# ABU DHABI BRANCH
# FINANCIAL STATEMENTS

For the year ended 31st December 2019

FINANCIAL STATEMENTS (REISSUED)

For the year ended 31st December 2019

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# INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF GULF INTERNATIONAL BANK B.S.C.

## Report on the Audit of the Financial Statements

*Opinion*
We have audited the financial statements of Abu Dhabi Branch ("the Branch") of Gulf International Bank B.S.C. ("the Bank"), which comprise the statement of financial position as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended 31 December 2019, 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 Branch as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("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 Bank in accordance with the International Codes of Ethics for Professional Accountants (including International Independence Standards) (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Emphasis of matters*
1. We draw attention to Note 2.1 in the financial statements, which discusses that the financial statements have been revised and reissued to record certain provisions for expected credit losses, which were previously recorded in the year ended 31 December 2019, in the year ended 31 December 2020. This audit report supersedes our audit report on the previously issued financial statements dated 31 March 2020. Our opinion is not modified in respect of this matter.

2. We draw attention to note 25 to the financial statements which describes subsequent events. The Branch has a loan due from a corporate customer amounting to AED 130,498 thousand against which the Branch has recorded a provision for expected credit losses of AED 438 thousand as of 31 December 2019. Subsequent to the year end, this customer defaulted on its loan obligations and the Branch, based on their internal assessment, recognised a further provision of AED 67,965 thousand against it. Our opinion is not modified in respect of this matter.

*Responsibilities of management and the Board of Directors for the financial statements*
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Branch's financial reporting process.

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**INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF**

**GULF INTERNATIONAL BANK B.S.C.** continued

**Report on the Audit of the Financial Statements** 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 Branchs' 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 Branchs' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Branch 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 the Board of Directors 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.

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**INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF**

**GULF INTERNATIONAL BANK B.S.C.** continued

**Report on Other Legal and Regulatory Requirements**

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

(i) the Branch have maintained proper books of account;

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

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

(iv) based on the information that has been made available to us, the Branch have not purchased or invested in any shares or stocks during the year ended 31 December 2019;

(v) note 19 reflects the material related party transactions and the terms under which they were conducted; and

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

Signed by
Mohammad Mobin Khan
Partner
Ernst & Young
Registration No 532

4 March 2021
Abu Dhabi

# Statement of Financial Position (Reissued)

| | Note | 31.12.19 AED 000s | 31.12.18 AED 000s |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and other liquid assets | 4 | 221,318 | 106,181 |
| Placements | 5 | - | 55,088 |
| Loans and advances | 6 | 796,919 | 464,110 |
| Equipment | 7 | 1,183 | 1,628 |
| Due from Head Office and branches | 8 | 129,620 | 30,464 |
| Other assets | 9 | 6,865 | 3,415 |
| **Total assets** | | 1,155,905 | 660,886 |
| **LIABILITIES** | | | |
| Deposits from customers | 10 | 500,854 | 17,205 |
| Due to Head Office and branches | 11 | 39,418 | 85,378 |
| Other liabilities | 12 | 4,935 | 1,426 |
| Senior term financing | 13 | 29,994 | - |
| **Total liabilities** | | 575,201 | 104,009 |
| **HEAD OFFICE ACCOUNT** | | | |
| Capital funds | 22 | 550,000 | 550,000 |
| Other reserve | 23 | 16,357 | 6,877 |
| Retained earnings | | 14,347 | - |
| **Total Head Office account** | | 580,704 | 556,877 |
| **Total liabilities and Head Office account** | | 1,155,905 | 660,886 |

The financial statements along with the related notes from 1 to 25 have been approved by:-

Khaled Abbas
UAE Country Head
4th March 2021

The attached notes 1 to 25 form part of these financial statements.

# Statement of Comprehensive Income (Reissued)

| | Note | Year ended 31.12.19 AED 000s | Year ended 31.12.18 AED 000s |
|---|---|---|---|
| Net interest income | *14* | 30,308 | 10,188 |
| Net fee and commission income | *15* | 1,284 | 918 |
| Foreign exchange income | *16* | 627 | 427 |
| Other income | | 750 | - |
| **Total income** | | 32,969 | 11,533 |
| Staff expenses | | (7,970) | (7,698) |
| Premises expenses | | (1,770) | (1,718) |
| Other operating expenses | | (3,516) | (1,689) |
| **Total operating expenses** | | (13,256) | (11,105) |
| **Net income before provisions and tax** | | 19,713 | 428 |
| Net provision release / (charge) | | 4,114 | (16,556) |
| **Net income / (loss)** | | 23,827 | (16,128) |
| **Other comprehensive income** | | - | - |
| **Total comprehensive income / (loss)** | | 23,827 | (16,128) |

The attached notes 1 to 25 form part of these financial statements.

# Statement of Changes in Head Office Account (Reissued)

| | Capital funds AED 000s | Retained earnings AED 000s | Other reserve AED 000s | Total AED 000s |
|---|---|---|---|---|
| **At 1st January 2019** | **550,000** | **-** | **6,877** | **556,877** |
| **Total comprehensive income:-** | | | | |
| Net profit for the year | - | 23,827 | - | 23,827 |
| Total comprehensive income | - | 23,827 | - | 23,827 |
| Transfer to other reserve (note 23) | - | (9,480) | 9,480 | - |
| Total transactions with head office | - | - | - | - |
| **At 31st December 2019** | **550,000** | **14,347** | **16,357** | **580,704** |
| **At 1st January 2018** | **185,000** | **-** | **-** | **185,000** |
| Transition adjustment on adoption of IFRS 9 | - | 1,309 | - | 1,309 |
| **At 1st January 2018 - restated** | **185,000** | **1,309** | **-** | **186,309** |
| **Total comprehensive income:-** | | | | |
| Net loss for the year | - | (16,128) | - | (16,128) |
| Total comprehensive (loss) | - | (16,128) | - | (16,128) |
| Transfer to other reserve | - | (6,877) | 6,877 | - |
| **Transactions with head office:-** | | | | |
| Investment of capital funds | 365,000 | - | - | 365,000 |
| Transfer of accumulated losses to Head Office | - | 21,696 | - | 21,696 |
| Total transactions with head office | 365,000 | 21,696 | - | 386,696 |
| **At 31st December 2018** | **550,000** | **-** | **6,877** | **556,877** |

The attached notes 1 to 25 form part of these financial statements.

# Statement of Cash Flows (Reissued)

| | Note | Year ended 31.12.19 AED 000s | Year ended 31.12.18 AED 000s |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net profit / (loss) before tax | | 23,827 | (16,128) |
| Adjustments to reconcile net income to net cash inflow / (outflow) from operating activities:- | | | |
| Net provision (release) / charge | | (4,114) | 16,556 |
| Depreciation | | 975 | 508 |
| Net (increase) / decrease in statutory deposit with the central bank | | (25,089) | 2,390 |
| Net decrease in placements | | 55,088 | 124,912 |
| Net increase in loans and advances | | (14,373) | (60,813) |
| (Increase) / decrease in amounts due from Head Office and branches | | (413,478) | 27,253 |
| (Decrease) / increase in amounts due to Head Office and branches | | (45,960) | (374,811) |
| Net decrease / (increase) in other assets | | 59 | (3,332) |
| Net increase / (decrease) in deposits from customers | | 483,649 | (29,298) |
| Net cash inflow / (outflow) from operating activities | | 60,584 | (312,763) |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | | (530) | (182) |
| Cash used in investing activities | | (530) | (182) |
| FINANCING ACTIVITIES | | | |
| Senior term financing | | 29,994 | - |
| Capital funds received from Head Office | | - | 365,000 |
| Net inflow from financing activities | | 29,994 | 365,000 |
| Increase in cash and cash equivalents | | 90,048 | 52,055 |
| Cash and cash equivalents at 1st January | | 103,222 | 51,167 |
| Cash and cash equivalents at 31st December | 4 | 193,270 | 103,222 |
| Significant non-cash transactions: | | | |
| Transfer of loans from head office | | 314,322 | 419,805 |
| Transfer of accumulated losses to head office | | - | 21,696 |

The attached notes 1 to 25 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 1. Incorporation and registration

Gulf International Bank B.S.C. - Abu Dhabi Branch (the "Branch") is a branch of a Bahraini Shareholding Company, Gulf International Bank B.S.C. (the "Head Office"). The Abu Dhabi branch is registered as a wholesale bank branch with the Central Bank of the United Arab Emirates (CBUAE) under license number 13/797/2015 and commenced its operations on 28th September 2015. The registered office of the Branch is Abu Dhabi Plaza Tower, Hamdan Street, Abu Dhabi, United Arab Emirates.

The Branch is principally engaged in the provision of wholesale commercial banking services and carries out its operations in the UAE.

## 2. Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:-

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) and in conformity with applicable requirements of UAE laws. The financial statements have been prepared under the historical cost convention. The accounting policies have been consistently applied by the Branch and are consistent with those of the previous year, except for the adoption of the following

- IFRS 16 Leases;
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23;
- Amendment to IFRS 9 Financial Instruments regarding prepayment features with negative compensation
- IFRIC 23 Uncertainty over income tax treatments;
- Amendments to IAS 28 Investments in Associates and Joint Ventures regarding application of IFRS 9Financial Instruments to long-term interests in an associate or joint venture; and
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement.

The adoption of these standards has no material impact on the financial statements of the Branch.

<u>Reissued financial statements</u>

The previously issued financial statements of the Branch for the year ended 31st December 2019 dated 31st March 2020 have been withdrawn and are replaced by these financial statements. The revision was necessary to record certain provisions for expected credit losses, which were previously recorded in the year ended 31 December 2019, in the year ended 31 December 2020. As a result, certain provisions for expected credit losses have been reversed in the financial statements.

### 2.2 Foreign currencies

Items included in the financial statements of the Branch are measured based on the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in UAE Dirhams (AED), representing the Branch's functional and presentation currency. Amounts have been rounded to revert thousand except where otherwise indicated.

Foreign currency transactions are translated into AED using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to AED at the foreign exchange rate ruling at the dates. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 2. Accounting policies (continued)

### 2.3 Financial assets and liabilities

Financial assets and liabilities comprise all assets and liabilities reflected in the statement of financial position, excluding equipment, prepayments and accrued expenses. All financial assets and liabilities are classified at amortised cost.

#### a) Initial recognition and measurement

The Branch recognises financial assets and liabilities in the statement of financial position when, and only when, the Branch becomes party to the contractual provisions of the instrument.

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified at inception into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

Financial assets are initially recognised at fair value including transaction costs attributable to the financial asset, with the exception of trade receivables which are recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and liabilities classified as FVTPL are recognised on the trade date, i.e. the date on which the Branch commits to purchase or sell the financial asset or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the timeframe generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Branch's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

*Financial assets at amortised cost*
Financial assets are measured at amortised cost using the effective interest rate method if:-

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

If the first criteria is not met, the financial assets are classified and measured at fair value through other comprehensive income (FVTOCI). If both criteria are not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

2. **Accounting policies** (continued)

2.3 **Financial assets and liabilities** (continued)

a) **Initial recognition and measurement** (continued)

*Financial assets at amortised cost* (continued)
Additionally, even if a financial asset meets the amortised cost criteria, the Branch may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

*Financial assets at fair value through other comprehensive income (FVTOCI)*
At initial recognition, the Branch can make an irrevocable election to classify an equity investment that is not held for trading as FVTOCI.

For this purpose, a financial asset is deemed to be held for trading if the equity investment meets any of the following conditions:-

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

The irrevocable election is on an instrument-by-instrument basis. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

*Financial assets at fair value through the profit or loss (FVTPL)*
Financial assets not otherwise classified above are classified and measured as FVTPL.

*Financial liabilities at amortised cost*
All financial liabilities, other than those classified as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method as described in note 2.6(a).

*Financial liabilities at fair value through the profit or loss*
Financial liabilities not otherwise classified above are classified as financial liabilities at FVTPL. This classification includes derivatives that are liabilities measured at fair value.

b) **Modification of assets and liabilities**

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

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

## 2. Accounting policies (continued)

### 2.4 Impairment of financial assets

Impairment allowances for expected credit losses (ECL) are recognised for financial instruments that are not measured at FVTPL. No impairment loss is recognised on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:-

- debt investment securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and

- other financial instruments for which the credit risk has not increased significantly since their initial recognition.

The Branch classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:-

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Branch recognises an allowance based on the 12-month ECL.

- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired, the Branch recognises an allowance for the lifetime ECL.

- Stage 3: for credit-impaired financial instruments, the Branch recognises the lifetime ECL.

12-month ECL (stage 1) is the portion of ECL that results from probable default events on a financial instrument within 12 months after the reporting date.

Lifetime ECL (stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Branch and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

For stage 3 financial instruments, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

Provisions for credit-impairment are recognised in the statement of income and are reflected in an allowance account against loans and advances, investment securities, and placements.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in other income.

Financial assets that are measured at amortised cost are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers, or economic conditions that correlate with defaults.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 2. Accounting policies (continued)

### 2.4 Impairment of financial assets (continued)

Financial assets which have been renegotiated or modified are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to on-going review to determine whether they remain impaired or should be considered past due. All renegotiated or modified facilities are classified as stage 2 or stage 3 for a minimum period of 12 months from the date of renegotiation. The ECL on renegotiated financial instruments is measured based on whether the terms of renegotiation resulted in the derecognition of an existing asset.

### 2.5 Offsetting financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.6 Revenue recognition

#### a) Interest income and interest expense

Interest income and interest expense for all interest-bearing financial assets and liabilities except those classified as FVTPL are recognised using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial asset or liability but excluding future credit losses. Fees, including loan origination fees and early redemption fees, are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

Interest income is suspended when either interest or principal on a credit facility is overdue by more than 90 days whereupon all unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities are restored to accrual status only after all delinquent interest and principal payments have been brought current and future payments are reasonably assured.

#### b) Fees and commissions

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

#### c) Foreign exchange income

Foreign exchange income arise from earnings generated from customer business and market making, and from changes in fair value resulting from movements in interest and exchange rates, equity prices and other market variables. Changes in fair value and gains and losses arising on the purchase and sale of trading instruments are included in trading income, together with the related interest income, interest expense and dividend income.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 2. Accounting policies (continued)

### 2.7 Equipment

Equipment includes technology and IT-related costs, office furniture and fittings, and vehicles.

Equipment is stated at cost less accumulated depreciation. The residual values and useful lives of equipment are reviewed at each balance sheet date, and adjusted where appropriate. Depreciation is calculated using the straight-line method over four to five years. Where the carrying amount of equipment is greater than the estimated recoverable amount, the carrying amount is reduced to the recoverable amount.

Generally, costs associated with the maintenance of existing computer software are recognised as an expense when incurred. However, expenditure that enhances and extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and capitalised as part of the original cost of the software.

### 2.8 Statutory reserve

As per Union Law No. (10) of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking, and Regulations of Wholesale Commercial Banking, branches of foreign banks shall allocate at least 10 per cent of their annual net profits for the establishment of a special reserve until the reserve equals fifty per cent of the amount allocated as capital.

### 2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash and other liquid assets and have insignificant risk of changes in value with original maturities of less than three months.

### 2.10 Due from and due to Head Office and Branches

Amounts due from and due to Head Office and Branches are stated at amortised cost.

### 2.11 Employees end of service

The Branch's employees are eligible for post-retirement benefits under defined contribution pension plans which are provided through separate trustee-administered funds or insurance plans. The Branch also pays contributions to Government defined contribution pension plans in accordance with the legal requirements. The Branch's contributions to defined contribution pension plans are expensed in the period to which they relate.

### 2.12 Taxation

Taxation is provided for in accordance with local regulations for assessment of tax on the branches of foreign banks operating in the Emirate of Abu Dhabi.

### 2.13 Fair value of financial instruments

The Group's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities and derivative financial instruments, which are accounted for at fair value. The fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices (level 1 measurement) or to the pricing prevailing for similar financial instruments (level 2 measurement) and the use of unobservable inputs in estimation techniques such as discounted cash flow analysis (level 3 measurement).

The valuation methodologies applied are outlined below.

2. **Accounting policies** (continued)

2.13 **Fair value of financial instruments** (continued)

a) **Loans and advances**

The fair values (level 2) of loans on a floating interest rate basis are principally estimated at book value. The fair values (level 3) of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the Group's weighted average discount rate. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 2) approximate the carrying values.

b) **Term financing**

The fair value of term financing is based on observable market data, including quoted market prices for debt instruments issued by similarly rated financial institutions and with similar maturities, or estimated on a discounted cash flow basis utilising currently prevailing spreads for borrowings with similar maturities. The fair values (level 2) of senior term financing at 31st December 2019 approximate the carrying values.

c) **Other on-balance sheet items**

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet assets and liabilities approximate their respective book values due to their short-term nature.

d) **Credit-related contingent items**

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Impairment provisions made in respect of individual transactions where a potential for loss has been identified are included in provisions for the impairment of loans and advances.

2.14 **Future accounting developments**

The International Accounting Standards Board (IASB) have issued a number of new standards, amendments to standards, and interpretations that are not yet effective and have not been applied in the preparation of the financial statements for the year ended 31st December 2019. The relevant new standards, amendments to standards, and interpretations, are as follows:-

- Amendments to IFRS 3: Definition of a Business;
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- The Conceptual Framework for Financial Reporting;
- IFRS 17 Insurance Contracts; and
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of assets between an investor and its associate or joint venture.

The Branch does not expect these new standards and amendments to have any significant impact on the financial statements, when implemented in future periods.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
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## 2. Accounting policies (continued)

### 2.15 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are issued to financial institutions and other counterparties on behalf of customers to secure loans, overdrafts and other banking facilities, and to other parties in relation to the performance of customers under obligations related to contracts, advance payments made by other parties, tenders and retentions.

Financial guarantees are initially recognised at fair value on the date the guarantee is issued. The guarantee liability is subsequently measured at the higher of the initial measurement, less amortisation to recognise the fee income earned over the period, or the present value of any expected payments to settle the liability when a payment under the contract has become probable. The expected loss on financial guarantees is measured at the expected payment to reimburse the holder less any amounts that the Group expects to recover. Any increase in a liability relating to guarantees is recognised in the consolidated statement of income. In the consolidated statement of financial position, financial guarantees are included in other liabilities.

## 3. Accounting estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses at the reporting date. The significant estimates used in the preparation of the financial statements are principally the determination of provisions for impairment where judgement is required in the estimation of the amount and timing of future cash flows, the determination of the equipment's useful life, and the recognition of a deferred tax asset.

Significant items where the use of estimates and judgments are required are outlined below:

### Financial instruments

Judgements made in applying accounting policies in accordance with IFRS 9: Financial instruments which impact:

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

- Calculation of expected credit loss (ECL): In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. The information about the judgements made are set out in note 20.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 4. Cash and other liquid assets

| | 31.12.19<br>AED 000s | 31.12.18<br>AED 000s |
|---|---|---|
| Cash and balances with central banks | 162,700 | 99,560 |
| Cash and balances with banks | 30,570 | 3,662 |
| **Cash and cash equivalents** | 193,270 | 103,222 |
| Statutory deposit with the CBUAE | 28,048 | 2,959 |
| **Cash and other liquid assets** | 221,318 | 106,181 |

The statutory deposit with the CBUAE is subject to local regulations which provide for restrictions on the deployment of these funds.

## 5. Placements

There were no placements at 31st December 2019. Placements at 31st December 2018 entirely comprised inter-bank placements in US Dollars with an original maturity of one month.

## 6. Loans and advances

### 6.1 Composition

| | 31.12.19<br>AED 000s | 31.12.18<br>AED 000s |
|---|---|---|
| Gross loans and advances | 800,925 | 510,885 |
| Specific provisions for impairment | - | (38,846) |
| **Carrying amount of loans and advances** | 800,925 | 472,039 |
| Non-specific provisions for impairment | (4,006) | (7,929) |
| **Net loans and advances** | 796,919 | 464,110 |

### 6.2 Industrial classification

| | 31.12.19<br>AED 000s | 31.12.18<br>AED 000s |
|---|---|---|
| Trading and services | 415,011 | 258,208 |
| Manufacturing | 176,921 | 145,594 |
| Construction and engineering | 123,385 | 101,590 |
| Real estate | 80,705 | - |
| Energy, oil and petrochemical | 4,903 | 5,493 |
| **Gross loans and advances** | 800,925 | 510,885 |
| Provisions for impairment | (4,006) | (46,775) |
| **Net loans and advances** | 796,919 | 464,110 |

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

6. Loans and advances (continued)

6.3 Provision for expected losses

The movements in provisions for expected credit losses of loans and advances were as follows:-

| | Collective provision Stage 1 | Collective provision Stage 2 | Specific provision Stage 3 | 2019 Total | Collective provision Stage 1 | Collective provision Stage 2 | Specific provision Stage 3 | 2018 Total |
|---|---|---|---|---|---|---|---|---|
| | AED 000s | AED 000s | AED 000s | AED 000s | AED 000s | AED 000s | AED 000s | AED 000s |
| At 1st January | 1,258 | 6,671 | 38,846 | 46,775 | - | 271 | 30,165 | 30,436 |
| Transfer to stage 2 | (121) | 121 | - | - | - | - | - | - |
| Transfer to stage 3 | - | (1,242) | 1,242 | - | - | (259) | 259 | - |
| Amounts utilised | - | - | (38,850) | (38,850) | - | - | - | - |
| Exchange rate movements | - | - | 195 | 195 | - | - | (7) | (7) |
| Net remeasurement of loss allowance | 1,408 | (4,089) | (1,433) | (4,114) | 1,258 | 6,659 | 8,429 | 16,346 |
| At 31st December | 2,545 | 1,461 | - | 4,006 | 1,258 | 6,671 | 38,846 | 46,775 |

6.4 Past due loans

The gross and carrying amounts of loans for which either principal or interest was over 90 days past due were as follows:-

| | 31.12.19 Gross | 31.12.19 Carrying Amount | 31.12.18 Gross | 31.12.18 Carrying Amount |
|---|---|---|---|---|
| | AED 000s | AED 000s | AED 000s | AED 000s |
| Corporates | 25,829 | 25,829 | 66,276 | 27,430 |

6.5 Restructured loans

During the years ended 31st December 2019 and 31st December 2018, the Branch did not restructure any loan or make any concessions that would not ordinarily have been accepted due to a deterioration in the customer's financial position.

6.6 Collateral

The Branch did not take possession of any collateral during the years ended 31st December 2019 and 31st December 2018.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 7. Equipment

| | 2019<br>AED 000s | 2018<br>AED 000s |
|---|---|---|
| **Cost** | | |
| Opening balance | 2,541 | 2,359 |
| Additions during the year | 530 | 182 |
| **Balance at 31st December** | 3,071 | 2,541 |
| **Accumulated depreciation** | | |
| Opening balance | 913 | 405 |
| Charge for the year | 975 | 508 |
| **Balance at 31st December** | 1,888 | 913 |
| **Net book value at 31st December** | 1,183 | 1,628 |

Furniture, equipment and vehicles mainly include infrastructure, technology and IT-related costs transferred from Head Office at net book value.

## 8. Due from Head Office and branches

Amount due from Head Office and branches are predominantly interest free and are receivable on demand.

## 9. Other assets

| | 31.12.19<br>AED 000s | 31.12.18<br>AED 000s |
|---|---|---|
| Accrued interest, fees and commission | 5,295 | 2,211 |
| Prepayments | 1,319 | 1,005 |
| Expected credit losses | (209) | (401) |
| Other, including accounts receivable | 460 | 600 |
| | 6,865 | 3,415 |

## 10. Deposits from customers

Deposits at 31st December 2019 and 31st December 2018 were entirely from entities in the Gulf Cooperation Council (GCC) states.

## 11. Due to Head Office and Branches

At 31st December 2019, the balance due to Head Office and branches did not include time deposits (2018: AED 158 thousand). The remaining balance is predominantly interest free and is repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 12. Other liabilities

| | 31.12.19<br>AED 000s | 31.12.18<br>AED 000s |
|---|---|---|
| Accrued interest | 2,022 | - |
| Deferred items | 863 | 196 |
| Other, including accounts payable and accrued expenses | 2,050 | 1,230 |
| | 4,935 | 1,426 |

## 13. Senior term financing

| | Maturity | 31.12.19<br>AED 000s | 31.12.18<br>AED 000s |
|---|---|---|---|
| Floating rate loans | 2024 | 29,994 | - |

## 14. Net interest income

| | Year ended<br>31.12.19<br>AED 000s | Year ended<br>31.12.18<br>AED 000s |
|---|---|---|
| **Interest income** | | |
| Placements and other liquid assets | 4,994 | 4,931 |
| Loans and advances | 37,799 | 6,135 |
| Total interest income | 42,793 | 11,066 |
| **Interest expense** | | |
| Deposits from customers | 11,940 | 878 |
| Senior term financing | 545 | - |
| Total interest expense | 12,485 | 878 |
| **Net interest income** | 30,308 | 10,188 |

Interest income on loans and advances includes loan origination fees that form an integral part of the effective interest rate of the loan.

Accrued interest on impaired and past due loans included in interest income for the year ended 31st December 2019 amounted to nil (2018: nil). There was no accrued but uncollected interest included in interest income on past due loans for either the year ended 31st December 2019 or year ended 31st December 2018.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 15. Fee and commission income

| | Year ended 31.12.19 AED 000s | Year ended 31.12.18 AED 000s |
|---|---|---|
| **Fee and commission income** | | |
| Commissions on letters of credit and guarantee | 1,168 | 979 |
| Other fee and commission income | 207 | 18 |
| Total fee and commission income | 1,375 | 997 |
| **Fee and commission expense** | (91) | (79) |
| **Net fee and commission income** | 1,284 | 918 |

## 16. Foreign exchange income

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts.

Foreign exchange contracts include spot and forward foreign exchange contracts, and currency futures and options.

## 17. Income tax

| | 31.12.19 AED 000s | 31.12.18 AED 000s |
|---|---|---|
| ***Statement of comprehensive income*** | | |
| Current: | | |
| For the year | - | - |
| ***The relationship between the tax expense and the accounting profit*** | | |
| Accounting profit / (loss) | 23,827 | (16,128) |
| Add: expenses and provisions not deductible | (4,150) | 8,027 |
| Less: prior period losses utilised | (19,677) | - |
| | - | (8,101) |
| Tax at the applicable rate of 20% | - | - |

Taxation is provided at 20% (31st December 2018: 20%) on the adjusted taxable profit attributable to the operations of Abu Dhabi Branch. The Branch has not created a deferred tax asset as it is probable that taxable profits will not be available in the immediate future against which the tax losses carried forward can be utilised.

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 18. Credit-related financial instruments

Credit-related financial instruments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The notional principal amounts of outstanding credit-related contingent items were as follows:-

| | 31.12.19<br>AED 000s | 31.12.18<br>AED 000s |
|---|---|---|
| Direct credit substitutes | 5,142 | 34,804 |
| Transaction-related contingent items | 315,117 | 106,607 |
| Short-term self-liquidating trade-related contingent items | 56,103 | 13,820 |
| | 376,362 | 155,231 |

Commitments may be drawndown on demand.

Direct credit substitutes at 31st December 2019 and 31st December 2018 comprise financial guarantees which may be called on demand.

## 19. Related party transactions

The Branch's transactions with its Head Office, subsidiaries and other branches of its Head Office are conducted in the ordinary course of the Branch's business on arm's length basis. The balances at 31st December resulting from such transactions included in the financial statements are as follows:-

| | 2019<br>AED 000s | 2018<br>AED 000s |
|---|---|---|
| **Gulf International Bank B.S.C. (Head Office)** | | |
| Due from Head Office | 129,486 | 30,456 |
| Due to Head Office | 39,418 | 80,305 |
| **Gulf International Bank B.S.C. - Saudi Arabia** | | |
| Due from Subsidiaries | 92 | 8 |
| Due to Subsidiaries | - | 5,073 |
| **Gulf International Bank (UK) Limited** | | |
| Other assets | 72 | 65 |
| **Gulf International Bank B.S.C. - Retail Branch (Meem)** | | |
| Due from Branches | 42 | - |

The compensation of key management personnel was as follows:-

| | 2019<br>AED 000s | 2018<br>AED 000s |
|---|---|---|
| Short-term employee benefits | 2,177 | 2,594 |
| Post-employment benefits | 120 | 209 |
| | 2,297 | 2,803 |

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 19. Related party transactions (continued)

The balance due from GIBUK represented a receivable in relation to support services provided to GIBUK. During the year ended 31st December 2019, the Branch accumulated an amount of AED 72 thousand (2018: AED 65 thousand) for identified allocated costs which mainly represented salaries, employee related expenses and travel expenses recharged to GIBUK.

During the year, the Head Office transferred loans and advances to the Branch. The following table summarises the carrying amount of the loans and advances, and related provisions transferred from Head Office:-

| | 2019<br>AED 000s | 2018<br>AED 000s |
|---|---|---|
| Gross loans and advances | 314,322 | 419,805 |
| Specific provisions for impairment | - | - |
| Carrying amount of loans and advances | 314,322 | 419,805 |

## 20. Risk management

Financial assets of the Branch comprise cash and cash equivalents, placements, loans and advances, and amounts due from Head Office and Branches and certain other assets. The Branch's financial liabilities comprise deposits from customers and an amount due to Head Office and certain other liabilities. At 31st December 2019 all deposits are short-term, with a maximum maturity of seven days. At 31st December 2018, all deposits were short-term, with a maximum maturity of seven days, except for the Head Office deposits of AED 158 thousand which had a maturity of less than thirty days.

### Credit risk

Credit risk is the risk that counterparties will be unable to meet their obligations to the Branch. Credit risk arises principally from the Branch's lending and investment activities in addition to other transactions involving both on- and off-balance sheet financial instruments, including the specific risk for equity instruments. Disciplined processes are in place at both the business unit and corporate level that are intended to ensure that risks are accurately assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counterparty, country and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography, and the regular appraisal of counterparty credit quality through the analysis of qualitative and quantitative information.

Credit risk is actively managed and rigorously monitored by the Head Office in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each exposure, which affects the credit approval decision and the terms and conditions of the transaction. For cross border transactions an analysis of country risk is also conducted. The Head Office bases its credit decision for an individual counterparty on the aggregate Head Office exposure to that counterparty and all its related entities. Groupwide credit limit setting and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Groupwide basis in a consistent manner.

The Head Office also mitigates its credit exposures on foreign exchange and derivative financial instruments through the use of master netting agreements and collateral arrangements.

20. **Risk management** continued

**Credit risk** continued

*Significant increase in credit risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Head Office considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Head Office's historical experience and taking into consideration both internal and external indicators and expert credit assessment and inclusion of forward-looking information.

The Head Office considers all counterparties internally rated 2 and above, between 2- and 3+, between 3 and 4+, and 4 and below, to be significantly deteriorated where they have been downgraded 6 notches, 5 notches, 4 notches and 3 notches respectively since initial recognition, and where the current pricing has not been adjusted to reflect the new risk profile of the counterparty.

Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

*Definitions of default and curing*

The Head Office considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Head Office in full, without recourse by the Head Office to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Head Office. In assessing whether a borrower is in default, the Head Office considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Head Office.

The Head Office considers a financial asset to be cured, and accordingly reclassified from stage 3 to stage 2 when none of the default criteria have been present for a period of at least 12 consecutive months. The financial asset is then transferred from stage 2 to stage 1 after a cure period of a further six months.

*Incorporation of forward-looking information*

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

The Head Office has identified economic factors such as the International Monetary Fund (IMF) and Central Bank forecasts for fiscal balances and GDP growth in key markets of the Kingdom of Saudi Arabia, United Arab Emirates and United States of America as well as the views of the Chief Economist. Given the nature of the Head Office's exposures and availability of historical statistically reliable information, the Head Office derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Standard & Poors (S&P) for each rating category. The Head Office uses the Vasicek model to link the TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The Vasicek model takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category (as per the Basel IRB economic capital formula), and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

20. **Risk management** (continued)

**Credit risk** (continued)

*Measurement of ECL*

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD estimates are estimates at a certain date, and are calculated using Standard & Poor's recovery studies data after consideration of the contractual maturities of exposures and estimated prepayment rates and are derived using the Vasicek model.

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12 month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The Head Office estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

EAD represents the expected exposure in the event of a default. The Head Office derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the Head Office measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Head Office calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. At 31st December 2019, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 50:35:15 respectively (2018: 50:35:15).

*Modified financial assets*

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Head Office renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. The Head Office grants forbearance on a selective basis if there is evidence that the customer has made all reasonable efforts to honour the original contractual terms and the customer is expected to be able to meet the revised terms. Forbearance is a qualitative indicator of a significant increase in credit risk, and a customer would need to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired, or in default, or the PD has decreased such that the provision for credit-impairment reverts to being measured at an amount equal to the 12-month ECL.

20. Risk management (continued)

Credit risk (continued)

*Modified financial assets* (continued)

Cash and cash equivalents are placed with the central bank which is subject to minimum risk or with banks with external ratings of BBB+/Baa1 or higher. Placements are placed with multiple banks with external ratings of BBB+/Baa1 or higher. Loans and advances are actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. A detailed credit risk assessment is carried out which includes an analysis of obligor's financial condition among other factors.

Disciplined processes are in place that are intended to ensure that risks are accurately assessed and properly approved and monitored. The gross maximum exposure to credit risk is the carrying value of financial assets and credit-related financial instruments as disclosed in the notes 4, 6, 8 and 18 of the financial statements.

The Branch measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any.

The following table contains an analysis of the credit risk exposure of loans and advances for which an ECL allowance is recognized:

| | Stage 1<br>AED 000s | Stage 2<br>AED 000s | Stage 3<br>AED 000s | Total<br>AED 000s |
|---|---|---|---|---|
| Loans and advances | 729,509 | 45,587 | 25,829 | 800,925 |
| Expected credit losses and credit impairment | (2,545) | (1,461) | - | (4,006) |
| At 31st December 2019 | 726,964 | 44,126 | 25,829 | 796,919 |

| | Stage 1<br>AED 000s | Stage 2<br>AED 000s | Stage 3<br>AED 000s | Total<br>AED 000s |
|---|---|---|---|---|
| Loans and advances | 378,041 | 93,998 | 38,846 | 510,885 |
| Expected credit losses and credit impairment | (1,258) | (6,671) | (38,846) | (46,775) |
| At 31st December 2018 | 376,783 | 87,327 | - | 464,110 |

Market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates and market conditions, such as liquidity. The principal market risks to which the Branch is exposed are interest rate risk and foreign exchange risk associated with its asset and liability management activities.

The Branch's exposure to market risk is minimal as the placements and amounts due from and due to Head Office are designated in AED or USD and are short-term.

Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Branch's financial obligations on a punctual basis as they fall due.

The Branch's exposure to liquidity risk relates to the Branch's customer deposits and the amount due to Head Office and Branches.

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## 20. Risk management (continued)

### Liquidity risk (continued)

In accordance with Circular No. 21/99 dated 22nd November 1999, the Branch is required to maintain a minimum balance with the Central Bank of UAE equal to 14 per cent of current, bank savings, call and similar accounts and one per cent of fixed deposits (time deposits).

The table below summarises the maturity profile of the Branch's financial liabilities based on contractual undiscounted repayment obligations.

| | Within 3 months AED 000s | 4 months to 1 year AED 000s | Years 2 and 3 AED 000s | Years 4 and 5 AED 000s | Over 5 years and other AED 000s | Total AED 000s |
|---|---|---|---|---|---|---|
| At 31st December 2019 | | | | | | |
| Deposits from customers | 470,424 | 30,430 | - | - | - | 500,854 |
| Due to Head Office and branches | 39,418 | - | - | - | - | 39,418 |
| Other liabilities | 4,935 | - | - | - | - | 4,935 |
| Senior term financing | - | - | - | 29,994 | - | 29,994 |
| Capital funds | - | - | - | - | 550,000 | 550,000 |
| Other reserve | 16,357 | - | - | - | - | 16,357 |
| Total liabilities and Head Office account | 531,134 | 30,430 | - | 29,994 | 550,000 | 1,141,558 |

| | Within 3 months AED 000s | 4 months to 1 year AED 000s | Years 2 and 3 AED 000s | Years 4 and 5 AED 000s | Over 5 years and other AED 000s | Total AED 000s |
|---|---|---|---|---|---|---|
| At 31st December 2018 | | | | | | |
| Deposits from customers | 17,205 | - | - | - | - | 17,205 |
| Due to Head Office and branches | 85,378 | - | - | - | - | 85,378 |
| Other liabilities | 1,426 | - | - | - | - | 1,426 |
| Senior term financing | - | - | - | - | - | - |
| Capital funds | - | - | - | - | 550,000 | 550,000 |
| Other reserve | 6,877 | - | - | - | - | 6,877 |
| Total liabilities and Head Office account | 110,886 | - | - | - | 550,000 | 660,886 |

### Interest rate risk

Interest rate risk results from exposure to changes in the level and volatility of interest rates and credit spreads.

Based on the repricing profile at 31st December 2019, and assuming that the financial assets and liabilities were to remain until maturity or settlement with no action taken by the Branch to alter the interest rate risk exposure, an immediate and sustained one per cent increase in interest rates across all maturities would result in an increase in net loss before tax for the following year by approximately AED 645 thousand and a decrease in the Branch's equity by AED 645 thousand. The impact on the Branch's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

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20. Risk management (continued)

Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, system failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. A framework and methodology has been developed to identify and control the various operational risks. Whilst operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Branch.

21. Fair value of financials assets and liabilities

The Branch's financial assets and liabilities are accounted for under the historical cost method. The fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates.

The fair values of the financials assets and financial liabilities as at the reporting date approximate their carrying value.

22. Capital funds

As per Union Law No. (10) of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking, and Regulations of Wholesale Commercial Banking, branches of foreign banks must ensure that no less than AED 40,000 thousand has been allocated as capital funds for their operation in UAE.

The Branch's capital funds at 31st December 2019 were AED 550,000 thousand (2018: AED 550,000 thousand).

23. Other reserve

Other reserve represents a reserve for impairment ("impairment reserve") calculated under the CBUAE guidance note dated 30th April 2018 to banks and finance companies on the implementation of IFRS 9 through notice CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE. As per the guidance note, where provisions under circular 28/10 of the CBUAE exceed provisions under IFRS 9, the difference is transferred to a reserve within equity as an appropriation from retained earnings. This reserve is not available for dividend distribution.

| | 31.12.19<br>AED 000s | 31.12.18<br>AED 000s |
|---|---|---|
| **Impairment reserve: General** | | |
| General provisions under Circular 28/2010 of CBUAE | 14,114 | 8,349 |
| Less: Stage 1 and Stage 2 provisions under IFRS 9 | 4,215 | 8,330 |
| **General provision transferred to the impairment reserve** | 9,899 | 19 |
| **Impairment reserve: Specific** | | |
| Specific provisions under Circular 28/2010 of CBUAE | 6,458 | 45,704 |
| Less: Stage 3 provisions under IFRS 9 | - | 38,846 |
| **General provision transferred to the impairment reserve** | 6,458 | 6,858 |
| **Total provision transferred to the impairment reserve** | 16,357 | 6,877 |

NOTES TO THE FINANCIAL STATEMENTS (REISSUED)
For the year ended 31st December 2019

## 24. Capital management

The Branch's lead regulator, the Central Bank of the UAE, sets and monitors capital requirements for the Branch. The Branch is required to comply with the provisions of the Central Bank of the UAE in respect of regulatory capital.

The Branch's capital adequacy ratio as per effective regulatory framework, Basel II, at the minimum level is analysed into two tiers as follows:-

| | 2019<br>AED 000s | 2018<br>AED 000s |
|---|---|---|
| Tier 1 capital: | | |
| Capital funds | 550,000 | 550,000 |
| Retained earnings | - | - |
| | 550,000 | 550,000 |
| Deductions from Tier 1 capital | - | - |
| Total Tier 1 capital | 550,000 | 550,000 |
| Tier 2 capital: | | |
| Collective impairment provision for financing assets | 11,761 | 6,958 |
| | 11,761 | 6,958 |
| Deductions from Tier 2 capital | - | - |
| Total Tier 2 capital | 11,761 | 6,958 |
| **Total capital base** | 561,761 | 556,958 |
| Risk weighted assets | | |
| Credit risk | 940,914 | 556,626 |
| Market risk | 26 | 35 |
| Operational risk | 29,748 | 10,604 |
| **Total risk weighted assets** | 970,688 | 567,265 |
| **Tier 1 risk asset ratio** | 56.7% | 97.0% |
| **Total risk asset ratio** | 57.9% | 98.2% |

## 24. Capital management (continued)

### 24.1 Basel III capital ratio

The Central Bank of UAE issued Basel III capital regulations, effective 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1 and Total Capital.

The minimum capital ratio requirements include a capital conservation buffer for 2017 of 1.25% (over and above the minimum CET1 ratio of 7%) increasing to 2.5% by 2019. The countercyclical capital buffer has not yet been introduced, but may be introduced by the Central Bank of UAE within a range of 0% to 2.5%.

The table below summarises the Branch's capital ratios along with the minimum capital requirements:-

| | 2019 | Minimum capital requirement 2019 | 2018 | Minimum capital requirement 2018 |
|---|---|---|---|---|
| | % | % | % | % |
| CET1 | **56.7** | **7.00** | 97.0 | 8.25 |
| Tier 1 ratio | **56.7** | **8.50** | 97.0 | 9.75 |
| Total capital ratio | **57.9** | **10.50** | 98.2 | 11.75 |

## 25. Subsequent event

1. The Branch has a loan due from a particular corporate customer (the "particular loan") amounting to AED 130,498 thousand against which the Branch has recorded a provision for expected credit losses of AED 438 thousand as of 31 December 2019. During 2020, the customer defaulted on its obligation and the Branch, based on their internal assessment, recognised an additional provision amounting to AED 67,965 thousand for expected credit losses on a particular corporate loan. The additional provision has not resulted in any non-compliance of the minimum capital requirements (including additional capital buffers) as prescribed by CBUAE.

2. The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. The outbreak of Covid-19 has had an impact on demand for oil and petroleum products. Recent global developments in March 2020 have caused further volatility in commodity markets.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could impact our future financial results, cash flows and financial condition.

**Risk Factors**

Our operations, cash flows and financial condition could be negatively affected due to the following:

- If employees are quarantined as the result of exposure to COVID 19, this could result in disruption of operations, supply chain delays, trade restrictions and impact on economic activity;
- Similarly, travel restrictions or operational issues resulting from the rapid spread of COVID 19 in a part of the world in which we have significant operations may have a material adverse effect on our business and results of operations; and
- Continued decline in oil prices could have an impact, including reduced government spending, In the primary economy in which we operate in.