ABU DHABI BRANCH
FINANCIAL STATEMENTS

For the year ended 31st December 2018

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FINANCIAL STATEMENTS

For the year ended 31st December 2018

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INDEPENDENT AUDITORS' 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 accompanying 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 2018, and the statements of comprehensive income, changes in Head Office account and 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 Branch as at 31 December 2018, and its financial performance for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") together with 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 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 the Branch's Management for the financial statements
The Branch's Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the Branch's 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, the Branch's 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 the Bank's Board of Directors either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

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

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

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF

GULF INTERNATIONAL BANK B.S.C. continued

Report on the Audit of the Financial Statements continued

Auditors' responsibilities for the audit of the financial statements continued

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

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Branch's Management.

- conclude on the appropriateness of the Branch's Management 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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

28 March 2019
Abu Dhabi

Statement of financial position

	Note	AED 000s	AED 000s
ASSETS			
Cash and other liquid assets	*4*	**106,181**	56,516
Placements	*5*	**55,088**	175,000
Loans and advances	*6*	**464,110**	8,559
Equipment	*7*	**1,628**	1,954
Due from Head Office and Branches	*8*	**30,464**	57,717
Other assets	*9*	**3,415**	1,813
Total assets		**660,886**	301,559
LIABILITIES			
Deposits from customers	*10*	**17,205**	46,503
Due to Head Office and Branches	*11*	**85,378**	68,957
Other liabilities	*12*	**1,426**	1,099
Total liabilities		**104,009**	116,559
HEAD OFFICE ACCOUNT			
Capital funds	*21*	**550,000**	185,000
Other reserve	*22*	**6,877**	-
Retained earnings		**-**	-
Total Head Office account		**556,877**	185,000
Total liabilities and Head Office account		**660,886**	301,559

The financial statements along with the related notes from 1 to 23 have been approved by:-

Khaled Abbas
UAE Country Head
28th March 2019

The notes on pages 8 to 26 form part of these financial statements.

Statement of comprehensive income

	Note	Year ended 31.12.18 AED 000s	Year ended 31.12.17 AED 000s
Net interest income	*13*	10,188	2,454
Fee and commission income	*14*	918	436
Foreign exchange income	*15*	427	209
Total income		11,533	3,099
Staff expenses		(7,698)	(6,723)
Premises expenses		(1,718)	(2,424)
Other operating expenses		(1,689)	(1,220)
Total operating expenses		(11,105)	(10,367)
Net loss before provisions		428	(7,268)
Net provision charge		(16,556)	(31,610)
Net loss		(16,128)	(38,878)
Other comprehensive income		-	-
Total comprehensive loss		(16,128)	(38,878)

The notes on pages 8 to 26 form part of these financial statements.

Statement of changes in Head Office account

	Capital funds AED 000s	Retained earnings AED 000s	Other reserve AED 000s	Total AED 000s
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 income	-	(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**
At 1st January 2017	**185,000**	**(10,036)**	**-**	**174,964**
Total comprehensive income:-				
Net loss for the year	-	(38,878)	-	(38,878)
Total comprehensive income	-	(38,878)	-	(38,878)
Transactions with head office:-				
Transfer of accumulated losses to Head Office	-	48,914	-	48,914
Total transactions with head office	-	48,914	-	48,914
At 31st December 2017	**185,000**	**-**	**-**	**185,000**

The notes on pages 8 to 26 form part of these financial statements.

Statement of cash flows

	Note	Year ended 31.12.18 AED 000s	Year ended 31.12.17 AED 000s
OPERATING ACTIVITIES			
Net loss		(16,128)	(38,878)
Adjustments to reconcile net income to net cash inflow / (outflow) from operating activities:-			
Provision charge		16,556	31,610
Depreciation		508	398
Net decrease / (increase) in statutory deposit with the central bank		2,390	(1,979)
Net decrease in placements		124,912	9,500
Net increase in loans and advances		(472,031)	(38,854)
Decrease / (Increase) in amounts due from Head Office and Branches		27,253	(57,717)
Increase in amounts due to Head Office and Branches		23,298	54,824
Net increase in other assets		(6,533)	(5,173)
Net (decrease) / increase in deposits from customers		(29,298)	34,427
Net cash outflow from operating activities		(329,073)	(11,842)
FINANCING ACTIVITIES			
Capital funds received from Head Office		365,000	-
Transfer of accumulated losses to Head Office		16,128	48,914
Net inflow from financing activities		381,128	48,914
Increase / (decrease) in cash and cash equivalents		52,055	37,072
Cash and cash equivalents at 1st January		51,167	14,095
Cash and cash equivalents at 31st December	4	103,222	51,167

The notes on pages 8 to 26 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

1. Incorporation and registration

Gulf International Bank B.S.C. - Abu Dhabi (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 (UAE) 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 through its branch in Abu Dhabi.

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 IFRS 9 – Financial instruments and IFRS 15 - Revenue from contracts with customers with effect from 1st January 2018 as referred to below.

IFRS 9 Financial Instruments: Recognition and Measurement

The standard has been applied retrospectively and, and in line with IFRS 9, comparative amounts have not been restated. The impact of the adoption of IFRS 9 at 1st January 2018 has been recognised in retained earnings, and the existing IAS 39 categories of held-to-maturity and loans and receivables have been eliminated.

IFRS 9 provides revised guidance on how an entity should classify and measure its financial assets and financial liabilities. IFRS 9 requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification bases are set out in note 2.3.

Financial liabilities previously measured at amortised cost under IAS 39 have been classified and measured under IFRS 9 at amortised cost using the effective interest rate method. There have been no changes in the classification and measurement of financial liabilities on the adoption of IFRS 9. There was no impact on retained earnings resulting from the changes in classification of assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

2. **Accounting policies** (continued)

2.1 **Basis of preparation** (continued)

The table below illustrates the classification and measurement of financial assets under IAS 39 and IFRS 9 at the date of initial application on 1st January 2018:-

	Original measurement category, IAS 39	New measurement category, IFRS 9	Original carrying amount	New carrying amount
			AED 000s	AED 000s
Cash and other liquid assets:				
- Liquid assets	Held-to-maturity	Financial assets at amortised cost	35,000	35,000
- Cash and balances with banks	Loans and receivables	Financial assets at amortised cost	21,516	21,516
Placements	Held-to-maturity	Financial assets at amortised cost	175,000	175,000
Loans and advances	Loans and receivables	Financial assets at amortised cost	8,559	8,418
Other assets	Loans and receivables	Financial assets at amortised cost	1,813	3,263

IFRS 9 replaces the incurred loss model in IAS 39 Financial Instruments: Recognition and Measurement with an expected credit loss model. The new impairment model also applies to certain loan commitments, financial guarantee contracts, and placements, but not to equity investments and performance bonds. If a financial asset had low credit risk at the date of initial application of IFRS 9, then the credit risk of the asset has been deemed to have not increased significantly since its initial recognition. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The impairment bases are set out in note 2.4.

The impact of this change in accounting policy as at 1st January 2018 has been to increase retained earnings by AED 1,309 thousand as follows:-

	Retained earnings
	AED 000s
Due to the change in the impairment model for financial assets:	
Loans and advances (IAS 39/Regulator: AED 30,295 thousand, IFRS 9: AED 30,436 thousand)	(141)
Other exposures (IAS 39/Regulator: AED 1,641 thousand, IFRS 9: AED 191 thousand)	1,450
	1,309

If IFRS 9 had not been adopted, the statement of income for the year ended 31st December 2018 would have been impacted by a decrease in net income of AED 6,877 thousand, which would have been offset by the retained earnings adjustment of AED 1,309 thousand as noted above.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

2. **Accounting policies** (continued)

2.1 **Basis of preparation** (continued)

IFRS 15 - Revenue from contracts with customers

IFRS 15 introduces a new five-step model framework for determining whether, how much and when revenue is recognised. IFRS 15 has been applied retrospectively and has had no material impact on the Branch's financial statements. Contracts with customers impacted by the new standards are summarised below:-

Interest income and management fees

Interest income and management fees are recognised using the effective interest rate method over the contractual life of the facility. 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, and are amortised on a straight-line basis. As part of the Branch's internal policies, interest income and the amortisation of management fees are suspended when either interest or principal is overdue. There is no material impact on the recognition of interest income or management fees resulting from the application of this standard.

Commissions on letters of credit and guarantee and related advising fees

Revenue earned from the arrangement of letters of credit or guarantee is recognised as the services are performed or received. Commissions on letters of credit and related fees are recognised after the transfer of services, whilst commissions on letters of guarantee are amortised over the life of the guarantee. There is no material impact on the recognition of letters of credit or guarantee or related fees from the application of this standard.

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.

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.

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).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

2. **Accounting policies** (continued)

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

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

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).

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

2. **Accounting policies** (continued)

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

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

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.

a) **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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

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
For the year ended 31st December 2018

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
For the year ended 31st December 2018

2. **Accounting policies** (continued)

2.6 Revenue recognition (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.

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

Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and includes any adjustments to tax payable in respect of previous years.

2.13 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 2018. The relevant new standards, amendments to standards, and interpretations, are as follows:-

- IFRS 16 – Leases:-

IFRS 16 requires lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of use assets. IFRS 16 is effective for annual periods beginning on or after 1st January 2019. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. There is no material impact on the Branch financial statements resulting from the application of this standard.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

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.

4. Cash and other liquid assets

	31.12.18 AED 000s	31.12.17 AED 000s
Cash and balances with central banks	99,560	9,701
Cash and balances with banks	3,662	6,466
Government bills	-	35,000
Cash and cash equivalents	103,222	51,167
Statutory deposit with the central bank	2,959	5,349
Cash and other liquid assets	106,181	56,516

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

The government bills at 31st December 2017 had original maturities of one month or less.

5. Placements

Placements at 31st December 2018 and 31st December 2017 entirely comprised inter-bank placements in AED or USD, all with an original maturity of one month.

6. Loans and advances

6.1 Composition

	31.12.18 AED 000s	31.12.17 AED 000s
Gross loans and advances	510,885	38,854
Specific provisions for impairment	(38,846)	(30,165)
Carrying amount of loans and advances	472,039	8,689
Non-specific provisions for impairment	(7,929)	(130)
Net loans and advances	464,110	8,559

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

6. Loans and advances (continued)

6.2 Industrial classification

	31.12.18 AED 000s	31.12.17 AED 000s
Trading and Services	258,208	23,879
Manufacturing	145,594	-
Construction and Engineering	101,590	14,975
Energy, oil and petrochemical	5,493	-
Gross loans and advances	510,885	38,854
Provisions for impairment	(46,775)	(30,295)
Net loans and advances	464,110	8,559

6.3 Provisions for impairment

The movements in provisions for the impairment of loans and advances were as follows:-

	Collective provision Stage 1	Collective provision Stage 2	Specific provision Stage 3	2018 Total	Collective provision	Specific provision	2017 Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January	-	-	-	30,295	-	-	-
Transition adjustment on adoption of IFRS 9	-	-	-	141	-	-	-
At 1st January - restated	-	271	30,165	30,436	-	-	-
Transfer to stage 3	-	(259)	259	-	-	-	-
Amounts utilised				-	-	-	-
Exchange rate movements	-	-	(7)	(7)	-	5	5
Net remeasurement of loss allowance	1,258	6,659	8,429	16,346	130	30,160	30,290
At 31st December	1,258	6,671	38,846	46,775	130	30,165	30,295

Total provisions in 2018 have been calculated in accordance with IFRS 9, while the provisions in 2017 have been calculated in accordance with the regulations of the Central Bank of UAE.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

6. Loans and advances (continued)

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:-

	31.12.18 Gross	31.12.18 Carrying Amount	31.12.17 Gross	31.12.17 Carrying Amount
	AED 000s	AED 000s	AED 000s	AED 000s
Corporates	66,276	27,430	38,854	8,689
	66,276	27,430	38,854	8,689

6.5 Restructured loans

During the years ended 31st December 2018 and 31st December 2017, 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 2018 and 31st December 2017.

7. Equipment

	2018	2017
	AED 000s	AED 000s
Cost		
Opening balance	2,359	1,141
Additions during the year	182	2,036
Disposals during the year	-	(818)
Balance at 31st December	2,541	2,359
Accumulated depreciation		
Opening balance	405	280
Charge for the year	508	398
Disposals during the year	-	(273)
Balance at 31st December	913	405
Net book value at 31st December	1,628	1,954

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 Branches and Head Office are predominantly interest free and are receivable on demand.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

9. Other assets

	31.12.18 AED 000s	31.12.17 AED 000s
Accrued interest, fees and commission	2,211	144
Prepayments	1,005	348
Collective provision	(401)	(1,641)
Other, including accounts receivable	600	2,962
	3,415	1,813

The collective provision in 2018 in relation to credit-related financial instruments has been calculated in accordance with IFRS 9, while the provisions in 2017 have been calculated in accordance with the regulations of the Central Bank of UAE.

10. Deposits from customers

Deposits at 31st December 2018 and 31st December 2017 were entirely from entities in the Gulf Cooperation Council (GCC) states.

11. Due to Head Office and Branches

At 31st December 2018, the balance due to Head Office included time deposits amounting to AED 158 thousand (2017: AED 47,562 thousand). The remaining balance is predominantly interest free and is repayable on demand.

12. Other liabilities

	31.12.18 AED 000s	31.12.17 AED 000s
Deferred items	196	135
Other, including accounts payable and accrued expenses	1,230	964
	1,426	1,099

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

13. Net interest income

	Year ended 31.12.18 AED 000s	Year ended 31.12.17 AED 000s
Interest income		
Placements and other liquid assets	4,931	2,171
Loans and advances	6,135	715
Total interest income	11,066	2,886
Interest expense		
Deposits from customers	878	432
Total interest expense	878	432
Net interest income	10,188	2,454

Interest income on loans and advances include 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 2018 amounted to nil (2017: nil). There was no accrued but uncollected interest included in interest income on past due loans for either the year ended 31st December 2018 or year ended 31st December 2017.

14. Fee and commission income

	Year ended 31.12.18 AED 000s	Year ended 31.12.17 AED 000s
Fee and commission income		
Commissions on letters of credit and guarantee	979	457
Other fee and commission income	18	4
Total fee and commission income	997	461
Fee and commission expense	(79)	(25)
Net fee and commission income	918	436

15. 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.

16. Deferred tax asset

The Branch is subject to an income tax of 20 per cent on the taxable profit, however, 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
For the year ended 31st December 2018

17. 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:-

	31.12.18 AED 000s	31.12.17 AED 000s
Direct credit substitutes	34,804	21,355
Transaction-related contingent items	106,607	69,432
Short-term self-liquidating trade-related contingent items	13,820	-
	155,231	90,787

Commitments may be drawndown on demand.

Direct credit substitutes at 31st December 2018 and 31st December 2017 comprise financial guarantees which may be called on demand.

18. 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:-

	2018 AED 000s	2017 AED 000s
Gulf International Bank B.S.C. (Head Office)		
Due from Head Office	30,456	57,677
Due to Head Office	87,182	68,957
Gulf International Bank B.S.C. - Saudi Arabia		
Due from Branches	8	40
Due to Branches	5,073	-
Gulf International Bank (UK) Limited		
Other assets	65	2,061

The compensation of key management personnel was as follows:-

	2018 AED 000s	2017 AED 000s
Short-term employee benefits	2,488	2,446
Post-employment benefits	209	192
	2,697	2,638

The transaction with GIBUK represented support services provided to GIBUK. During the year ended 31st December 2018, the Branch recharged GIBUK an amount of AED 1,996 thousand (2017: 960) for identified allocated costs which mainly represented salaries, employee related expenses and travel expenses.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

18. **Related party transactions** (continued)

During the year, the Head office transferred loans and advances to the Branch. The following table summarises the recognised amount of loans and advances and provisions:-

	2018	2017
	AED 000s	AED 000s
Gross loans and advances	419,805	38,854
Specific provisions for impairment	-	(30,165)
Carrying amount of loans and advances	419,805	8,689

19. **Risk management**

Financial assets of the Branch comprise cash and cash equivalents, placements, loans and advances, and amounts due from Head Office and Branches. The Branch's financial liabilities comprise deposits from customers and an amount due to Head Office. All deposits are short-term, with a maximum maturity of seven days, except for the Head Office deposits of AED 158 thousand which have a maturity of less than thirty days.

Credit risk

Credit risk is the risk that counterparties will not be able to meet their obligations to the Branch. 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.

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.

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 is minimal and relates to the Branch's customer deposits and the amount due to Head Office and Branches.

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 1 per cent of fixed deposits (time deposits).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

19. **Risk management** (continued)

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 2018, 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 561 thousand and a decrease in the Branch's equity by AED 561 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.

Currency risk

At the reporting date, there were no open currency positions.

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.

20. **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.

21. **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 manages its capital structure and makes adjustments taking into account changes in economic conditions and strategic business plans. The capital adequacy ratio and tier 1 ratio as at 31st December 2017 were 151.41 per cent and 150.21 per cent (2016: 189.13 per cent and 188.78 per cent). The Branch's capital funds at 31st December 2018 were AED 550,000 thousand (2017: AED 185,000 thousand).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

22. 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.

	31.12.18 AED 000s
Impairment reserve: General	
General provisions under Circular 28/2010 of CBUAE	8,349
Less: Stage 1 and Stage 2 provisions under IFRS 9	8,330
General provision transferred to the impairment reserve	19
Impairment reserve: Specific	
Specific provisions under Circular 28/2010 of CBUAE	45,704
Less: Stage 3 provisions under IFRS 9	38,846
General provision transferred to the impairment reserve	6,858
Total provision transferred to the impairment reserve	6,877

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

23. 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:-

	2018 AED 000s	2017 AED 000s
Tier 1 capital:		
Capital funds	550,000	185,000
Retained earnings	-	-
	550,000	185,000
Deductions from Tier 1 capital	-	-
Total Tier 1 capital	550,000	185,000
Tier 2 capital:		
Collective impairment provision for financing assets	6,958	1,476
	6,958	1,476
Deductions from Tier 2 capital	-	-
Total Tier 2 capital	6,958	1,476
Total capital base	556,958	186,476
Risk weighted assets		
Credit risk	556,626	118,055
Market risk	35	11
Operational risk	10,604	5,093
Total risk weighted assets	567,265	123,159
Tier 1 risk asset ratio	97.0%	150.2%
Total risk asset ratio	98.2%	151.4%

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2018

23. Capital management (continued)

23.1 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:-

	2018	Minimum capital requirement 2018	2017	Minimum capital requirement 2017
	%	%	%	%
CET1	97.0	8.25	150.2	8.25
Tier 1 ratio	97.0	9.75	150.2	9.75
Total capital ratio	98.2	11.75	151.4	11.75