Credit Agricole Corporate and Investment Bank
UAE branches

Financial statements
for the year ended 31 December 2020

Credit Agricole Corporate and Investment Bank - UAE branches

Financial statements for the year ended 31 December 2020

Building a better working world

Ernst & Young Middle East (Dubai Branch)
P.O. Box 9267
Ground Floor, ICD Brookfield Place
Al Mustaqbal Street
Dubai International Financial Centre
Dubai
United Arab Emirates

Tel: +971 4 701 0100
Fax: +971 4 332 4004
dubai@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK - UAE BRANCHES

Opinion

We have audited the financial statements of Credit Agricole Corporate and Investment Bank – UAE Branches (the "Branches"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in capital and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branches as at 31 December 2020 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK - UAE BRANCHES (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK - UAE BRANCHES (continued)

Report on other legal and regulatory requirements

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

For Ernst & Young

Signed by:
Ashraf Abu Sharkh
Partner
Registration No. 690

31 March 2021

Dubai, United Arab Emirates

Credit Agricole Corporate and Investment Bank - UAE branches

Statement of financial position

	Notes	2020 AED'000	2019 AED'000
		As at 31 December	
ASSETS			
Cash and balances with the UAE Central Bank	5	542,841	444,483
Due from other banks	6	76,008	96,418
Due from Head Office and branches abroad	7	21,358	24,175
Loans and advances	8	266	17,020
Other assets	9	10,519	18,917
Furniture and equipment (including right-of-use assets)	10	1,658	1,555
Total assets		652,650	602,568
LIABILITIES AND EQUITY			
LIABILITIES			
Due to other banks	11	5,654	1,905
Due to Head Office and branches abroad	12	179,040	128,248
Due to customers	13	77,682	79,521
Other liabilities	14	14,680	17,550
Total liabilities		277,056	227,224
EQUITY			
Allocated capital	16 (a)	316,403	316,403
Regulatory credit risk reserve	16 (b)	15,597	15,597
Legal reserve	17	31,124	31,099
Accumulated profits		12,470	12,245
Total equity		375,594	375,344
Total liabilities and equity		652,650	602,568

These financial statements were approved on 31 March 2021 and signed by:

Ani Mathews
Chief Financial Officer

Francis Moracchini
Chief Operating Officer

Credit Agricole Corporate and Investment Bank - UAE branches

Statement of comprehensive income

	Notes	Year ended 31 December 2020 AED'000	2019 AED'000
Interest income	20	5,240	12,798
Interest expense	21	(563)	(1,174)
Net interest income		4,677	11,624
Net fees and commission income	22	5,168	5,501
Net foreign exchange income		850	940
Other income		10	56
Operating income		10,705	18,121
Operating expenses	23	(9,364)	(9,405)
Net (reversal)/impairment reversal on credit exposure		(12)	17
Income for the year before taxation		1,329	8,733
Taxation	25	(1,079)	(2,672)
Income for the year after taxation		250	6,061
Other comprehensive income		-	-
Total comprehensive income for the year		250	6,061

Credit Agricole Corporate and Investment Bank - UAE branches

Statement of changes in capital and reserves

	Allocated capital AED'000	Regulatory credit risk reserve AED'000	Legal reserve AED'000	Accumulated profits AED'000	Total AED'000
At 1 January 2019	316,403	15,597	30,493	6,790	369,283
Total comprehensive income for the year	-	-	-	6,061	6,061
Transfer to legal reserve	-	-	606	(606)	-
At 31 December 2019	316,403	15,597	31,099	12,245	375,344
Total comprehensive income for the year	-	-	-	250	250
Transfer to legal reserve	-	-	25	(25)	-
At 31 December 2020	**316,403**	**15,597**	**31,124**	**12,470**	**375,594**

Credit Agricole Corporate and Investment Bank - UAE branches

Notes to the financial statements for the year ended 31 December 2020

Statement of cash flows

	Notes	Year ended 31 December 2020 AED'000	2019 AED'000
Operating activities			
Profit for the year before taxation		1,329	8,733
Adjustments for:			
Depreciation	10	1,131	1,171
Gain on disposal of property & equipment		(10)	(56)
Effects of exchange rate changes on cash and cash equivalents		(4)	116
Provision for impairment of loans and advances	5, 8(c)	2,594	2,474
Provision for employees' end of service benefits including transfer from other branches abroad	15	309	270
Operating cash flows before payment of income tax, employees' end of service benefits and changes in assets and liabilities		5,349	12,708
Income tax paid	25	(3,091)	(3,251)
Payment of employees end of service benefits	15	-	(36)
Changes in operating assets and liabilities:			
Statutory deposit with the UAE Central Bank	5	2,267	10,052
Certificate of deposits with Central Banks maturing after three months		-	(100,000)
Due from Other Banks		30,396	(88,773)
Due from Head Office and branches abroad		-	(9,497)
Loan and advances before provision for impairment	8(a)	14,157	74,339
Other assets, net of deferred tax		8,998	(3,411)
Due to Head Office and branches abroad		-	(7,046)
Due to customers	13	(1,839)	(55,689)
Other liabilities	14	(1,767)	2,505
Net cash from operating activities		54,470	(168,099)
Investing activities			
Proceeds from sale of property and equipment		10	56
Purchase of property and equipment	10	(1,217)	(2,307)
Net cash used in investing activities		(1,207)	(2,251)
Net (decrease) increase in cash and cash equivalents		53,263	(170,350)
Cash and cash equivalents at the beginning of year		(61,164)	109,302
Effects of exchange rate changes on cash and cash equivalents		4	(116)
Cash and cash equivalents at the end of year	26	(7,897)	(61,164)

1 Incorporation and activities

Credit Agricole Corporate and Investment Bank UAE is a branch of Credit Agricole Corporate and Investment Bank incorporated in France. The ultimate parent of Credit Agricole Corporate and Investment Bank is Credit Agricole SA, also incorporated in France.

The principal activity of Credit Agricole Corporate and Investment Bank in the UAE is commercial banking which is carried out from its branches in Dubai and Abu Dhabi (the "Branches"). The Dubai branch's registered address is PO Box 9256, Dubai, United Arab Emirates. The Abu Dhabi branch's registered address is PO Box 4725, Abu Dhabi, United Arab Emirates.

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

Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Branches are in the process of reviewing the new provisions and will ensure compliance with the applicable amendments.

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

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

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

2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"), interpretations issued by International Financial Reporting Interpretation Committee (IFRIC) and applicable requirements of the law of United Arab Emirates. The financial statements are prepared under the historical cost convention except for derivative financial instruments which have been measured at fair value.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Branches' accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The COVID-19 pandemic has resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE have announced measures to provide both financial and nonfinancial assistance to the affected entities. The pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities with details covered in note 3.2.8 of these financial statements

2.2 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of the amendments to the existing standards relevant to the Branches, effective as of 1 January 2020. The nature and the impact of each amendment is described below:

Amendments to IAS 1 and IAS 8: Definition of Material (effective date: 1 January 2020)
In October 2019, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material did not have a significant impact on the Branches financial statements.

IBOR reform Phase 1 disclosure: (effective date: 1 January 2020)
Interest Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7 include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate (an "RFR"). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

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

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

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies

Financial instruments

IFRS 9: Financial Instruments

Initial measurement and recognition of financial assets and financial liabilities
A financial asset or a financial liability is recognised when the Branches becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date the Branches receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement or in other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Branches recognise balances due to customers when funds are transferred to the Branches.

All financial assets or financial liabilities are initially measured at fair value. Transaction costs are added to the cost of all financial instruments. When the fair value of financial instruments at initial recognition differs from the transaction price, the Branches account for the Day 1 profit or loss, as described below.

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Branches recognise 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.

Classification and measurement of financial assets and financial liabilities
The Branches determine classification and measurement category of financial assets, except derivatives, based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The Branches classify their financial assets based on the business model for managing the assets and the asset's contractual terms, measured at Amortised cost, as explained below.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

Due from banks, loans and advances to customers, and cash and balances with the UAE Central Bank
The Branches only measure due from banks, loans and advances to customers and cash and balances with the UAE Central Bank 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.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Business model assessment
The Branches determine their business model at the level that best reflects how they manage financial assets to achieve their business objective. The Branches' business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Branches' assessment.

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

The SPPI test
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Branches assess whether the financial instruments' cash flows met the Solely Payments of Principal and Interest test (the 'SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI assessment, the Branches apply judgement and consider relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

The Branches classify financial assets upon initial recognition of IFRS 9 into following categories:

- Amortised cost (AC)
- Fair Value Through Profit and Loss (FVTPL)
- Fair Value Through Other Comprehensive Income (FVOCI)

Financial assets classified at AC are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the income statement. Any gain or loss on derecognition is recognised in the income statement. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "interest income" in the income statement. The losses arising from impairment are recognised in the income statement under "net provision on credit facilities".

The Branches classify cash and balances with central bank, due from banks and loans and advances as AC.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Fair Value Through Profit and Loss (FVTPL)
The Branches classify financial assets as FVTPL when they have been purchased primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit.

In addition to the above, 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.

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the income statement. Interest income and dividends are recognised in the income statement according to the terms of the contract, or when the right to payment has been established.

The Branches measure derivatives as at FVTPL and the positive and negative fair value of these derivatives are included in other assets and other liabilities, respectively.

Reclassifications
The Branches do not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Branches acquire, dispose of, or terminate a business line. Financial liabilities are never reclassified.

Derecognition of financial assets and financial liabilities

Derecognition due to substantial modification of terms and conditions
If the terms of a financial asset are modified, the Branches evaluate whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

Derecognition other than for substantial modification
A financial asset (in whole or in part) is derecognised either when:

- the contractual rights to receive the cash flows from the asset have expired; or
- the Branches retain the right to receive cash flows from the assets but have assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- the Branches have transferred their rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Branches have transferred their right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branches’ continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branches would be required to repay.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Derecognition other than for substantial modification (continued)
When the Branches have neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Branches continuing involvement, in which case, the Branches also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branches have retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Branches could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Branches would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedging

Derivative financial instruments
Derivatives include interest rate swaps. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position .

Financial guarantees, letters of credit and undrawn loan commitments
In the ordinary course of business, the Branches give financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, in other liabilities. 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., and - under IFRS 9 - an ECL provision as set out in notes 5,6,7,8 and 14. The premium received is recognised in the income statement in net fees and commission income on a straight-line basis over the life of the guarantee in line with IFRS 15.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Branches are required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, 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 in the statement of financial position.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Impairment of financial assets
The Branches recognise expected credit losses (ECL) for loans and advances and due from banks.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Branches' policies for determining if there has been a significant increase in credit risk are set out in (Note 3.2.1).

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

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

The 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.

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

- Stage 1: When loans are first recognized, the Branches recognize an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Branches record an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3: For, loans considered credit-impaired, the Branches record an allowance for the LTECL
- Purchased or originated credit impaired (POCI): POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Branches have no reasonable expectations of receiving either the entire outstanding amount or a proportion there of, the gross carrying amount and financial asset are reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs
The Branches calculate ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

The calculation of ECLs (continued)
The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of default (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.
- Exposure at default (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 interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- Loss given default (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 lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Undrawn loan commitments
When estimating life time ECL for undrawn loan commitments, the Branches estimate the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

Revolving facilities
For revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within other liabilities.

Guarantees
The Branches liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Branches estimate ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the scenarios. The ECLs related to financial guarantee contracts are calculated and presented together with the loan.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Regulatory guidelines
The Branches have considered the following regulatory guidance of the regulator in arriving at ECL impairment:

- Probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.
- Requirement of 7 years data to be included in the IFRS 9 models for the purpose of assessment of the ECL, where relevant and available.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Forward looking information
The Branches incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Macro-economic factors are considered for this purpose by applying forward looking information.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Scenarios
Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts.

The most significant period-end assumptions used for ECL estimate as at 31 December 2020 is GDP. The Branches have considered the scenarios – base case, upside and downside for all portfolios keeping in view principal macroeconomic variable (GDP).

Sensitivity analysis
The Branches have performed sensitivity analyses by assessing the impact on the ECL if the principal macroeconomic variable (GDP) was to change by the base case, upside and downside scenarios and they do not expect a significant sensitivity impact on an overall basis.

Collateral valuation
To mitigate its credit risks on financial assets, the Branches seek to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Branches' statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Branches use active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

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

Write-offs
Financial assets are written off either partially or in their entirety only when the Branches have no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Renegotiated loans
In the event of a default, the Branches seek to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Collateral repossessed
The Branches' policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. This, however, is subject to the regulatory requirements as per the Central Bank of the UAE. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Banches' policy.

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

2.4 Due from banks, Head Office and branches abroad

Amounts due from banks are initially recognised at fair value including associated transaction costs, if any. They are subsequently measured at amortised cost less any amounts written off and provision for impairment, if any.

2.5 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand, money in current accounts and placements with original maturity of less than three months excluding the statutory deposit required to be maintained with the UAE Central Bank.

2.6 Derivative financial instruments

Derivatives generally include interest rate swaps, forward foreign exchange contracts and options. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position.

2.7 Due to banks and customers

Due to banks and customers are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost using the effective interest method.

2 Summary of significant accounting policies (continued)

2.8 Furniture. equipment and right-of-use assets

Furniture, equipment are stated at cost less accumulated depreciation and impairment, if any. Depreciation is calculated on a straight line method to write down the cost of assets to their estimated residual values over their expected useful lives as follows: Right-of-use assets are depreciated on a straight-line basis over the lease term.

	Years
Furniture, fixtures and fittings	2 - 7
Vehicles and data processing and other equipment	3 - 4
Leasehold improvements	1 - 2

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

Gains and losses on disposal of furniture and equipment are determined by reference to their carrying amount and are taken into account in determining operating income. Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

2.9 Provision for employees' end of service benefits

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

In accordance with IAS 19, the Branches provide end of service benefits to its other employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour and National Pension and Social Security Laws.

2.10 Provisions

Provisions are recognised when the Branches have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.11 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Branches are measured in United Arab Emirates Dirhams ("AED") being the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are prepared in AED, which is the Branches' functional and presentation currency.

2 Summary of significant accounting policies (continued)

2.11 Foreign currency translation (continued)

(b) Transactions and balances

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

2.12 Interest income and expense

Interest income and expenses are recognised using effective interest method.

When a financial asset becomes credit-impaired and is therefore regarded as ‘Stage 3’, the Branches calculate interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Branches revert to calculating interest income on a gross basis. The previously unrecognised interest income of a cured but previously impaired financial asset will be recognised as a reversal of impairment loss. Interest income and expenses for all interest-bearing financial instruments are recognised within the statement of comprehensive income.

2.13 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commission income on issue of letters of credit and guarantees is recognised over the term of the instrument. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Other fees and commission income earned and expense incurred from the provision of services are recognised as revenue and expense, as and when the services are rendered.

2.14 Taxation

(a) Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Provision for taxation is made in respect of the Branches operations in the Emirates of Abu Dhabi and Dubai whereby tax is payable at the rate of 20% of the adjusted net taxable profit generated during the year in each of the Emirates, in accordance with the relevant legislation of each of the Emirates.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined at the rate of 20% on temporary differences in accordance with the relevant legislation of each of the Emirates that have been enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset / liability is realised.

2 Summary of significant accounting policies (continued)

2.14 Taxation (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

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

2.15 Recharge to other branches

Common expenses allocated by Head Office, senior management costs and Global Corporate Banking Operations (GOP) costs incurred by the Dubai Branch are recharged to the DIFC branch on the basis of equitable allocation of cost between the branches. The allocation is based on the proportion of average assets of the respective branches. Recharge to other branches are accrued on a monthly basis and cash settled.

2.16 Fair value measurement

For those assets and liabilities carried at fair value, the Branches measure fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement of financial instruments is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Branches. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Fair values for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm’s length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants. For investments in equity instruments where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

Fair values of non-financial instruments are measured based on valuation provided by independent valuators.

2 Summary of significant accounting policies (continued)

2.16 Fair value measurement (continued)

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

Fair value hierarchy
The Branches measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- Level 2: Valuation techniques based on observable input, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

2.17 Contingencies

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

2.18 Leases

The Branches have a lease contract for their premises. Before the adoption of IFRS 16, the Branches classified its lease at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and other liabilities, respectively.

Following the adoption of IFRS 16 during the prior year ended 31 December 2019, the Branches applied a single recognition and measurement approach for its leases that it is the lessee, except for short-term leases and leases of low-value assets. The Branches recognized lease liability to make lease payments and right-of-use assets representing the right to use the underlying assets.

2 Summary of significant accounting policies (continued)

2.18 Leases (continued)

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

Right-of-use assets
The Branches recognise right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Branches are reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The estimated useful life of right-of-use assets is consistent with leasehold improvements as discussed in note 10.

Lease liabilities
At the commencement date of the lease, the Branches recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments may also include the exercise price of a purchase option reasonably certain to be exercised by the Branches and payments of penalties for terminating a lease, if the lease term reflects the Branches exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

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

Short-term leases and leases of low-value assets
The Branches apply the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Branches have the option, under some of its leases to lease the assets for an additional term. The Branches apply judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Branches reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

2 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

Amendments to IFRS 16 - Covid-19-Related Rent Concessions (effective for reporting periods on or after 1 June 2020)
In May 2020, the IASB proposed an amendment to IFRS 16 that allows for a practical expedient to not treat a change in lease payments as lease modification. The amendment applies to lessee accounting only. As a lessee, the Branches have not obtained any lease concessions due to Covid-19. As such, this amendment will not have impact on the financial statements of the Branches.

3 Financial risk management

3.1 Risk management review

The Branches' activities expose them to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business. The Branches' aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Branches' financial performance.

The Branches' risk management policies approved by the Head Office are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Branches regularly review its risk management policies and systems to reflect changes in markets, products and emerging best practices.

3.2 Credit risk

Credit risk is defined as the risk that the Branches' customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Branches to suffer a financial loss. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Branches' portfolio, could result in losses that are different from those provided for at the statement of financial position date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, balances with banks and other receivables. There is also credit risk in off-balance sheet financial arrangements such as credit commitments.

Credit risk, both on and off balance sheet, is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counterparty is evaluated and appropriate credit limits are established. Established limits and actual levels of exposure are regularly reviewed and updated by management. Credit review procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review.

3.2.1 Credit risk measurement

Definition of default
The Branches consider a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Branches in full, without recourse to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Branches; or borrower is considered as credit impaired based on qualitative assessment for internal credit risk management purposes

Any credit impaired or stressed facility that has been restructured would also be considered as in default. The restructured facilities would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Branches for consideration for moving the facility to stage 2/stage 1.

The Branches consider a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees borrower is deceased

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk measurement (continued)

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 12months ECL or life time ECL, the Branches assess whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criterias do not indicate a significant increase in credit risk.

Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade and by 1 grade for those with Non-Investment Grade.

The Branches also consider that events as mentioned below are indicators of significant increase in credit risk as opposed to a default.

- Significant deterioration of credit risk rating of the borrower with consideration to relative increase in PD.
- Accounts expired (pending renewal) for a period of 6 months or more (excluding all accounts with technical reasons).
- Contractual disputes between borrower and contracting entity, leading to detrimental impact on the borrower's cash flow.
- Management dispute or loss of key management personnel leading to detrimental impact on borrowers' repayment capacity.
- Restructured accounts where there is principal haircut, or a standstill agreement is signed or where the restructured account carries specific provision.

The Branches considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk.

PD estimation process
In managing its portfolio, the Branches utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The internal ratings are based on financial factors as well as non-financial subjective factors. The Branches also uses external ratings by recognised rating agencies for externally rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. PD estimation process requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Branches's estimate of the future asset quality. Then Through The Cycle, (TTC) PDs are generated from rating tool based on the internal/external credit ratings. The Branches convert the TTC PD to a Point In Time (PIT) PD term structures using appropriate models and techniques.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk measurement (continued)

Exposure at default
Exposure at default (EAD) represents the amount which the obligor will owe to the Branches at the time of default. The Branches consider variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off-balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, usage given default, etc.

Loss given default
Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Branches estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

Incorporation of forward-looking information
The Branches consider key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Branches employ statistical models to incorporate macro-economic factors on historical default rates. The Branches consider scenarios of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Loans and advances
The Branches measure credit risk of loans and advances to customers and to financial institutions at a counterparty level by using an internally developed rating system considering various quantitative and qualitative factors over a grade of A to F. This credit risk rating is embedded in the Branches' decision and risk management process.

Clients are segmented into two grading classes. The Branches' grading, which is shown below, reflects the grading to each class. This means that, in principle, exposures migrate between classes as the assessment of the grading changes. The grading tools are kept under review and upgraded as necessary. The Branches regularly validate the performance of the grading and their predictive power with regard to default events.

The Branches' internal ratings scale and mapping of external ratings

Branches' rating	Description of the class	External rating: Standard and Poor's equivalent
Performing and watch list	A+ to E+	AAA to B
Sub-standard, doubtful and loss	E to F	B- to D

The Branches use the external ratings where available to benchmark their internal credit risk assessment. Observed defaults per grading category vary year on year, especially over an economic cycle.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Risk limit control and mitigation policies

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

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

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

(a) Collateral

As part of the Branches' credit risk management policies and practices, it obtains security where deemed necessary for loans and advances. The principal collateral types include assignment of contract proceeds, pledge of cash deposit and bank guarantees.

In order to minimise the credit loss, the Branches obtain possible additional collateral from the counterparty as soon as impairment indicators are observed for the relevant loans and advances.

(b) Derivatives

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Branches. In the case of forward exchange contracts the Branches are exposed to the notional amount should the counterparty fail. This credit risk exposure is managed as part of the overall lending limits with customers. The Branches also maintain and manage potential exposures from market movements and enter into forward contracts with other banks, in the form of back to back contracts resulting in limited credit exposure to the Branches.

3.2.3 Expected Credit Loss

The table below shows the percentage of the Branches' on balance sheet items relating to loans and advances and the associated expected credit loss for each of the Branches' internal rating categories:

	2020		2019	
	Loans and advances (%)	**Expected credit loss** (%)	**Loans and advances** (%)	**Expected credit loss** (%)
Performing loans	0.77%	0.12%	35.03%	0.47%
Watchlist				
Loss	99.23%	100.00%	64.97%	100.00%
	100.00%		100.00%	

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

The following table represents a worst case scenario of credit risk exposure to the Branches at 31 December 2020 and 2019 without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position. For off-balance sheet assets, the exposures set out below are based on gross carrying amounts before Credit Conversion Factor ("CCF"), Credit Risk Mitigation ("CRM") and ECL.

	Maximum exposure	
	2020	**2019**
	AED '000	AED '000
Credit risk exposures relating to on balance sheet assets are as follows:		
-Cash and balances with UAE Central Bank	542,885	444,531
-Due from other banks	76,015	96,423
-Due from Head Office and branches abroad	21,360	24,176
-Loans and advances	34,660	48,817
-Other assets	228	8,163
	675,148	622,110
Credit risk exposures relating to off-balance sheet items are as follows:		
-Unutilised commitments (unconditionally cancellable)	252,657	221,861
-Guarantees, acceptances and other financial facilities	1,311,594	1,253,017
	1,564,251	1,474,878

Management is confident in its ability to continue to control and minimise the loss arising from its exposure to credit risk resulting from its loans and advances portfolio and amounts due from banks because 0.77% (2019: 35.03%) of the loans and advances are categorised in the top grade of the Branches' internal grading system.

The Branches continously review their credit policies and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports.

Due from Head Office and branches are within the group, therefore, the exposure to credit risk is considered minimal.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Loans and advances to customers and amounts due from other banks, Head Office and branches abroad

Loans and advances to customers and amounts due from other banks, Head Office and branches abroad are summarised as follows:

	2020		2019	
	Loans and advances	**Due from other banks, Head Office and branches abroad**	**Loans and advances**	**Due from other banks, Head Office and branches abroad**
	AED'000	AED'000	AED'000	AED'000
Neither past due nor impaired	266	97,375	17,101	120,599
Impaired	34,394	-	31,716	-
Gross	34,660	97,375	48,817	120,599
Less: ECL allowance	(34,394)	(9)	(31,797)	(6)
Net	266	97,366	17,020	120,593

ECL allowance for bucket 3 of AED 34,394 thousand (2019: AED 31,716 thousand). ECL allowances amounted to AED 9 thousand (2019: AED 87 thousand) for bucket 1 and 2.

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Branches. The management of the Branches seek to deal solely with reputed multinational and local customers. Consequently, the Branches have a limited clientele in their loans and advances portfolio, resulting in a concentration of credit risk with a few customers accounting for 100% (2019: 100%) of the total loans and advances outstanding at the year-end. Management believes that, having regard to the reputation of these customers, this concentration of credit risk at the year-end will not result in a loss to the Branches. Internal lending limits have been set under approved credit policy for exposures in various industries which are reviewed on quarterly basis.

Past due but not impaired
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. In 2020 and 2019 the Branches, did not have any exposure under this category.

Individually impaired
Individually impaired loans and advances at 31 December 2020 are AED 34,394 thousand (2019: AED 31,716 thousand).

Loans and advances renegotiated
Restructuring activities include extended payment arrangements and modification and deferral of payments. The majority of restructuring activity is under taken to improve cash flow and is within the terms and condition of the Branches product programme guideline. These policies are kept under continuous review. Once a loan is renegotiated, it is no longer considered past due but is treated as a new loan. No loans have been restructured during 2020.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Repossessed collateral

During the year ended 31 December 2020, the Branches have not taken possession of any collateral held as security which have been utilised in settlement of credit facilities (2019: Nil).

3.2.7 Concentration of risks of financial assets with credit risk exposure

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Concentration of credit risk by industry

The following table breaks down the Branches' main credit exposures except for derivative financial instruments which are disclosed at their notional amount, as categorised by the industry sectors of the counterparties.

On balance sheet items

	Financial institutions AED'000	Trading AED '000	Construction AED '000	Total AED '000
31 December 2020				
Due from other banks	76,015	-	-	76,015
Due from Head Office and branches abroad	21,360	-	-	21,360
Loans and advances	-	34,660	-	34,660
Other assets	228	-	-	228
Total	97,603	34,660	-	132,263
31 December 2019				
Due from other banks	96,423	-	-	96,423
Due from Head Office and branches abroad	24,176	-	-	24,176
Loans and advances	-	48,398	419	48,817
Other assets	8,109	54	-	8,163
Total	128,708	48,452	419	177,579

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Concentration of credit risk by industry (continued)

Off balance sheet items

	Financial institutions AED'000	**Trading** AED '000	**Construction** AED '000	**Manufacturing** AED '000	**Other industries** AED '000	**Total** AED '000
31 December 2020						
Unutilised commitment (Unconditionally cancellable)	-	199,102	21,148	30,541	1,866	252,657
Guarantees, acceptances and other financial facilities	1,147,198	24,420	102,596	20,881	16,499	1,311,594
Total	1,147,198	223,522	123,744	51,422	18,365	1,564,251
31 December 2019						
Unutilised commitment (Unconditionally cancellable)	-	155,957	43,654	22,250	-	221,861
Guarantees, acceptances and other financial facilities	1,105,444	16,473	100,606	30,494	-	1,253,017
Total	1,105,444	172,430	144,260	52,744	-	1,474,878

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Geographical risk concentration

The following geographical risk concentration table breaks down the Branches' credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2020 and 2019.

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

On balance sheet items

	UAE AED'000	GCC AED'000	OECD AED'000	Others AED'000	Total AED'000
31 December 2020					
Due from other banks	15,946	7,298	7,626	45,145	76,015
Due from Head Office and branches abroad	-	-	21,360	-	21,360
Loans and advances	266	34,394	-	-	34,660
Other assets	201	-	-	27	228
Total	16,413	41,692	28,986	45,172	132,263
31 December 2019					
Due from other banks	59,572	2,628	4,888	29,335	96,423
Due from Head Office and branches abroad	-	-	14,678	9,498	24,176
Loans and advances	16,681	31,716	-	420	48,817
Other assets	7,753	-	292	118	8,163
Total	84,006	34,344	19,858	39,371	177,579

Off balance sheet items

	UAE AED'000	GCC AED'000	OECD AED'000	Others AED'000	Total AED'000
31 December 2020					
Unutilised commitments (Unconditionally cancellable)	142,488	77,133	32,298	738	252,657
Guarantees, acceptances and other financial facilities	67,439	11,994	1,077,376	154,785	1,311,594
Total	209,927	89,127	1,109,674	155,523	1,564,251
31 December 2019					
Unutilised commitments (Unconditionally cancellable)	126,740	77,133	29	17,959	221,861
Guarantees, acceptances and other financial facilities	113,190	15,359	1,019,848	104,620	1,253,017
Total	239,930	92,492	1,019,877	122,579	1,474,878

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Gross credit exposures by residual contractual maturities

	On balance sheet items			Off balance sheet items	
	Loans and advances	Due from Banks and due from Head Office and other branches abroad	Total funded	Total unfunded	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2020					
Less than 3 months	34,660	53,080	87,740	769,449	857,189
3 months to 1 year	-	44,295	44,295	606,585	650,880
1 to 5 years	-	-	-	188,146	188,146
Over 5 years	-	-	-	71	71
Grand Total	**34,660**	**97,375**	**132,035**	**1,564,251**	**1,696,286**
31 December 2019					
Less than 3 months	48,817	42,077	90,894	822,011	912,905
3 months to 1 year	-	78,522	78,522	522,497	601,019
1 to 5 years	-	-	-	128,028	128,028
Over 5 years	-	-	-	2,342	2,342
Grand Total	**48,817**	**120,599**	**169,416**	**1,474,878**	**1,644,294**

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Individually impaired loans by industry
The breakdown of the gross amount of individually impaired loans and advances by industry is as follows:

	Overdue			
	Less than 90 days AED'000	**above 90 days** AED'000	**Total** AED'000	**Specific provision** AED'000
31 December 2020				
Trading	693	33,701	34,394	34,394
31 December 2019				
Trading	640	31,076	31,716	31,716

Individually impaired loans by geographic distribution

The breakdown of the gross amount of individually impaired loans and advances by geographical distribution are as follows:

	Overdue			Total	
	Less than 90 days	**above 90 days**	**Total**	**Provision**	**Impaired assets**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2020					
Saudi Arabia	693	33,701	34,394	34,394	34,394
31 December 2019					
Saudi Arabia	640	31,076	31,716	31,716	31,716

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

The Branches' internal credit rating grades for the year ended 31 December 2020:

Internal rating grade	*Internal risk rating description*	*Cash and balances with the UAE Central bank AED'000*	*Contingencies and commitments AED'000*	*Due from banks AED'000*	*Interest AED'000*	*Loans and advances AED'000*	*Due from related parties AED'000*	*Total AED'000*
A+	Exceptional	542,885	1,057,831	10,807	201	-	21,360	1,633,084
A	Excellent	-	-	-	-	-	-	-
B+	Very good	-	5,239	4,554	-	-	-	9,793
B	Good	-	15,969	23,141	-	-	-	39,110
C+	Fairly good	-	109,568	78	-	266	-	109,912
C	Acceptable	-	245,772	17,518	18	-	-	263,308
C-	Medium	-	40,403	-	-	-	-	40,403
D+	Reasonable	-	86,341	19,727	9	-	-	106,077
D	Mediocre	-	-	-	-	-	-	-
D-	Very mediocre	-	2,883	190	-	-	-	3,073
E+	Weak watch	-	-	-	-	-	-	-
E to E-	Poor/under surveillance	-	226	-	-	-	-	226
F/Z	Default	-	19	-	-	34,394	-	34,413
		542,885	1,564,251	76,015	228	34,660	21,360	2,239,399

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

31 December 2019

Internal rating grade	*Internal risk rating description*	*Cash and balances with the UAE Central bank AED'000*	*Contingencies and commitments AED'000*	*Due from banks AED'000*	*Interest AED'000*	*Loans and advances AED'000*	*Due from related parties AED'000*	*Total AED'000*
A+	Exceptional	444,531	1,010,398	226	8,057	-	24,176	1,487,388
A	Excellent	-	-	-	-	-	-	-
B+	Very good	-	5,239	4,845	-	-	-	10,084
B	Good	-	50,051	61,765	-	-	-	111,816
C+	Fairly good	-	119,871	78	-	593	-	120,542
C	Acceptable	-	191,518	4,432	56	16,089	-	212,095
C-	Medium	-	44,845	-	-	-	-	44,845
D+	Reasonable	-	27,705	22,685	42	-	-	50,432
D	Mediocre	-	24,598	2,306	8	419	-	27,331
D-	Very mediocre	-	-	86	-	-	-	86
E+	Weak watch	-	-	-	-	-	-	-
E to E-	Poor/under surveillance	-	257	-	-	-	-	257
F/Z	Default	-	396	-	-	31,716	-	32,112
		444,531	1,474,878	96,423	8,163	48,817	24,176	2,096,988

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Risk Grade

	2020		2019	
Stage 1 and 2 (A+ - E-)	**PD range**	**AED '000**	**PD range**	**AED '000**
Normal Grade (A+ - D-)	0.00012%-0.08047%	2,204,716	0.0003%-0.19%	2,064,619
Watchlist grade (E+ - E-)	0.04243%-0.77771%	226	0.2%	257
Stage 3 (Grade F/Z)				
Default grade (F/Z)	100%	34,413	100%	32,112
Total		**2,239,355**		**2,096,988**

3.2.8 Impact of COVID-19 and macroeconomic variables with respect to ECL

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

The Branches have been closely monitoring the situation and has successfully taken a number of measures ranging from reduced working hours to remote working and use of digital solutions to ensure continuity of customer services and precautionary measures to ensure health and safety of all stakeholders. The Branches have been proactively managing its liquidity and further strengthened its position to navigate through these uncertain environment with confidence. As at 31 December 2020, the Branches' advances to deposits ratio stood at 15.27%, (2019: 26.46%)

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

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.8 Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

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

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

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

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

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

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

3 Financial risk management (continued)

3.3 Market risk

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

The Asset and Liability Committee ("ALCO") at the UAE Branches in Dubai ensures that the UAE branches are organised in such a way that all centers except Capital Market are immune from market risk exposure. This is achieved through a system of internal desks and internal deals which are traded between them in order to transfer the exposure to Capital Market desks. The market risk exposure of Capital Market desks operates under a framework of methodology and market risk limits table approved by the Market Risk Committee of the Head Office. The market risk exposure is measured and monitored by MAM (Market Activity Monitoring) department of market risk which ensures that limits are not breached and informs senior management both locally and at the Head Office in case any breach of limits or unauthorized activity is identified. The indicators used for the monitoring of market risk include VAR (Value at Risk), sensitivities and maturities.

Market risk measurement techniques
The main indicator used for the monitoring of market risk exposure is VAR which is computed within a framework which has been approved by the regulator (French banking Commission) at the Head Office. This framework is based on an internal model which is used to compute a one day historical VAR at a level of 99% confidence interval with one year of historical moves. The VAR computation is supplemented by a back testing computation which ensures the robustness of the internal model and the relevance of using one year of historic data. Other indicators such as sensitivities are used as proxy to VAR which remains the official indicator.

3.3.1 Price risk

Price risk is the risk that the value of the entity's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rates or foreign currency movements. The price risk arises primarily from uncertainty about the future price of financial instruments that the entity holds. The Branches do not hold financial instruments whose value is affected by changes in market prices and, therefore the Branches are not exposed to price risk.

3.3.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency.

The Branches are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Branches' exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Branches' financial assets and financial liabilities at carrying amounts, categorised by currency.

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Currency risk (continued)

At 31 December 2020	AED AED'000	USD AED'000	EURO AED'000	Others AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank, gross	542,885	-	-	-	542,885
Due from other banks, gross	10	67,690	2,900	5,415	76,015
Due from Head Office and branches abroad, gross	-	1,285	20,075	-	21,360
Loans and advances, gross	266	34,394	-	-	34,660
Other assets	201	27	-	-	228
Total	543,362	103,396	22,975	5,415	675,148
Liabilities					
Due to other banks	5,654	-	-	-	5,654
Due to Head Office and branches abroad	131,053	47,987	-	-	179,040
Due to customers	32,735	18,782	22,739	3,426	77,682
Other liabilities	-	-	-	-	-
Total	169,442	66,769	22,739	3,426	262,376
Net balance sheet position	373,920	36,627	236	1,989	412,772

At 31 December 2019	AED AED'000	USD AED'000	EURO AED'000	Others AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank, gross	439,218	5,313	-	-	444,531
Due from other banks, gross	14	48,730	113	47,566	96,423
Due from Head Office and branches abroad, gross	-	11,142	13,034	-	24,176
Loans and advances, gross	7,587	41,230	-	-	48,817
Other assets	7,746	371	-	46	8,163
Total	454,565	106,786	13,147	47,612	622,110
Liabilities					
Due to other banks	1,905	-	-	-	1,905
Due to Head Office and branches abroad	36,185	92,063	-	-	128,248
Due to customers	43,819	20,050	12,963	2,689	79,521
Other liabilities	-	4	-	-	4
Total	81,909	112,117	12,963	2,689	209,678
Net balance sheet position	372,656	(5,331)	184	44,923	412,432

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Currency risk (continued)

The Branches have limited exposures to foreign exchange risk as most of foreign currency financial instruments are either in US Dollar or in currencies pegged to US Dollars. Forward contracts entered into by the Branches are back to back commitments to purchase and sell and the foreign exchange risk involved in these contracts is not material.

Currency risk is also assessed by measuring the impact of reasonable possible change in exchange rate. The Branches assume a fluctuation in exchange rates of +10% / -10% and estimates the following impact on the net assets and net liabilities at that date:

	2020		2019	
	AED'000	AED'000	AED'000	AED'000
	10% increase	*10% decrease*	*10% increase*	*10% decrease*
Assets	2,839	(2,839)	6,076	(6,076)
Liabilities	2,617	(2,617)	1,565	(1,565)
Net impact on financial performance	222	(222)	4,511	(4,511)
Net impact on financial position	222	(222)	4,511	(4,511)

Off-balance sheet items

	AED AED'000	**USD** AED'000	**EURO** AED'000	**Others** AED'000	**Total** AED'000
31 December 2020					
Unutilised commitments (Unconditionally cancellable)	-	252,657	-	-	252,657
Guarantees, acceptances and other financial facilities	439,130	267,869	593,283	11,312	1,311,594
Total	439,130	520,526	593,283	11,312	1,564,251

	AED AED'000	**USD** AED'000	**EURO** AED'000	**Others** AED'000	**Total** AED'000
31 December 2019					
Unutilised commitments (Unconditionally cancellable)	-	221,861	-	-	221,861
Guarantees, acceptances and other financial facilities	386,652	284,423	525,643	56,299	1,253,017
Total	386,652	506,284	525,643	56,299	1,474,878

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk

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

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

The table below summarises the Branches' exposure to interest rate risks. It includes the Branches' financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 3 months AED'000	**3 months to 1 year** AED'000	**1 year to 5 years** AED'000	**Non-interest bearing** AED'000	**Total** AED'000
At 31 December 2020					
Assets					
Cash and balances with the UAE Central Bank	150,000	250,000	-	142,885	542,885
Due from other banks	21,802	44,295	-	9,918	76,015
Due from Head Office and branches abroad	18,071	-	-	3,289	21,360
Loans and advances	34,660	-	-	-	34,660
Other assets	-	-	-	228	228
Total assets	224,533	294,295	-	156,320	675,148
Liabilities					
Due to other banks	-	-	-	5,654	5,654
Due to Head Office and branches abroad	47,749	-	-	131,291	179,040
Due to customers	174	-	-	77,508	77,682
Other liabilities	-	-	-	-	-
Total liabilities	47,923	-	-	214,453	262,376
Interest rate sensitivity gap	176,610	294,295	-	(58,133)	412,772

Interest rate yields

The average earning on placements and balances with banks was 1.65 % (2019: 0.96 %) and on loans and advances was 2.56 % (2019: 4.35 %). The average cost of customer deposits was 0.84 % (2019: 2.04 %) and of due to banks and term borrowings was 0.64 % (2019: 1.98%).

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

	Less than 3 months AED'000	**3 months to 1 year** AED'000	**1 year to 5 years** AED'000	**Non-interest bearing** AED'000	**Total** AED'000
At 31 December 2019					
Assets					
Cash and balances with the UAE Central Bank	100,000	300,000	-	44,531	444,531
Due from other banks	12,951	76,310	-	7,162	96,423
Due from Head Office and branches abroad	19,210	2,211	-	2,755	24,176
Loans and advances	48,817	-	-	-	48,817
Other assets	-	-	-	8,163	8,163
Total assets	180,978	378,521	-	62,611	622,110
Liabilities					
Due to other banks	-	-	-	1,905	1,905
Due to Head Office and branches abroad	91,825	-	-	36,423	128,248
Due to customers	173	-	-	79,348	79,521
Other liabilities	-	-	-	4	4
Total liabilities	91,998	-	-	117,680	209,678
Interest rate sensitivity gap	88,980	378,521	-	(55,069)	412,432

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Branches assume a fluctuation in interest rates of 200 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	Interest income		**Interest expense**	
	2020	**2019**	**2020**	**2019**
	AED'000	AED'000	AED'000	AED'000
Fluctuation in interest rates by 200 bps	10,377	11,190	958	1,840

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 518,828 thousand (2019: AED 559,499 thousand) closing interest bearing assets and AED 47,923 thousand (2019: AED 91,998 thousand) closing interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.4 Liquidity risk

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

Liquidity risk management process

The Branches manage their liquidity in accordance with UAE Central Bank requirements and the Branches' internal guidelines mandated by ALCO. ALCO monitors liquidity ratios on a regular basis to maintain a wide diversification by currency, geography, product and term.

The UAE Central Bank has prescribed reserve requirements of 1% on term deposits and 14% on demand deposits. The UAE Central Bank also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months and inter-bank borrowings having a remaining term of greater than six months) should not exceed stable funds as defined by the UAE Central Bank.

To mitigate the repercussions of COVID-19 pandemic, the Central Bank has decided to reduce the percentage of cash reserve requirements on current accounts, savings accounts, call and similar accounts for all banks by half, from 14% to 7%, with effect from 7 April 2020, until further notice.

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Non-derivative and derivative cashflows

The table below presents the cash flows payable by the Branches under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual discounted cash flows.

	Up to 3 months AED'000	**3 - 6 months** AED'000	**Above 6 months** AED'000	**Total** AED'000
31 December 2020				
Due to other banks	5,654	-	-	5,654
Due to Head Office and branches abroad	179,040	-	-	179,040
Due to customers	77,682	-	-	77,682
Other Liabilities	3,856	322	10,502	14,680
Total discounted financial liabilities	266,232	322	10,502	277,056
31 December 2019				
Due to other banks	1,905	-	-	1,905
Due to Head Office and branches abroad	128,248	-	-	128,248
Due to customers	79,521	-	-	79,521
Other Liabilities	5,823	1,091	10,632	17,546
Total discounted financial liabilities	215,497	1,091	10,632	227,220

The table below analyses the Branches' derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month AED'000	**1 – 3 months** AED'000	**3 – 12 months** AED'000	**Over 1 year** AED'000	**Total** AED'000
31 December 2020					
− Outflow	409	-	-	-	409
− Inflow	409	-	-	-	409

	Up to 1 month AED'000	**1 – 3 months** AED'000	**3 – 12 months** AED'000	**Over 1 year** AED'000	**Total** AED'000
31 December 2019					
− Outflow	45,515	-	-	-	45,515
− Inflow	46,603	-	-	-	46,603

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Non-derivative and derivative cashflows (continued)

The table below summarizes the maturity profile of the Branches financial liabilities at 31 December 2020 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Branches expect that many customers will not request repayment on the earliest date and he Branches could be required to pay and the table does not reflect the expected cash flows indicated by the Branches' deposit retention history.

As at 31 December 2020

	Carrying Amount AED'000	*Gross nominal outflows AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*Over 1 year AED'000*
Financial liabilities					
Due to other banks	5,654	5,654	5,654	-	-
Due to Head Office and branches abroad	179,040	179,040	179,040	-	-
Due to customers	77,682	77,682	77,682	-	-
Other (Lease Liability)	395	395	-	395	-
	262,771	262,771	262,376	395	-
Unutilised commitments (Unconditionally cancellable)	252,657	252,657	252,657	-	-
Guarantees, acceptances and other financial facilities	1,311,594	1,311,594	516,794	606,583	188,217

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Non-derivative cashflows (continued)

As at 31 December 2019

	Carrying Amount AED'000	*Gross nominal outflows AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*Over 1 year AED'000*
Financial liabilities					
Due to other banks	1,905	1,905	1,905	-	-
Due to Head Office and branches abroad	128,252	128,252	128,252	-	-
Due to customers	79,521	79,521	79,521	-	-
Other (Lease Liability)	458	458	-	458	-
	210,136	210,136	209,678	458	-
Unutilised commitments (Unconditionally cancellable)	221,861	221,861	221,861	-	-
Guarantees, acceptances and other financial facilities	1,253,017	1,253,017	600,149	522,498	130,370

Maturity analysis of liabilities

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

As at 31 December 2020

Assets	**Within 12 months**	**After 12 months**	**Total**
Cash and balances with the UAE Central Bank	542,885	-	542,885
Due from Banks	97,375	-	97,375
Loans and advances	34,660	-	34,660
Other assets	3,162	7,357	10,519
Total	**678,082**	**7,357**	**685,439**

Liabilities	**Within 12 months**	**After 12 months**	**Total**
Due to banks	184,694	-	184,694
Due to customers	77,682	-	77,682
Current tax liabilities	1,699	-	1,699
Other liabilities	12,981	-	12,981
Total	**277,056**	**-**	**277,056**

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Non-derivative cashflows (continued)

Maturity analysis of liabilities (continued)

As at 31 December 2019

Assets	Within 12 months	After 12 months	Total
Cash and balances with the UAE Central Bank	444,531	-	444,531
Due from Banks	120,599	-	120,599
Loans and advances	48,817	-	48,817
Other assets	12,160	6,757	18,917
Total	**626,107**	**6,757**	**632,864**

Liabilities	Within 12 months	After 12 months	Total
Due to banks	130,153	-	130,153
Due to customers	79,521	-	79,521
Current tax liabilities	3,111	-	3,111
Other liabilities	12,749	1,690	14,439
Total	**225,534**	**1,690**	**227,224**

3.5 Fair value of financial assets and liabilities

The table below summarises the carrying amounts and fair values of financial instruments of the Branches:

	Carrying value		Fair value	
	2020	**2019**	**2020**	**2019**
	AED'000	AED'000	AED'000	AED'000
Financial assets				
Cash and balances with UAE Central Bank	542,841	444,483	542,841	444,483
Due from other banks	76,008	96,418	76,008	96,418
Due from Head Office and branches abroad	21,358	24,175	21,358	24,175
Loans and advances	266	17,020	266	17,020
Other assets	228	8,163	228	8,163
	640,701	590,259	640,701	590,259
Financial liabilities				
Due to other banks	5,654	1,905	5,654	1,905
Due to Head Office and branches abroad	179,040	128,248	179,040	128,248
Due to customers	77,682	79,521	77,682	79,521
Other liabilities	-	4	-	4
	262,376	209,678	262,376	209,678

3 Financial risk management (continued)

3.5 Fair value of financial assets and liabilities (continued)

(i) Due to / due from other banks, cash and balances with UAE Central bank and due from Head Office and branches abroad include inter-bank placements

These are generally short term and the carrying amount approximates their fair value.

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The carrying amount approximates the fair value of loans and advances.

(iii) Due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED '000	**Level 2** AED '000	**Level 3** AED '000
31 December 2020			
Foreign currency forwards – assets	-	-	-
Foreign currency forwards – liabilities	-	-	-
31 December 2019			
Foreign currency forwards – assets	-	(721)	-
Foreign currency forwards – liabilities	-	721	-

There have been no transfers of financial assets and financial liabilities between Level 1 and Level 2 during the years ended 31 December 2020 or 2019.

3.6 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Branch.

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 Branches' management of capital during the year.

3 Financial risk management (continued)

3.6 Capital management (continued)

3.6.1 Capital structure and capital adequacy as per Basel III

The Branches are required to report capital resources and risk-weighted assets under the Basel III Pillar 3 framework, as shown in the following table.

	Notes	Basel III 2020 AED'000	Basel III 2019 AED'000
Tier 1 capital			
Allocated capital	16a	316,403	316,403
Regulatory credit risk reserve	16b	15,597	15,597
Legal reserves		31,099	30,493
Accumulated earnings /(losses)		12,245	6,790
IFRS transitional arrangement: Partial add-back of ECL impact to CET1		12	-
		375,356	369,283
Tier 2 Capital			
General Provision		-	-
Total regulatory capital		375,356	369,283
Risk Weighted Assets			
Credit risk		499,516	486,626
Market risk		463	386
Operation risk		33,933	37,097
Total risk weighted assets		533,912	524,109
Capital adequacy ratio on Regulatory capital		70.30%	70.46%
Capital adequacy ratio on Tier 1 capital		70.30%	70.46%

Risk weighted assets relating to credit risk as at 31 December 2020 is AED 499,516 thousand (2019: AED 486,626 thousand).

3 Financial risk management (continued)

3.6 Capital management (continued)

3.6.2 Analysis of Branches' exposure based on Basel III standardised approach

			Credit Risk Mitigation (CRM)			
	On balance sheet gross outstanding AED '000	**Off balance sheet net exposure after credit conversion** AED '000	**Exposure before CRM** AED '000	**CRM** AED '000	**After CRM & CCF** AED '000	**Risk weighted Assets** AED '000
31 December 2020						
Claims on sovereigns	542,903	-	542,903	-	542,903	-
Claims on banks	97,375	1,147,198	1,244,573	238	716,401	420,377
Claims on corporates	34,660	417,053	417,319	3,637	78,281	78,281
Other assets	12,177	-	12,177	-	12,177	858
Total claims	687,115	1,564,251	2,216,972	3,875	1,349,762	499,516
Of which:						
Rated exposure	642,166	1,147,196	1,789,362			
Unrated exposure	44,949	417,055	427,610			
Total exposure	687,115	1,564,251	2,216,972			

3 Financial risk management (continued)

3.6 Capital management (continued)

3.6.2 Analysis of the Branches' exposure based on Basel III standardised approach (continued)

			Credit Risk Mitigation (CRM)			
	On balance sheet gross outstanding	**Off balance sheet net exposure after credit conversion**	**Exposure before CRM**	**CRM**	**After CRM & CCF**	**Risk weighted Assets**
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
31 December 2019						
Claims on sovereigns	444,531	5,436	449,967	-	449,967	-
Claims on banks	120,599	1,100,006	1,220,605	238	724,737	397,377
Claims on corporates	48,817	369,436	386,537	6,072	93,769	87,697
Other assets	20,014	-	20,014	-	20,014	1,552
Total claims	633,961	1,474,878	2,077,123	6,310	1,288,487	486,626
Of which:						
Rated exposure	122,821	1,076,019	1,198,840			
Unrated exposure	511,140	398,859	878,283			
Total exposure	633,961	1,474,878	2,077,123			

3 Financial risk management (continued)

3.6 Capital management (continued)

3.6.3 Capital requirement for market risk under standardised approach

	Risk Weighted Assets		Capital Charge	
	2020	**2019**	**2020**	**2019**
	AED '000	AED '000	AED '000	AED '000
Market risk				
Foreign exchange risk	463	386	49	41

Capital charge for year ended 31 December 2020 has been calculated at 10.5% for Basel III (2019: 10.5% for Basel III).

3.6.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, technology and infrastructure within the Branches, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour.

The Branches' objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branches' reputation, assets and personnel with overall cost effectiveness.

3.6.5 Capital requirement as per Basel III

	2020 Minimum requirement	**2020** Actual Ratio
Common equity tier 1 ratio	7.00%	70.30%
Tier 1 capital ratio	8.50%	70.30%
CET1 available for the buffer requirement	2.00%	59.80%
Capital adequacy ratio	10.50%	70.30%
Effective Countercyclical Buffer (CCyB)	2.50%	0.19%

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

The Central Bank of UAE issued its IFRS 9 guidance in March 2020 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE.

The guidance states that if in the first year of implementation the specific provision along with suspended interest / profit and general provisions (1.5% of Total Credit Risk Weight Asset "CRWA") as per CBUAE requirements (Circular 28/2010), is higher than the impairment allowance computed under IFRS 9, the difference individually shall be transferred to an impairment reserve as an appropriation from the retained earnings. This impairment reserve shall further be split into specific provision difference (*Impairment Reserve: Specific*) and the collective / general provision difference (*Impairment Reserve: General*). This impairment reserve shall not be available for payment of dividend.

Also, the regulation specifies that the *Impairment Reserve: General* shall be allowed to be included in regulatory capital up to a maximum of 1.25% of risk weighted assets as per Basel, where this is not already utilised.

3 Financial risk management (continued)

3.6 Capital management (continued)

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

	2020 AED 000
Impairment reserve: Specific	
Specific provisions under Circular 28/2010 of CBUAE 2	34,394
Less: Stage 3 provisions under IFRS 9	(34,394)
Specific provision transferred to the impairment reserve*	-
Total provision transferred to the impairment reserve	**-**
Impairment reserve: General	
General provisions under Circular 28/2010 of CBUAE **	7,493
Less: Stage 1 and Stage 2 provisions under IFRS 9	(237)
General provision transferred to the impairment reserve*	-

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

*** The regulatory credit risk reserve included in the statement of changes in capital and reserves has been maintained at AED 15,597K from the financial year ending December 2015. Accordingly, the reserve maintained is significantly higher than the provision required as per central bank regulation 28/2010 as at 31 December 2020.*

3.7 IBOR Reforms

Interest rate benchmark reform:

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as ‘IBOR reform’). The Branches have “limited” exposure to interbank offered rates (IBORs) on its financial instruments, as these are applied primarily on loans and advances. These will be replaced or reformed as part of this market-wide initiative. The Branches anticipate that IBOR reform will have “limited” operational, risk management and accounting impacts across all of its business lines.

The Branches do have any exposures to linked to IBOR that will remain outstanding until the IBOR ceases.

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

4 Critical accounting estimates and judgments in applying accounting policies

The Branches based their assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Branches. Such changes are reflected in the assumptions when they occur.

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

Impairment losses on loans and advances
The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Branches' ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Impairment losses on loans and advances (continued)
Elements of the ECL models that are considered accounting judgements and estimates include:

- The Branches' internal credit grading model, which assigns PDs to the individual grades
- The Branches' criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDSs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Estimating the incremental borrowing rate
The Branches cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Branches would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Branches 'would have to pay', which requires estimation when no observable rates are available when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).The Branches estimate the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (to reflect the terms and conditions of the lease).

Fair value measurement
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts.

4 Critical accounting estimates and judgments in applying accounting policies (continued)

Judgements

In the process of applying the Branches' accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Classification of financial assets

The Branches determine the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

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

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

The Branches have two lease contracts that includes extension and termination options. The Branches apply judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Branches reassess the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Going concern

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

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 tax 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.

5 Cash and balances with the UAE Central Bank

	2020 AED'000	**2019** AED'000
Cash and current account balance with the UAE Central Bank	-	37,183
Reserve Account with the UAE Central Bank	142,885	7,348
Certificates of deposit with the UAE Central Bank	400,000	400,000
Less: Allowances for impairment (ECL)	(44)	(48)
	542,841	444,483

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

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

The reserve requirement as at 31 December 2020 amounted to AED 5,081 thousand (2019: AED 7,348 thousand). In accordance with the revised regulations effective from October 2020, the end of day balance in the clearing account maintained with UAE Central Bank is swept to the Reserve account on a daily basis.

Cash and balances with the UAE Central bank maturing within 3 months' amount to AED 287,804 thousand (2019: AED 137,183 thousand).

Certificates of deposit carry interest rate from 0.12% to 0.19% per annum (2019: 2.12% to 2.40% per annum) with three months to one year original maturity.

Balances with the UAE CB are in stage 1 throughout the period year.

6 Due from other banks

Due from other banks represents current account balances held with banks within and outside UAE. Amounts due from other banks are in stage 1 throughout the year.

7 Due from Head Office and branches abroad

	2020 AED'000	2019 AED'000
Placements	18,071	11,925
Current accounts	2,004	1,109
Recharge to other branches	1,285	1,645
Bills discounted	-	9,497
Less: Allowances for impairment (ECL)	(2)	(1)
	21,358	24,175

Recharges to other branches include reallocation to the DIFC branch, of common expenses such as expenses allocated by Head Office, senior management costs and Global Corporate Banking Operations (GOP) incurred by Dubai branch. The allocation is based on the proportion of average assets by both the branches. Amounts due from Head Office and branches abroad are in stage 1 throughout the year.

8 Loans and advances

8(a) Loans and advances

	2020 AED'000	2019 AED'000
Loans and advances	34,660	48,817
Less: Allowances for impairment	(34,394)	(31,797)
	266	17,020

8(b) Analysis of loans and advances

	2020 AED'000	2019 AED'000
Overdrafts	34,660	32,727
Bills discounted	-	16,090
Total loans and advances	34,660	48,817

Movement of provision for credit losses are as follows:

	2020 AED'000	2019 AED'000
Balance at 1 January	31,797	29,343
Provided during the year	2,597	2,454
Balance at 31 December	34,394	31,797

8 Loans and advances (continued)

8(b) Analysis of loans and advances (conitnued)

Past due but not impaired
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. There were no past due but not impaired loans or advances as at 31 December 2020 (2019: NIL).

Modified and renegotiated loans
The total amount of modified or renegotiated loans as at 31 December 2020 are NIL (2019: NIL).

Ageing for stage 2 and stage 3 loans

There are no loans outstanding under stage 2. Stage 3 loans are more than 7 years old.

8(c) Impairment allowance for loans and advances

The table below shows the credit quality and the maximum exposure to credit risk based on the Branches' internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and interest in suspense.

In AED 000		*2020*		
Rating grade	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing				
Normal	266	-	-	266
Watchlist	-	-	-	-
Non-performing				
Default	-	-	34,394	34,394
Total	**266**	**-**	**34,394**	**34,660**

In AED 000		*2019*		
Rating grade	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing				
Normal	17,101	-	-	17,101
Watchlist	-	-	-	-
Non- performing				
Default	-	-	31,716	31,716
Total	17,101	-	31,716	48,817

* The internal rating grades of the Branches corresponding to the grades mentioned above are described in note 3.2.1.

8 Loans and advances (continued)

8(c) Impairment allowance for loans and advances (continued)

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

In AED 000	*Stage 1 Individual*	*Stage 2 Individual*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2020	**17,101**	**-**	**31,716**	**48,817**
New assets originated	6	-	2,678	2,684
Assets derecognised or repaid (excluding write offs)	(16,841)	-	-	(16,841)
At 31 December 2020	**266**	**-**	**34,394**	**34,660**

In AED 000	*Stage 1 Individual*	*Stage 2 Individual*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2019	**93,903**	**-**	**29,253**	**123,156**
New assets originated	13,958	-	2,463	16,421
Assets derecognised or repaid (excluding write offs)	(90,760)	-	-	(90,760)
At 31 December 2019	**17,101**	**-**	**31,716**	**48,817**

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

8(d) ECL for loans and advances

In AED 000	*Stage 1 Individual*	*Stage 2 Individual*	*Stage 3*	*Total*
Impairment allowance as at 1 January 2020	**81**	**-**	**31,716**	**31,797**
Allowances for impairment made during the year	40	-	2,678	2,718
Recoveries made during the year	(121)	-	-	(121)
At 31 December 2020	**-**	**-**	**34,394**	**34,394**

In AED 000	*Individual*	*Individual*	*Stage 3*	*Total*
Impairment allowance as at 1 January 2019	**90**	**-**	**29,253**	**29,343**
Allowances for impairment made during the year	209	-	2,463	2,672
Recoveries made during the year	(218)	-	-	(218)
At 31 December 2019	**81**	**-**	**31,716**	**31,797**

9 Other assets

	2020 AED'000	2019 AED'000
Interest receivable	228	8,163
Prepayments and others	2,934	2,919
Fair value of foreign currency forwards (Note 19)	-	721
Deferred tax asset (Note 25)	7,357	6,757
Others	-	357
	10,519	18,917

10 Furniture and equipment

	Furniture, fixtures and fittings AED'000	Data processing and other equipment AED'000	Vehicles AED'000	Total AED'000
Cost				
At 1 January 2019	2,173	1,954	710	4,837
Additions	265	225	213	703
Disposal/write off	-	-	(246)	(246)
At 31 December 2019	2,438	2,179	677	5,294
Additions	30	175	-	205
Disposal/write off	(40)	-	-	(40)
At 31 December 2020	2,428	2,354	677	5,459
IFRS 16 leases				
Opening	-	1,297	-	1,297
Disposals	-	(1,297)	-	(1,297)
Additions	-	1,012	-	1,012
At 31 December 2020	-	1,012	-	1,012
Accumulated depreciation				
At 1 January 2019	2,089	1,602	603	4,294
Charge for the year	62	138	116	316
Disposal/write off	-	-	(246)	(246)
At 31 December 2019	2,151	1,740	473	4,364
Charge for the year	85	147	53	285
Disposal/write off	(40)	-	-	(40)
At 31 December 2020	2,196	1,887	526	4,609
IFRS 16 leases				
Opening	-	673	-	673
Charge for the year	-	846	-	846
Disposals	-	(1,315)	-	(1,315)
	-	204	-	204
Net book value				
At 31 December 2020	232	1,275	151	1,658
At 31 December 2019	287	1,064	204	1,555

10 Furniture and equipment (continued)

Set out below are carrying amounts of lease liabilities (included under other liabilities) and the movements during the period:

	2020 AED'000	**2019** AED'000
At January 1	458	896
Additions	1,012	402
Accretion of interest	4	-
Payments	(1,079)	(840)
	395	458

11 Due to other banks

	2020 AED'000	**2019** AED'000
Current accounts	5,654	1,905

12 Due to Head Office and branches abroad

	2020 AED'000	**2019** AED'000
Term deposits	47,987	92,063
Current accounts	131,053	36,185
	179,040	128,248

13 Due to customers

	2020 AED'000	**2019** AED'000
Term deposits	6,177	6,395
Current accounts	71,505	73,126
	77,682	79,521

Ten customers represent 91% (2019: 76%) of the deposits outstanding at year end.

14 Other liabilities

	2020 AED'000	2019 AED'000
Interest payable	-	4
Provision for employees' end of service benefits (Note 15)	2,994	2,685
Provision for other employees' benefits	2,384	1,983
Provision for taxation (Note 25)	1,699	3,111
Fair value of foreign currency forwards (Note 19)	-	721
Others	7,603	9,046
	14,680	17,550

15 Provision for employees' end of service benefits

Movement in provision for employees' end of service benefits is analysed below:

	2020 AED'000	2019 AED'000
At 1 January	2,685	2,451
Provision made during the year (Note 24)	309	270
Amounts paid during the year	-	(36)
At 31 December	2,994	2,685

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2020, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Average increment/promotion costs in 2020 is 3.06% (2019: 3.92%).

16 Allocated capital and Regulatory credit risk reserve

(a) Allocated capital

In accordance with the UAE Union Law No. 10 of 1980, as amended, allocated capital represents the amount of interest free capital provided by the Head Office.

(b) Regulatory credit risk reserve

The Branches have created a non-distributable reserve in lieu of the general provision required to be created in accordance with the ''Circular No 28/2010'' issued by the UAE Central Bank.

17 Legal reserve

In accordance with Article 82 of the UAE Union Law No. 10 of 1980, as amended, 10% of the net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

18 Contingencies and commitments

	2020 AED'000	**2019** AED'000
Guarantees	1,224,851	1,137,369
Acceptances	72,695	93,374
Letters of credit	14,048	16,838
Unutilised commitments (unconditionally cancellable)	252,657	221,861
Other Commitments	-	5,436
	1,564,251	1,474,878

Guarantees, which represent irrevocable assurances that the Branches will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the Branches on behalf of a customer authorising a third party to draw drafts on the Branches, up to a stipulated amount, under specific terms and conditions. Some of these letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have less risk.

Cash margin requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Branches do not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Branches are potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

While there is some risk associated with the remainder of commitments, the risk is viewed as modest since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid when due. The Branches monitor the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Guarantees and acceptances include AED 942 million (2019: AED 945 million) incurred on behalf of other branches of the Head Office.

19 Forward foreign exchange contracts

Forward foreign exchange contracts (FECs) comprise commitments to purchase and sale of foreign and domestic currencies on behalf of customers and in respect of the Branches' propriety activities and undelivered spot transactions.

The Branches have entered into the following forward exchange transactions:

	Assets AED'000	Liabilities AED' 000	Contract Commitment AED'000
31 December 2020	-	-	409
31 December 2019	721	721	46,603

20 Interest income

	2020 AED'000	2019 AED'000
Interest income on :		
- balances with Head Office and branches abroad (Note 27)	201	169
- loans and advances	3,170	4,768
- other bank balances	4,547	10,324
- Interest suspension on loans and advances	(2,678)	(2,463)
	5,240	12,798

21 Interest expense

	2020 AED'000	2019 AED'000
Interest expense on :		
- balances due to Head Office and branches abroad (Note 27)	444	1,026
- due to customers	1	22
- other bank deposits	118	126
	563	1,174

22 Net fees and commission income

	2020 AED'000	2019 AED'000
Fees and commission income	5,218	5,557
Fees and commission expense	(50)	(56)
	5,168	5,501

23 Operating expenses

	2020 AED'000	2019 AED'000
Staff costs (Note 24)	12,624	11,024
Head Office costs (Note 27)	8,079	8,082
Others – Head office & Branches (Note 27)	1,057	1,077
Depreciation (Note 10)	1,131	1,171
Others	2,456	3,137
Recharge to other branches (Note 27)	(15,983)	(15,086)
	9,364	9,405

24 Staff costs

	2020 AED'000	2019 AED'000
Salaries and wages	6,978	6,652
Bonus	2,185	1,070
Employees' end of service benefits (Note 15)	309	270
Other benefits and allowances	3,152	3,032
	12,624	11,024

25 Taxation

	2020 AED'000	2019 AED'000
Current year income tax	1,679	3,162
Deferred tax	(600)	(490)
	1,079	2,672

The income tax rate applicable to the Branches' 2020 income is 20% (2019: 20%).

Reconciliation between the profit/(loss) for the year before tax as per statement of comprehensive income and tax charge for the year is as follows:

	2020 AED'000	2019 AED'000
Profit for the year before taxation	1,329	8,733
Income tax at the rate of 20%	266	1,747
Tax effect of:		
Permanent tax differences	813	925
Temporary tax differences	600	490
Current year income tax	1,679	3,162

25 Taxation (continued)

Movement in provision for taxation is analysed below:

	2020 AED'000	2019 AED'000
At 1 January	3,111	3,200
Provision made during the year including prior year additional tax	1,679	3,162
Amounts paid during the year	(3,091)	(3,251)
At 31 December	1,699	3,111

Deferred income taxes are calculated on temporary differences under the liability method using an effective tax rate of 20%. Deferred income tax assets are recognised only to the extent that realisation of the related tax benefit is probable.

The movement in the current taxation account during the year ended 31 December 2020 as presented in the financial statements is as follows:

	2020 AED'000	2019 AED'000
At 1 January	3,111	3,200
Current year charge/(credit)	1,679	3,162
Tax (paid)/repaid	(3,091)	(3,251)
At 31 December	1,699	3,111
Balance Sheet – Income tax payable	1,699	3,111
Net current tax payable (receivable)	1,699	3,111

The movement on the deferred tax asset is as follows:

	2020 AED'000	2019 AED'000
At 1 January	6,757	6,267
Provision made during the year	959	931
Amounts reversed during the year	(359)	(441)
At 31 December	7,357	6,757

26 Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash and balances with the UAE Central Bank	137,804	37,183
Due from other banks	17,633	7,645
Due from Head Office and branches abroad	21,360	14,678
Due to other banks	(5,654)	(1,905)
Due to Head Office and branches abroad	(179,040)	(118,765)
	(7,897)	(61,164)

27 Related parties

A number of transactions are entered into with Head Office and branches abroad in the normal course of business. These include loans, deposits and foreign currency transactions. In addition to balances with Head Office and branches disclosed separately, the following transactions were carried out on commercial terms and conditions duly approved by the management of the Branches.

	2020 AED'000	**2019 AED'000**
Balances as at 31 December:		
Due from Head Office and branches abroad	76,008	96,418
Due to Head Office and branches abroad	179,040	128,248

	2020 AED'000	**2019** AED'000
Transactions during the year:		
Interest income (Note 20)	201	169
Interest expense (Note 21)	(444)	(1,026)
Operating expenses - Head Office costs (Note 23)	(8,079)	(8,082)
Operating expenses – Others (Note 23)	(1,057)	(1,077)
Operating expenses – Recharge to DIFC branch (Note 23)	15,983	15,086
Remuneration to key management personnel	(5,037)	(4,564)

Movement in the gross carrying amount of related party balances (Including Recharge to Other Branches)

	Stage 1 AED 000	**Stage 2 AED 000**	**Stage 3 AED 000**	**Total AED 000**
Gross carrying amount as at 1 January 2020	24,176	-	-	24,176
New assets originated or purchased	20,250	-	-	20,250
Assets derecognised or repaid (excluding write offs)	(23,066)	-	-	(23,066)
Written off	-	-	-	-
As at 31 December 2020	**21,360**	**-**	**-**	**21,360**

	Stage 1 AED 000	*Stage 2 AED 000*	*Stage 3 AED 000*	*Total AED 000*
Gross carrying amount as at 1 January 2019	13,946	-	-	13,946
New assets originated or purchased	23,691	-	-	23,691
Assets derecognised or repaid (excluding write offs)	(13,461)	-	-	(13,461)
Written off				
As at 31 December 2019	**24,176**	**-**	**-**	**24,176**

27 Related parties (continued)

Movement in the amount of ECL is as below:

	2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
ECL allowance as at 1 January 2020	**1**	**-**	**-**	**1**
Net new assets originated	1	-	-	1
At 31 December 2020	**2**	**-**	**-**	**2**

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	-	-	-	-
Net new assets originated	**1**	-	-	**1**
At 31 December 2019	**1**	**-**	**-**	**1**

Grading of related party balances along with stages (Including Recharge to Other Branches)

	31 December 2020			
	Stage 1 AED 000	***Stage 2 AED 000***	***Stage 3 AED 000***	***Total AED 000***
Normal Grade (A+ - D-)	21,360	-	-	21,360
Watchlist grade (E+ - E-)	-	-	-	-
Default Grade (F/Z)	-	-	-	-
Total gross carrying amount	21,360	-	-	21,360
Expected credit loss	(2)	-	-	(2)
Carrying amount	21,358	-	-	21,358

	31 December 2019			
	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Normal Grade (A+ - D-)	24,176	-	-	24,176
Watchlist grade (E+ - E-)	-	-	-	-
Default Grade (F/Z)	-	-	-	-
Total gross carrying amount	24,176	-	-	24,176
Expected credit loss	(1)	-	-	(1)
Carrying amount	24,175	-	-	24,175

28. Comparative Figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these financial statements. However, there was no significant impact of these reclassifications on the previously reported results including the statement of financial position, statement of comprehensive income, statement of changes in capital and reserves statement of cash flows.