	**170,167**	**-**	**-**	**170,167**
Loss allowance-carrying amount	**56**	**-**	**-**	**56**

Grade 1-6 represents performing grade. Grade 7 represents special mentioned accounts and grade 8-10 represents non performing.

4 Financial risk management (continued)

4.2 Credit risk (continued)

Impaired loans and advances
The Branches regard a loan and advance or a debt security as impaired in the following circumstances:

- A loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A loan is overdue beyond the stated contractual terms.
- A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Loans and investment debt securities that are past due but not impaired
Loans and investment debt securities that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Branches believe that impairment is not appropriate on the basis of the sufficient level of security or collateral available to cover the outstanding amount and/or the stage of collection of amounts owed to the Branches.

Loans with renegotiated terms
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3.

For the purposes of disclosures in these financial statements, '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 Branches has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Branches 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, earlier repayment or until it is written off.

The Branches hold collateral against loans and advances to customers in the form of cash margins, pledges/ liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Branches accept guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporate and high net worth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are updated during annual reviews. Generally, collateral is not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Branches policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below.

	2020	*2019*
	AED'000	*AED'000*
Cash and margin	**78,002**	60,111
Commercial and industrial property	**319,977**	276,652
Residential property	**114,850**	114,850
Other	**98,216**	13,532
Total collateral held	**611,045**	465,145

Collateral values reflect the maximum exposure or the value of the collateral whichever is lower

4 Financial risk management (continued)

4.2 Credit risk (continued)

Concentration of credit risk

The Branches internally monitor concentrations of credit risk by sector and geographical location. An analysis of concentrations of credit risk as defined by the Branches' internal approved guidelines at the reporting date is shown below:

	Loans and advances		*Investment securities*		*Others*		*Total*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*	***2020***	*2019*
	AED'000	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*
Carrying value, net	**402,754**	555,590	**170,111**	218,798	**128,627**	40,616	**701,492**	815,004
Concentration by sector:								
Sovereign	**49,953**	49,953	**170,167**	171,071	**-**	-	**220,120**	221,024
Construction	**12,262**	20,021	**-**	-	**-**	-	**12,262**	20,021
Trade	**148,645**	175,737	**-**	-	**-**	-	**148,645**	175,737
Real estate and real estate trading	**92,159**	97,211	**-**	-	**-**	-	**92,159**	97,211
Manufacturing	**83,376**	96,705	**-**	-	**-**	-	**83,376**	96,705
Services	**288,711**	387,884	**-**	-	**-**	-	**288,711**	387,884
Banks and Financial Institutions	**45,535**	41,549	**-**	-	**125,824**	13,223	**171,359**	102,601
Retail	**3,217**	4,489	**-**	-	**-**	-	**3,217**	4,489
Others	**-**	-	-	-	**2,971**	27,393	**2,971**	27,393
Gross total	**723,858**	873,549	**170,167**	171,071	**128,795**	40,616	**1,022,820**	1,085,236
Concentration by location:								
United Arab Emirates	**588,231**	823,596	**45,226**	46,243	**54,393**	27,393	**687,850**	897,232
Outside UAE	**135,627**	49,953	**124,941**	124,828	**74,402**	13,223	**334,970**	188,004
Gross total	**723,858**	873,549	**170,167**	171,071	**128,795**	40,616	**1,022,820**	1,085,236

4 Financial risk management (continued)

4.2 Credit risk (continued)

Interest is accrued on doubtful and loss accounts for litigation purposes only and accordingly interest is not taken to income. Such accruals increase gross loans and advances receivable. Loans and advances are written off only when all legal and other avenues for recovery or settlement are exhausted.

The movement during the year within the impairment provision balance is as follows:

	2020				2019			
In AED'000	12 month ECL	Lifetime ECL - Not credit impaired	Lifetime ECL - credit impaired	Total	12 month ECL	Lifetime ECL - Not credit impaired	Lifetime ECL - credit impaired	Total
Balance at 1 Jan	**1,579**	**5,841**	**314,056**	**321,476**	1,567	4,944	445,825	452,336
Transfer Between Stage1 to Stage2	**(1,153)**	**1,153**	**-**	**-**	(2,442)	2,442	-	-
Charge for the Year	**135**	**5,559**	**3,916**	**9,610**	2,454	(1,545)	58,042	58,951
Recoveries during the year	**-**	**-**	**(5,926)**	**(5,926)**	-	-	(988)	(988)
Amounts written off during the year	**-**	**-**	**(1,405)**	**(1,405)**	-	-	(188,823)	(188,823)
Closing Balance	**561**	**12,553**	**310,641**	**323,755**	1,579	5,841	314,056	321,476

(i) Charge for the year 2020 amounting to AED 9,610 thousand (2019: AED 58,951 thousand) includes, Provision for credit losses amounting to AED 9,608 thousand (2019: AED 42,646 thousand) and Reserved interest amounting to AED 2 thousand (2019: AED 16,305 thousand).

(ii) Provision for credit losses charged to statement of comprehensive income amounting to AED 2,795 thousand (2019: AED 40,028 thousand) represents charge for the year amounting to AED 9,608 thousand (2019: AED 42,646 thousand), netted off against recoveries from provision for credit losses AED 5,926 thousand (2019: AED 988 thousand) and recoveries from amounts written off of AED 887 thousand (2019: AED 1,630 thousand).

4 Financial risk management (continued)

4.2 Credit risk (continued)

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

The CBUAE issued its IFRS 9 guidance on 30 April 2019 via notice no. CBUAE/BSD/2019/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

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

	2020	*2019*
	AED'000	*AED'000*
Total provision required by CBUAE	288,072	309,749
Total provision required by IFRS9	288,298	285,170
Difference	*(227)	24,579
Impairment Reserve : General		
General Provision (CB UAE)	N/A	10,120
Less : Stage 1 & 2 provision under IFRS 9	N/A	7,420
General Provision transferred to Impairment reserve – general	N/A	2,700
Impairment Reserve : Specific		
Specific Provision (CB UAE)	N/A	299,630
Less : Stage 3 provision under IFRS 9	N/A	277,750
Specific Provision transferred to Impairment reserve – specific	N/A	21,879
Total Provision transferred to Impairment reserve	N/A	24,579

- No reserve required to be maintained in 2020 as the IFRS 9 provision is higher than CBUAE provision requirement.

Settlement risk

The Branches activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Branches mitigate this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both the parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from the Branches' risk function.

4 Financial risk management (continued)

4.2 Credit risk (continued)

Impairment assessment

Definition of default and cure

The Branches considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Branches considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Branches also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Branches carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Branches
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower’s turnover or the loss of a major customer
- A covenant breach not waived by the Branches
- The debtor (or any legal entity within the debtor’s group) filing for bankruptcy application/protection
- Debtor’s listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties

It is the Branches’ policy to consider a financial instrument as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

4 Financial risk management (continued)

4.2 Credit risk (continued)

Impairment assessment **(continued)**

Incorporation of forward-looking information
The Branches incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Branches formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Branches' exposures and availability of historical statistically reliable information, the Branches derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

Economic variable assumptions
The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

- Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in UAE)
- The base scenario was created on the assumption of stabilisation of oil price at the level of 54 USD/barrel for Brent oil.
- The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

    a) historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
    b) size of the detachment equal to plus/minus 0.87 standard deviation from the base scenario as an approximate representation of 33.33% probability of alternative (adverse and favourable) scenarios,
    c) the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).
- GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
- GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

The Branches' treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Branches' credit risk department analyses publicly available information such as financial information and other external data and assigns the internal rating.

4 Financial risk management (continued)

4.2 Credit risk (continued)

Economic variable assumptions (continued)

Corporate and small business lending
For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Branches. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Branches and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages
Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes
  in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Sensitivity analysis
The most significant assumptions affecting the ECL allowance are as follows:

- Interest rate, given its impact on companies' likelihood of default; and
- GDP, given the significant impact on companies' performance and collateral valuations;
- Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Exposure at default
The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Branches assesses the possible default events within 12 months for the calculation of the 12 month ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Branches determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Branches' models.

4 Financial risk management (continued)

4.2 Credit risk (continued)

Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Branches' specialised credit risk department. The credit risk assessment is based on using regulatory LGD as a starting point. The Branches periodically assess for IFRS 9 adjustments to the regulatory LGD.

The Branches segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Branches.

The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant Increase in Credit Risk

The Branches continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or LTECL, the Branches assesses whether there has been a significant increase in credit risk since initial recognition.

The Branches also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Branches may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

a. Rating downgrade from origination grade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
b. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
c. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
d. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
e. Frequent changes in key senior management personnel without acceptable successors or professional management.
f. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
g. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
h. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by Central Bank from time to time.
i. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
j. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

4 Financial risk management (continued)

4.2 Credit risk (continued)

Model risk management:
The Branches has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Branches has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of the Bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Branches has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Branches in terms of usage of models.

4.3 Liquidity risk

Liquidity risk is the risk that the Branches will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade asset which could be collateralised to secure additional funding if required.

The Branches maintain liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition, the Branches hold certain liquid assets as part of its liquidity risk management strategy.

The Branches manage liquidity risk based on the Central Bank of UAE guidelines and the liquidity contingency policies, which are approved by the Board Risk Committee. Liquidity risk position is monitored regularly through analysis of various reports, such as, maturity of assets and liabilities, liquidity lines, early warning indicators and stock ratios. Further, the Branches also periodically conduct stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the Branches are regularly reviewed by management and also discussed at the Branches' Asset and Liability Committee ('ALCO').

The key elements of the Branches' liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches; and
- Carrying out stress testing of the liquidity position.

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

Residual contractual maturity of financial liabilities

The following table shows the undiscounted cash flows on the Branches' financial liabilities on the basis of their earliest possible contractual maturity. The Branches' expected cash flow on these instruments may vary significantly from this analysis.

2020	***Carrying Amount AED'000***	***Gross nominal outflow AED'000***	***Less than 3 months AED'000***	***3 months to 1 year AED'000***	***More than 1 year AED'000***
Non-derivative liabilities					
Deposits from Banks, Head Office and overseas branches	**(79,584)**	**(80,810)**	**(80,810)**	**-**	**-**
Deposits from customers	**(527,058)**	**(533,927)**	**(400,573)**	**(133,354)**	**-**
Liabilities under acceptances	**(20,790)**	**(20,790)**	**(20,790)**	**-**	**-**
Other liabilities	**(8,189)**	**(8,189)**	**(2,409)**	**-**	**(5,780)**
	(635,621)	**(643,716)**	**(504,582)**	**(133,354)**	**(5,780)**

2019	*Carrying Amount AED'000*	*Gross nominal outflow AED'000*	*Less than 3 months AED'000*	*3 months to 1 year AED'000*	*More than 1 year AED'000*
Non-derivative liabilities					
Deposits from Banks, Head Office and overseas branches	(301,409)	(307,640)	(105,198)	(202,442)	-
Deposits from customers	(435,199)	(442,209)	(284,807)	(122,864)	(34,538)
Liabilities under acceptances	(8,252)	(8,252)	(8,252)	-	-
Other liabilities	(19,822)	(19,822)	(3,650)	-	(16,172)
	(764,682)	(777,923)	(401,907)	(325,306)	(50,710)

The Branches have established policies to manage the liquidity risk arising from the mismatch in the maturities of the assets and liabilities. These policies ensure that all obligations are met by the Branches on a timely and cost efficient basis. The following table shows the expected maturity of the branches' assets and liabilities.

	Up to 3 months AED'000	***3 months to 1 year AED'000***	***More than 1 year AED'000***	***Unspecified maturity AED'000***	***Total AED'000***
At 31 December 2020					
Assets					
Cash and balances with the UAE Central Bank	**97,850**	**-**	**-**	**-**	**97,850**
Due from other banks	**61,438**	**-**	**36,730**	**-**	**98,168**
Due from Head Office and overseas branches	**27,488**	**-**	**-**	**-**	**27,488**
Loans and advances to customers	**209,239**	**16,838**	**176,677**	**-**	**402,754**
Customers' indebtedness for acceptances	**20,790**	**-**	**-**	**-**	**20,790**
Investment securities	**-**	**45,226**	**124,885**	**-**	**170,111**
Property and equipment	**-**	**-**	**-**	**12,263**	**12,263**
Other assets	**1,954**	**1,017**	**67,779**	**-**	**70,750**
Total Assets	**418,759**	**63,081**	**406,071**	**12,263**	**900,174**

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

Residual contractual maturity of financial liabilities (continued)

At 31 December 2020	*Up to 3 months AED'000*	*3 months to 1 year AED'000*	*more than 1 year AED'000*	*Unspecified maturity AED'000*	*Total AED'000*
Liabilities and equity					
Due to Head Office and overseas branches	**79,584**	**-**	**-**	**-**	**79,584**
Deposits from customers	**395,420**	**131,638**	**-**	**-**	**527,058**
Liabilities under acceptances	**20,790**	**-**	**-**	**-**	**20,790**
Other liabilities	**2,409**	**-**	**-**	**8,208**	**10,617**
Equity	**-**	**-**	**-**	**234,825**	**234,825**
Placement from Head Office	**-**	**-**	**-**	**27,300**	**27,300**
Total liabilities and equity	**498,203**	**131,638**	**-**	**270,333**	**900,174**

At 31 December 2019	*Up to 3 months AED'000*	*3 months to 1 year AED'000*	*More than 1 year AED'000*	*Unspecified maturity AED'000*	*Total AED'000*
Assets					
Cash and balances with the UAE Central Bank	134,781	-	-	-	134,781
Due from other banks	10,687	-	-	-	10,687
Due from Head Office and overseas branches	2,536	-	-	-	2,536
Loans and advances to customers	364,081	30,786	160,723	-	555,590
Customers' indebtedness for acceptances	8,252	-	-	-	8,252
Investment securities	-	-	170,969	47,829	218,798
Property and equipment	-	-	-	15,320	15,320
Other assets	2,844	24,549	67,779	-	95,172
Total assets	523,181	55,335	399,471	63,149	1,041,136
Liabilities and equity					
Due to Head Office and overseas branches	103,067	198,342	-	-	301,409
Deposits from customers	280,292	120,916	33,991	-	435,199
Liabilities under acceptances	8,252	-	-	-	8,252
Other liabilities	3,650	-	-	19,587	23,237
Equity	-	-	-	245,739	245,739
Placement from Head Office	-	-	-	27,300	27,300
Total liabilities and equity	395,261	319,258	33,991	292,626	1,041,136

4 Financial risk management (continued)

4.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will affect the Branches' income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk
The Bank-wide organisational set up for market risk management of the UAE operations involves the Board Risk Committee at the Board level and various committees at the management level.

Board Risk Committee ('BRC')
BRC is responsible for establishing a comprehensive and integrated framework for managing credit risk, market risk (including risks relating to interest rate, liquidity and foreign exchange) and operational risk. The Committee sets the policies on all risk issues.

Management Risk Committee ('MRC')
MRC is the highest ruling authority at management level on all risk related issues of the Bank. Its responsibilities include oversight on management of interest rate risk, liquidity risk and all market risks including foreign exchange risk.

UAE ALCO
The UAE ALCO includes, among others, the UAE Country Manager, Head of Treasury, Head of Finance and other members as decided by the UAE Country Manager as well as invitees from Global Treasury and Market Risk, Oman. UAE ALCO is responsible for reviewing reports on liquidity, interest rate risk, money market lines, foreign exchange during the monthly UAE ALCO meetings. It is also responsible for escalating market risk issues to Global ALCO through the Head of Market Risk (Oman).

Market Risk and Mid-Office, Oman
Considering the currently limited scale of the UAE operations, Market Risk (Oman) assists in formulating policies for UAE. Mid-Office (Oman) independently monitors the foreign exchange exposure against net open position limits based on reports prepared by UAE treasury operations.

Country Manager, UAE
The Country Manager is responsible for updating Market Risk (Oman), UAE ALCO and Global ALCO on all changes in regulatory environment and ensuring compliance to all internal and regulatory limits (set up by the Central Bank of Oman and the Central Bank of UAE) for foreign exchange, liquidity, interest rate, etc.

Exposure to interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the future profitability or the fair value of the financial instruments. The Branches are exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The Branches manage this risk by matching the repricing of assets and liabilities through risk management strategies.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument.

The Branches' interest rate sensitivity position, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

4 Financial risk management (continued)

4.4 Market risk (continued)

Assets and liabilities repricing profile

2020	*Less than 3 months AED'000*	*3 months to 1 year AED'000*	*more than 1 year AED'000*	*Non-interest bearing AED'000*	*Total AED'000*
Assets					
Cash and balances with the UAE Central Bank	**35,000**	**-**	**-**	**62,850**	**97,850**
Due from banks	**61,438**	**-**	**36,730**	**-**	**98,168**
Due from Head office and overseas branches	**27,488**	**-**	**-**	**-**	**27,488**
Loans and advances to customers	**304,507**	**16,648**	**81,599**	**-**	**402,754**
Customers' indebtedness for acceptances	**-**	**-**	**-**	**20,790**	**20,790**
Investment securities	**124,885**	**45,226**	**-**	**-**	**170,111**
Property and equipment	**-**	**-**	**-**	**12,263**	**12,263**
Deferred tax asset	**-**	**-**	**-**	**67,779**	**67,779**
Other assets	**-**	**-**	**-**	**2,971**	**2,971**
Total assets	**553,318**	**61,874**	**118,329**	**166,653**	**900,174**
Liabilities and equity					
Due to Head Office and overseas branches	**79,584**	**-**	**-**	**-**	**79,584**
Deposits from customers	**202,836**	**133,917**	**3,072**	**187,233**	**527,058**
Liabilities under acceptances	**-**	**-**	**-**	**20,790**	**20,790**
Other liabilities	**-**	**-**	**-**	**10,617**	**10,617**
Equity	**-**	**-**	**-**	**234,825**	**234,825**
Placement from Head Office	**-**	**-**	**-**	**27,300**	**27,300**
Total liabilities and equity	**282,420**	**133,917**	**3,072**	**480,765**	**900,174**
Interest rate sensitivity gap	**270,898**	**(72,043)**	**115,257**	**(314,112)**	**-**
Cumulative interest rate sensitivity gap:	**270,898**	**198,855**	**314,112**	**-**	

4 Financial risk management (continued)

4.4 Market risk (continued)

Assets and liabilities repricing profile (continued)

2019	*Less than 3 months AED'000*	*3 months to 1 year AED'000*	*more than 1 year AED'000*	*Non-interest AED'000*	*Total AED'000*
Assets					
Cash and balances with the UAE Central Bank	50,000	-	-	84,781	134,781
Due from banks	10,687	-	-	-	10,687
Due from Head office and overseas branches	2,536	-	-	-	2,536
Loans and advances to customers	217,366	87,370	250,854	-	555,590
Customers' indebtedness for acceptances	-	-	-	8,252	8,252
Investment securities	218,798	-	-	-	218,798
Property and equipment	-	-	-	15,320	15,320
Deferred tax asset	-	-	-	67,779	67,779
Other assets	-	-	-	27,393	27,393
Total assets	499,387	87,370	250,854	203,525	1,041,136
Liabilities and equity					
Due to Head Office and overseas branches	81,029	220,380	-	-	301,409
Deposits from customers	117,451	107,843	36,177	173,728	435,199
Liabilities under acceptances	-	-	-	8,252	8,252
Other liabilities	-	-	-	23,237	23,237
Equity	-	-	-	245,739	245,739
Placement from Head Office	-	-	27,300	0.00	27,300
Total liabilities and equity	198,480	328,223	63,477	450,956	1,041,136
Interest rate sensitivity gap	300,907	(240,853)	187,377	(247,431)	
Cumulative interest rate sensitivity gap:	300,907	60,054	247,431		

An increase or decrease of 50 basis points in interest rate will respectively decrease or increase the loss before income tax by AED 1,121 thousand (2019: AED 819 thousand).

4 Financial risk management (continued)

4.4 Market risk (continued)

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Branches have set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

At the reporting date, the Branches' had the following net (long) and positive exposures denominated in foreign currency:

	2020	*2019*
	AED'000	*AED'000*
United States Dollar ('USD')	**13,359**	17,108
Omani Riyal	**66**	2
Euros	**(15)**	2
Pound Sterling	**(10)**	1
	13,400	17,113

AED is pegged against USD and therefore, the Branches' exposure is limited to that extent.

4.5 Operational risk

Operational risk is the risk of loss arising from systems 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.

Operational risks emanate from every segment of the Branches' operations and are faced by all the business units. The Branches cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Branches are able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Branches now has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set off thresholds are reported to the Board Risk Committee.

4.6 Capital risk management and Basel requirements

The Central Bank of the UAE sets and monitors capital requirements for the Branches. The Branches' regulatory capital is analysed into two tiers:

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

During the year ended 31 December 2020 and 2019, the Branches complied in full with capital requirements. All banks operating in U.A.E. are required to maintain a minimum capital adequacy of 13%. There have been no material changes in the Branch's management of capital during the year.

4 Financial risk management (continued)

4.6 Capital risk management and Basel requirements (continued)

Common Equity Tier 1 (CET1) Capital

	2020 AED'000	2019 AED'000
Branch capital	**390,375**	390,375
Legal reserve	**29,061**	29,061
Fair value reserve	**20**	2,189
Placement from Head Office	**27,300**	27,300
Accumulated losses	**(184,657)**	(203,140)
CET1 capital before the regulatory adjustments and threshold deduction	**262,099**	245,785
Less: Regulatory deductions	**(41,570)**	(43,201)
Total CET1 capital after the regulatory adjustments and threshold deduction	**220,529**	202,584
Tier 2 capital		
Other Tier 2 capital (including General Provisions, etc.)	**3,956**	7,419
Total Tier 2 Capital	**3,956**	7,419
Total Regulatory Capital	**224,485**	210,003
Risk weighted assets		
Credit risk	**645,101**	674,389
Market risk	**24**	3
Operational risk	**85,292**	128,215
Total risk weighted assets ('RWA')	**730,417**	802,607
Total regulatory capital expressed as a % of RWA	**31%**	26%
Total tier 1 capital expressed as a % of RWA	**30%**	25%

5 Classes and categories of financial instruments

At 31 December 2020	***Amortized cost AED '000***	***FVOCI AED '000***	***Non-financial assets AED '000***	***Total carrying amount AED '000***
Financial assets				
Cash and balances with the UAE Central Bank	97,850	-	-	97,850
Due from banks	98,168	-	-	98,168
Due from Head Office and overseas branches	27,488	-	-	27,488
Customers' indebtedness for acceptances	20,790	-	-	20,790
Loans and advances to customers	402,754	-	-	402,754
Investment securities	132,738	37,373	-	170,111
	779,788	**37,373**	**-**	**817,161**
Financial liabilities				
Due to banks, Head Office and overseas branches	79,584	-		79,584
Deposit from customers	527,058	-		527,058
Liabilities under acceptances	20,790	-		20,790
Other liabilities	10,617	-		10,617
	638,049	**-**		**638,049**

At 31 December 2019	*Amortized cost AED '000*	*FVOCI AED '000*	*Non-financial assets AED '000*	*Total carrying amount AED '000*
Financial assets				
Cash and balances with the UAE Central Bank	134,781	-	-	134,781
Due from banks	10,687	-	-	10,687
Due from Head Office and overseas branches	2,536	-	-	2,536
Customers' indebtedness for acceptances	8,252	-	-	8,252
Loans and advances to customers	555,590	-	-	555,590
Investment securities	133,108	85,690	-	218,798
	844,954	85,690	-	930,644
Financial liabilities				
Due to banks, Head Office and overseas branches	301,409	-	-	301,409
Deposit from customers	435,199	-	-	435,199
Liabilities under acceptances	8,252	-	-	8,252
Other liabilities	23,237	-	-	23,237
	768,097	-	-	768,097

6 Segmental analysis

The Branches operate in one geographical area, the United Arab Emirates, and their results arise largely from commercial banking, treasury and investment activities. Since the capital of the Branches is not publicly traded, no segmental analysis has been presented.

7 Cash and balances with the UAE Central Bank

	2020	*2019*
	AED'000	*AED'000*
Cash in hand	**4,728**	6,722
Deposits in current account with the UAE Central Bank	**43,613**	51,370
Statutory reserve deposits with the UAE Central Bank	**14,509**	26,689
Certificate of Deposits - UAE Central Bank	**35,000**	50,000
	97,850	134,781

Statutory reserve deposits are required to maintain as per regulations of the UAE Central Bank; the deposits are not available for the Branches' day-to-day operations and are non-interest bearing. The level of reserve required changes periodically in accordance with directives of the Central Bank.

ECL on cash and balances with Central Bank is not material and accordingly no adjustment has been accounted by the Branches.

8 Due from banks

	2020	*2019*
	AED'000	*AED'000*
Money market placements	**88,152**	-
Current accounts	**10,184**	10,687
	98,336	10,687
Less: Allowance for credit losses	**(168)**	**-**
Due from banks and other money market placement	**98,168**	10,687

Due from banks comprise of operational balances and interbank placements with banks. The Branches only deals with counterparties with an investment grade credit rating. All amounts due from banks are in Stage 1 (2019: Stage 1). There were no movements between stages during the year.

9 Loans and advances to customers

	2020	2019
	AED'000	AED'000
Loans	**497,884**	594,019
Overdrafts	**118,200**	208,745
Trust Receipts	**92,706**	61,198
Bills Discounted	**15,068**	9,587
Total loans and advances to customers	**723,858**	873,549
Provision for expected credit loss	**(321,104)**	(317,959)
Net loans and advances to customers	**402,754**	555,590

9 Loans and advances to customers (continued)

	2020	2019
	AED'000	AED'000
By economic sector		
Sovereign	**49,953**	49,953
Construction	**12,262**	20,021
Trade	**148,645**	175,737
Real estate and real estate trading	**92,159**	97,211
Manufacturing	**83,376**	96,705
Services	**288,711**	387,884
Banks and Financial Institutions	**45,535**	41,549
Retail	**3,217**	4,489
	723,858	873,549

Gross amounts of due from other banks by geographical area		
Within UAE	**588,231**	823,596
Other countries	**135,627**	49,953
	723,858	873,549

Movement in the gross balances of loans and advances to customers

	Stage 1	**Stage 2**	**Stage 3**	**Total**
31-Dec-20	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Gross carrying amount as at 31 December 2019	**273,916**	**203,047**	**396,586**	**873,549**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**(55,009)**	**55,009**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
New Loans	**147,459**	**-**	**1,406**	**148,865**
Recovery of Loans	**(134,480)**	**(97,624)**	**(65,046)**	**(297,150)**
Loans written off	**-**	**-**	**(1,406)**	**(1,406)**
Closing Balance - as at 31 Dec 2020	**231,886**	**160,432**	**331,540**	**723,858**

	Stage 1	Stage 2	Stage 3	Total
31-Dec-19	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 31 December 2018	351,201	141,941	553,179	1,046,321
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(21,212)	21,212	-	-
Transfer to Stage 3	-	-	-	-
New Loans	213,055	162,777	33,670	409,501
Recovery of Loans	(269,128)	(122,883)	-	(392,011)
Loans written off	-	-	(190,262)	(190,262)
Closing Balance - as at 31 Dec 2019	273,916	203,047	396,586	873,549

9 Loans and advances to customers (continued)

Movement in the provision for expected credit loss of loans and to customers:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
31-Dec-20	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Opening Balance - as at 1 January 2020	**591**	**3,311**	**314,057**	**317,959**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**111**	**(111)**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Charge for the Period (net)	**(408)**	**6,965**	**(2,006)**	**4,551**
Write off for the period	**-**	**-**	**(1,406)**	**(1,406)**
Closing Balance - as at 31 Dec 2020	**294**	**10,165**	**310,645**	**321,104**

	Stage 1	Stage 2	Stage 3	Total
31-Dec-19	AED'000	AED'000	AED'000	AED'000
Opening Balance - as at 1 January 2019	916	3,769	445,824	450,509
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(954)	954	-	-
Transfer to Stage 3	-	-	-	-
Charge for the Period (net)	629	(1,412)	57,054	56,271
Write off for the period	-	-	(188,821)	(188,821)
Closing Balance - as at 31 Dec 2019	591	3,311	314,057	317,959

10 Investment securities

	2020	*2019*
	AED'000	*AED'000*
Debt instruments measured at FVOCI		
Quoted investments- Foreign		
Government Development Bonds	**37,373**	37,861
Equity instruments measured at FVOCI		
Quoted investments- UAE		
Banking sector	**-**	47,829
Investment measured at amortised cost		
Quoted investments- Foreign		
Government Development Bonds	**87,568**	86,967
Quoted investments- UAE		
Government Development Bonds	**45,226**	46,243
TOTAL	**170,167**	218,900
Less: Impairment allowance	**(56)**	(102)
TOTAL FINANCIAL INVESTMENTS	**170,111**	218,798

The investment securities comprise of marketable sovereign debt securities in UAE and Oman and quoted equity shares in UAE. All investment securities are in Stage 1 (2019: Stage 1). There were no movements between stages during the year.

10 Investment securities (continued)

An analysis of the investment based on external credit ratings is as follows:

2020	**Debt Securities AED'000**	**Equities AED'000**	**Total AED'000**
Rated	**-**	**-**	**-**
Sovereign	**170,167**	**-**	**170,167**
Less: Impairment allowance	**56**	**-**	**56**
TOTAL FINANCIAL INVESTMENTS	**170,111**	**-**	**170,111**

2019	Debt Securities AED'000	Equities AED'000	Total AED'000
Rated	-	47,829	47,829
Sovereign	171,071	-	171,071
Less: Impairment allowance	102	-	102
TOTAL FINANCIAL INVESTMENTS	170,969	47,829	218,798

Movement in the provision for impairment of investment securities (FVOCI and Amortised Cost):

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
Balance as at 1 January 2020	**102**	**-**	**-**	**102**
Charge to income statement	**(46)**	**-**	**-**	**(46)**
As at 31 December 2020	**56**	**-**	**-**	**56**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Balance as at 1 January 2019	36	-	-	36
Released to income statement	66	-	-	66
As at 31 December 2019	102	-	-	102

Fair value hierarchy
The table below analyses the financial instruments, measured at fair value at the end of reporting period, by level into fair value hierarchy into which the fair value measurement is categorized:

	Level-1	***Level-2***	***Level-3***	***AED'000 Total***
At 31 December 2020				
Investment measured at FVOCI	**37,373**	-	-	**37,373**
At 31 December 2019				
Investment measured at FVOCI	85,690	-	-	85,690

Fair value hierarchy
During the year, there were no transfer between level 1 and level 2 of fair value hierachy above and no financial instruments were classified with level 3 of fair value hierarchy at any time during the current or prior year. Further there has been no change in the valuation technique in relation to the valuation of financial instruments during the year.

Fair values
The fair value of Investment measured at amortised cost at reporting date was AED 140,043 thousand (2019: AED 133,211 thousand).

11 Property and equipment

	Leasehold improvements	*Furniture and equipment*	*Motor Vehicles*	*Right of use assets*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Cost					
At 1 January 2020	10,048	7,072	264	14,513	31,897
Additions	352	217	-	850	1,419
Disposals	-	(2)	-	-	(2)
Write Off	-	-	-	(980)	(980)
At 31 December 2020	**10,400**	**7,287**	**264**	**14,383**	**32,334**
Accumulated depreciation					
At 1 January 2020	4,729	5,402	264	6,182	16,577
Charge for the year	653	601	-	3,220	4,474
Disposals	-	(2)	-	-	(2)
Write Off	-	-	-	(978)	(978)
At 31 December 2020	**5,382**	**6,001**	**264**	**8,424**	**20,071**
Net book value at 31 December 2020	**5,018**	**1,286**	**-**	**5,959**	**12,263**

	Leasehold improvements and CWIP	*Furniture and equipment*	*Motor Vehicles*	*Right of use assets*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Cost					
At 1 January 2019	9,827	6,305	539	-	16,671
Impact of adopting IFRS 16	-	-	-	14,513	14,513
Additions	221	999	-	-	1,220
Disposals	-	-	(275)	-	(275)
Write Off	-	(232)	-	-	(232)
At 31 December 2019	**10,048**	**7,072**	**264**	**14,513**	**31,897**
Accumulated depreciation					
At 1 January 2019	4,241	5,135	533	-	9,909
Impact of adopting IFRS 16	-	-	-	3,439	3,439
Charge for the year	488	498	6	2,743	3,735
Disposals	-	-	(275)	-	(275)
Write Off	-	(231)	-	-	(231)
At 31 December 2019	**4,729**	**5,402**	**264**	**6,182**	**16,577**
Net book value at 31 December 2019	**5,319**	**1,670**	-	**8,331**	**15,320**

12 Other assets

	2020	2019
	AED'000	*AED'000*
Interest receivable	**1,954**	2,844
Sundry debtors and prepayments	**1,017**	24,549
	2,971	27,393

13 Deposits from customers

	2020	2019
	AED'000	*AED'000*
Current and other accounts	**187,234**	173,727
Savings accounts	**20,804**	21,870
Term deposits	**319,020**	239,602
	527,058	435,199

14 Other liabilities

	2020	2019
	AED'000	*AED'000*
Accrued interest payable	**2,409**	3,650
Staff entitlements (note 23)	**2,281**	3,631
Lease liabilities	**3,175**	5,546
Accounts payable and sundry creditors	**140**	2,837
Income tax payable (note 21)	**184**	1,653
Deferred Tax Liability	**-**	2,505
Allowance for credit losses for loan commitments and financial guarantees	**2,428**	3,415
	10,617	23,237

14 Other liabilities (continued)

Movement in the allowance for credit losses - unfunded loans, advances and financing activities for customers:

	2020	*2019*
	AED'000	*AED'000*
Balance at beginning of year	**3,415**	1,791
(Released) / provided during the year	**(987)**	1,624
Balance at year end	**2,428**	3,415

15 Branch capital

The Branches' capital represents amount transferred from the Head Office in accordance with Article 80 of Union Law No. 10 of 1980. The Branches' capital meets the minimum requirement of UAE Central Bank for branches of foreign banks operating in the UAE.

During prior year, the Central Bank of Oman approved additional assignment of capital of Oman Riyal of 30 million (AED 286 million) for UAE Branches, in phases.

During the year 2019, the share capital of the Branches increased by AED 65,000 thousand to AED 390,375 thousand (2018: AED 325,375 thousand) pursuant to the decision of the Board of Directors Meeting held on 14 December 2015. The additional increase in the share capital was fully paid, through a cash injection from the Head office National Bank of Oman SAOG (Note 25).

Legal reserves
In accordance with UAE Federal Law No. 2 of 2015, as amended, an annual transfer of 10% of the net profit for the year is to be made to a non-distributable Legal reserve until the reserve equals half of the Branches' capital. There were no transfers made during the year (2019: AED Nil) as the Branches incurred losses for the years 2020, 2019, 2018 and 2016.

16 Placement from Head Office

This represents additional funding provided by the Head Office in order to meet the CBUAE requirements regarding the capital adequacy ratio. The placement is a non-interest bearing AED deposit. The placement will be progressively reduced in a manner that will not compromise CBUAE's capital adequacy ratio requirements. In accordance with CBUAE circular number 372, the Branches include this placement as part of their capital for the purpose of calculating capital adequacy ratio (note 4 .6) in its CBUAE quarterly returns.

17 Net interest income

	2020	*2019*
	AED'000	*AED'000*
Interest income:		
Loans and advances	**17,344**	23,460
Placements with banks	**1,250**	3,826
Income from investment securities	**9,130**	5,572
	27,724	32,858
Interest expenses:		
Term deposits	**(5,925)**	(6,344)
Saving accounts	**(48)**	(48)
Call deposits	**(267)**	(76)
Borrowings from banks and overseas branches	**(3,120)**	(6,230)
	(9,360)	(12,698)
	18,364	20,160

18 Net fees and commission income

	2020	2019
	AED'000	*AED'000*
Fees and commission income:		
Letters of credit	**744**	572
Letters of guarantee	**811**	1,727
Commission on acceptances	**258**	343
Retail and corporate lending fees	**2,280**	2,996
Others	**365**	2,574
	4,458	8,212
Less: *Fees and commission expenses:*		
Service charges	**(50)**	(65)
	4,408	8,147

19 Other operating income

	2020	2019
	AED'000	*AED'000*
Telex charges	**897**	906
Service charges	**105**	114
Miscellaneous income	**363**	477
	1,365	1,497

20 Other operating expenses

	2020	2019
	AED'000	*AED'000*
Rent, rates and taxes	**2,127**	4,078
Repair expenses	**944**	687
Management fee (note 25)	**-**	-
Others	**3,684**	4,255
	6,755	9,020

21 Income tax

	2020	2019
	AED'000	*AED'000*
Balance as at 1 January	**1,653**	5,561
Charge for the year (including prior years adjustments)	**-**	207
Additional Tax on year 2018 assessment	**-**	509
Paid during the year	**(1,469)**	(4,624)
Balance at 31 December	**184**	1,653
Charge for the year, net		
Current tax	-	207
Additional Tax payment on 2018 assessment	-	509
Deferred tax assets (note 22)	-	10,708
Charge for the year, net	-	11,424

22 Deferred tax asset

	2020 AED'000	2019 AED'000
Deferred tax asset are attributable to the following:		
Allowance for impairment (including prior years adjustments)	**63,559**	63,559
Tax Losses	**4,220**	4,220
	67,779	67,779
Movement in temporary difference during the year is as under:		
Opening deferred tax asset	**67,779**	78,487
Created during the year - Business Loss	-	4,220
Reversal (net) during the year – impairment allowance	-	(14,928)
Closing deferred tax asset	**67,779**	67,779

The Branches are required to pay tax at the rate of 20% of taxable profits (2019: 20%). The taxable income for the year is calculated after making certain adjustments to the net profit before tax for the year and is based on management's best estimate.

Set out below is reconciliation between income tax calculated on accounting profits with income tax expense for the year:

	2020 AED'000	2019 AED'000
Loss before tax as per statement of comprehensive income	**(6,096)**	(41,687)
Taxable (loss)/profit not subject to DTA	**(4,242)**	7,342
Taxable profit/(loss) subject to DTA	**(1,854)**	(49,029)
Tax effect at applicable Tax rate	**(371)**	(9,806)
Tax effect on disallowed expense	**1,281**	10,943
Tax effect on allowed expense	**(238)**	(25,674)
Tax effect on allowed income	**(1,601)**	(197)
Total Tax effect	**(929)**	(24,734)
DTA not created	**929**	20,514
Net DTA created during the year	-	(4,220)
DTA de-recognised during the year	-	14,928
Charged for the year on account of DTA (A)	-	10,708
Current Tax provision at applicable rate	-	1,468
Current Tax adjustment related to previous year	-	(752)
Charge for the year (B)	-	716
Total Charge for the year, net (A + B)	-	11,424

23 Staff's other entitlements

	2020	*2019*
	AED'000	*AED'000*
Employees' end-of-service benefits	**2,121**	3,291
Others	**160**	340
	2,281	3,631

The Branches provide for employees' end-of-service benefits in accordance with the employees' contracts of employment and the applicable requirements of the UAE labor laws. The movements in the employees' end- of-service benefits liability are as follows:

	2020	*2019*
	AED'000	*AED'000*
Balance at 1 January	**3,291**	2,907
Provided during the year	**56**	640
Paid during the year	**(1,226)**	(256)
Balance at 31 December	**2,121**	3,291

24 Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash and balance with CB UAE	**97,850**	134,781
Due from banks, Head Office and overseas branches maturing within three months	**89,094**	13,223
Deposits from other banks maturing within three months	**(79,584)**	(66,337)
Statutory deposit with CB UAE	**(14,509)**	(26,689)
	92,851	54,978

25 Related party transactions

The aggregate balances with related parties as of the statement of financial position date are as follows:

	2020 AED'000	2019 AED'000
Placement from Head Office (note 16)	**(27,300)**	(27,300)
Due from Head Office and overseas branches	**27,488**	2,536
Due to Head Office and overseas branches (note 26)	**(6,854)**	(246,314)

Transactions with related parties

The following amounts represent transactions with the Head Office and other branches which were customers of the Branches during the year. The terms of these transactions are approved by the Branches' management.

	2020 AED'000	2019 AED'000
Interest expense on deposits	**(1,667)**	(5,298)
Management fees charged by Head Office (note 20)	**-**	-
Interest income on placements	**26**	596

ECL on related party balances is not significant.

Compensation of key management personnel	2020 AED'000	2019 AED'000
Salaries and other short term benefits	**1,443**	1,764
End-of-service benefits	**62**	89

26 Due to Banks, Head Office and overseas branches

	2020	*2019*
	AED'000	*AED'000*
Borrowing from banks	**72,730**	55,095
Balances with Head Office and branches	**6,854**	246,314
	79,584	301,409

27 Commitments and contingent liabilities

Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned are as follows:

	2020	*2019*
	AED'000	*AED'000*
Letters of credit	**15,647**	15,377
Letters of guarantee	**142,475**	150,939
	158,122	166,316

Off balance sheet exposures stage-wise analysis

The following table contains an analysis of the credit risk of relevant off balance sheet exposures and the related ECL. The gross carrying amount of off balance sheet exposures below represents the Group's maximum exposure to credit risk on these assets:

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to AED 2.4 million, (2019: AED 3.4 million) is classified under other liabilities.

28 Customers' indebtedness for/liabilities under acceptances

Customers' indebtedness for acceptances represents the accepted documented liability amount which is recoverable from the respective customers of the Branches at the reporting date. Liabilities under acceptances represents bills of exchange, letters of credit etc where the Branches have accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Branches do not have a legal right of set-off.

29 Comparative information

Certain comparative figures have been reclassified, wherever necessary, to confirm to the presentation adopted in these financial statements.

30 Legal proceedings

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Branches' has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Branches' makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Branches is expected to arise from legal claims as at 31 December 2019 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

31 Social contributions

The Branches have not made any social contributions (including donations and charity) during the year (2019: AED nil).