



# ABU DHABI BRANCH FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> December 2020

**GIB**

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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 2020, and the statements of comprehensive income, changes in equity and cash flows for the year then ended 31 December 2020, 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 2020 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 Branch 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.

##### *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 management and the Board of Directors are responsible for overseeing the Branch's financial reporting process.

## **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 Branches' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branches' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

**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 for the year ended 31 December 2020:

- (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 2020;
- (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 2020, 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.

*TS Hari Gopal*

Signed by  
Thodla Hari Gopal  
Partner  
Ernst & Young  
Registration No: 689

30 March 2021  
Abu Dhabi

## Statement of Financial Position

	<i>Note</i>	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
<b>ASSETS</b>			
Cash and other liquid assets	4	42,090	221,318
Placements	5	533,450	-
Loans and advances	6	1,000,225	796,919
Equipment	7	471	1,183
Due from Head Office and branches	8	153,818	129,620
Other assets	9	6,155	6,865
<b>Total assets</b>		<b><u>1,736,209</u></b>	<b><u>1,155,905</u></b>
<b>LIABILITIES</b>			
Deposits from customers	10	1,034,176	500,854
Due to Head Office and branches	11	105,430	39,418
Other liabilities	12	10,358	4,935
Senior term financing	13	29,994	29,994
<b>Total liabilities</b>		<b><u>1,179,958</u></b>	<b><u>575,201</u></b>
<b>HEAD OFFICE ACCOUNT</b>			
Capital funds	23	550,000	550,000
Other reserve	24	6,251	16,357
Retained earnings		-	14,347
<b>Total Head Office account</b>		<b><u>556,251</u></b>	<b><u>580,704</u></b>
<b>Total liabilities and Head Office account</b>		<b><u>1,736,209</u></b>	<b><u>1,155,905</u></b>

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



Waleed Hassan  
Branch Manager  
30<sup>th</sup> March 2021

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

## Statement of Comprehensive Income

		Year ended 31.12.20	Year ended 31.12.19
	<i>Note</i>	AED 000s	AED 000s
Net interest income	14	16,461	30,308
Net fee and commission income	15	1,895	1,284
Foreign exchange income	16	373	627
Other income		139	750
<b>Total income</b>		<b>18,868</b>	<b>32,969</b>
Staff expenses		(8,378)	(7,970)
Premises expenses		(1,545)	(1,770)
Other operating expenses		(2,642)	(3,516)
<b>Total operating expenses</b>		<b>(12,565)</b>	<b>(13,256)</b>
<b>Net income before provisions and tax</b>		<b>6,303</b>	<b>19,713</b>
Provision (charge) / release for loans and advances		(112,925)	3,924
Provision (charge) / release for other		(1,378)	190
<b>Net (loss) / income before tax</b>		<b>(108,000)</b>	<b>23,827</b>
Taxation charge	17	-	-
<b>Net (loss) / income</b>		<b>(108,000)</b>	<b>23,827</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive (loss) / income</b>		<b>(108,000)</b>	<b>23,827</b>

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

## Statement of Changes in Head Office Account

	<u>Capital funds</u> AED 000s	<u>Retained earnings</u> AED 000s	<u>Other reserve</u> AED 000s	<u>Total</u> AED 000s
At 1 <sup>st</sup> January 2020	550,000	14,347	16,357	580,704
<b>Total comprehensive income:-</b>				
Net loss for the year	-	(108,000)	-	(108,000)
Total comprehensive income	-	(108,000)	-	(108,000)
Transfer to other reserve (note 24)	-	10,106	(10,106)	-
Transfer of accumulated losses to Head Office	-	83,547	-	83,547
Total transactions with head office	-	83,547	-	83,547
<b>At 31<sup>st</sup> December 2020</b>	<b>550,000</b>	<b>-</b>	<b>6,251</b>	<b>556,251</b>
At 1 <sup>st</sup> January 2019	550,000	-	6,877	556,877
<b>Total comprehensive income:-</b>				
Net profit for the year	-	23,827	-	23,827
Total comprehensive income	-	23,827	-	23,827
Transfer to other reserve (note 24)	-	(9,480)	9,480	-
Total transactions with head office	-	-	-	-
<b>At 31<sup>st</sup> December 2019</b>	<b>550,000</b>	<b>14,347</b>	<b>16,357</b>	<b>580,704</b>

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



## Statement of Cash Flows

	<i>Note</i>	Year ended 31.12.20 AED 000s	Year ended 31.12.19 AED 000s
<b>OPERATING ACTIVITIES</b>			
Net (loss) / profit before tax		(108,000)	23,827
Adjustments to reconcile net income to net cash inflow / (outflow) from operating activities:-			
Provision charge / (release) for loans and advances		112,925	(3,924)
Provision charge / (release) for other		1,378	(190)
Depreciation		647	975
Net decrease / (increase) in statutory deposit with the central bank		4,735	(25,089)
Net (increase) / decrease in placements		(533,450)	55,088
Net decrease / (increase) in loans and advances		22,308	(14,373)
Increase in amounts due from Head Office and branches		(362,737)	(413,478)
Increase / (Decrease) in amounts due to Head Office and branches		66,012	(45,960)
Net increase in other assets / liabilities		4,755	59
Net increase in deposits from customers		533,322	483,649
<b>Net cash (outflow) / inflow from operating activities</b>		<b>(258,105)</b>	<b>60,584</b>
<b>INVESTING ACTIVITY</b>			
Disposals / (purchases) of property and equipment		65	(530)
<b>Cash from / (used in) investing activity</b>		<b>65</b>	<b>(530)</b>
<b>FINANCING ACTIVITIES</b>			
Senior term financing		-	29,994
Transfer of accumulated losses to Head Office		83,547	-
<b>Net inflow from financing activities</b>		<b>83,547</b>	<b>29,994</b>
<b>Increase in cash and cash equivalents</b>		<b>(174,493)</b>	<b>90,048</b>
<b>Cash and cash equivalents at 1<sup>st</sup> January</b>		<b>193,270</b>	<b>103,222</b>
<b>Cash and cash equivalents at 31<sup>st</sup> December</b>	4	<b>18,777</b>	<b>193,270</b>
<b>Significant non-cash transactions:</b>			
Transfer of loans from Head Office		338,539	314,322

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

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**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 13/420/2017 and commenced its operations on 9<sup>th</sup> December 2014. The registered office of the Branch is Al Falah Tower, Sh. Rashid Bin Saeed Road, 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 Novel Coronavirus ("COVID-19")**

The outbreak of novel coronavirus ("COVID-19") since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activities globally. This has impacted the global economic to slow down with uncertainties in the economic environment. As a result, governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Branch's management revisited its significant judgments in applying the Branch's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31<sup>st</sup> December 2020.

Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Branch's management carried out an impact assessment on the Branch's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these financial statements, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future periods.

As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

The Branch has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and their impact on key credit, liquidity, operational, solvency and performance indicators, in addition to other risk management practices to manage the potential business disruption that the COVID-19 outbreak may have on its operations and financial performance. The Branch's impact assessment resulted in the following changes to the expected credit loss methodology and valuation estimates and judgements as at and for the year ended 31<sup>st</sup> December 2020:

**a) Expected credit losses**

For the year ended 31<sup>st</sup> December 2020, the Branch has updated inputs and assumptions used for the determination of expected credit losses ("ECLs") in response to uncertainties caused by COVID-19 and oil prices volatility. ECLs were estimated based on a range of forecast economic conditions as at that date. Considering that the situation is fast evolving, the Branch has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The forward-looking factors used to derive the point-in-time (PIT) probability of default (PD) incorporate the following assumptions for the key markets of the Kingdom of Saudi Arabia and United Arab Emirates: real GDP growth between -1.2% to 0.9% (31<sup>st</sup> December 2019: 1.4% to 4.4%); and fiscal deficit as a percentage of GDP between -8.1% and -11.8% over the next 12 months (31<sup>st</sup> December 2019: 0.1% to 14.0%).

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**2. Accounting policies** (continued)**2.1 Novel Coronavirus ("COVID-19")** (continued)

The aforementioned values of macro-economic factors have been derived by assigning probabilities to the base case, negative case and positive case scenarios in the ratio of 50:25:25, respectively (31<sup>st</sup> December 2019: 50:35:15). The situation is fast evolving and accordingly any downside scenarios will be reassessed if adverse conditions continue.

The Branch also updated the relevant forward-looking information with respect to the weightings of the relevant macroeconomic scenarios relative to the economic climate of the respective market in which it operates.

In addition to the assumptions outlined above, the Branch continues to closely monitor the potential repayment risk impact of COVID-19 on affected industry sectors.

**2.2 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. Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Branch is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

The financial statements have been prepared under the historical cost convention except for derivative financial instruments which are recorded at fair value. 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

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018

**2.3 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**For the year ended 31<sup>st</sup> December 2020**2. Accounting policies (continued)****2.4 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).

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**2. Accounting policies** (continued)**2.4 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 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.

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**2. Accounting policies (continued)****2.5 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 31<sup>st</sup> December 2020**2. Accounting policies (continued)****2.5 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 ongoing 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.

**2.6 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.

**2.7 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 31<sup>st</sup> December 2020**2. Accounting policies (continued)****2.8 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.

**2.9 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.

**2.10 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.

**2.11 Due from and due to Head Office and Branches**

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

**2.12 Employees end of service**

The Branch's employees are eligible for post-retirement benefits. 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. The Branch also provides end of service benefits to its other employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour and National Pension and Social Security Laws.

**2.13 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.

**2.14 Fair value of financial instruments**

The Branch'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.



**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**2. Accounting policies (continued)****2.14 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 Branch'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 31<sup>st</sup> December 2020 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 other assets.

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

**2.15 Financial guarantees**

Financial guarantees are contracts that require the Branch 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 Branch expects to recover. Any increase in a liability relating to guarantees is recognised in the statement of income. In the statement of financial position, financial guarantees are included in other liabilities.

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**2. Accounting policies (continued)****2.16 Derivative financial instruments and hedge accounting**

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either: (i) the fair value of a recognised asset or liability (fair value hedge), or (ii) the future cash flows attributable to a recognised asset or liability or a firm commitment (cash flow hedge).

The Branch's criteria for a derivative financial instrument to be accounted for as a hedge include:-

- the hedging instrument, the related hedged item, the nature of the risk being hedged, and the risk management objective and strategy must be formally documented at the inception of the hedge,
- it must be clearly demonstrated that the hedge is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item, including how the Branch will address the hedge ratio,
- the effectiveness of the hedge must be capable of being reliably measured, and
- there is an economic relationship between the hedging instrument and the hedged item and the effect of credit risk does not dominate the fair value changes of that relationship.

Changes in the fair values of derivative financial instruments that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in trading income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk that is being hedged. Unrealised gains and losses arising on hedged assets or liabilities which are attributable to the hedged risk are adjusted against the carrying amounts of the hedged assets or liabilities in the statement of financial position. If the hedge no longer meets the criteria for hedge accounting, any adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to income over the remaining period to maturity.

Changes in the fair values of derivative financial instruments that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income. Unrealised gains or losses recognised in other comprehensive income are transferred to the statement of income at the same time that the income or expense of the corresponding hedged item is recognised in the statement of income and are included in the same income or expense category as the hedged item. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are included in trading income.

The interest component of derivatives that are designated, and qualify, as fair value or cash flow hedges is included in interest income or interest expense relating to the hedged item over the life of the derivative instrument.

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**2. Accounting policies** (continued)**2.16 Derivative financial instruments and hedge accounting** (continued)

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Gains and losses arising on the termination of derivatives designated as cash flow hedges are recognised in interest income or interest expense over the original tenor of the terminated hedge transaction.

Some hybrid instruments contain both a derivative and non-derivative component. In such cases, the derivative is categorised as an embedded derivative. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Where it is not practically possible to separate the embedded derivative, the entire hybrid instrument is categorised as a financial asset at FVTPL and measured at fair value. Changes in fair value are included in trading income.

*Hedges directly affected by interest rate benchmark reform (IBOR reform)*

For the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Branch assumes that the benchmark interest rate is not altered as a result of IBOR reform.

**2.17 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 31<sup>st</sup> December 2020. The relevant new standards, amendments to standards, and interpretations, are as follows:-

- Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (IBOR reform Phase 2) - effective 1 January 2021

The amendments address issues that might affect financial reporting as a result of IBOR reform, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate and also requires an entity to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to following:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**2. Accounting policies** (continued)**2.17 Future accounting developments** (continued)

At 31<sup>st</sup> December 2020, the Branch has (AED 339,652 thousand) USD LIBOR based loans that will be subject to IBOR reform. The Branch expects that the interest rate benchmark for these loans will be changed to an alternative framework in 2023 and that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

The Branch expects that the interest rate benchmark for these loans will be changed to an alternative framework in 2023 and the Branch is assessing the impact that will arise as a result of applying the amendments to these changes

**- Hedge accounting**

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the IBOR reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the IBOR reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the IBOR reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

At 31<sup>st</sup> December 2020, the Branch has derivatives classified as fair value hedging instruments of AED 70,759 thousand USD LIBOR risk. The Branch expects that indexation of the hedged items and hedging instruments to USD LIBOR will be replaced with (SOFR) in 2023. Whenever the replacement occurs, the Branch expects to apply the amendments related to hedge accounting. However, there is uncertainty about when and how replacement may occur. When the change occurs to the hedged item or the hedging instrument, the Branch will remeasure the cumulative change in fair value of the hedged item or the fair value of the interest rate swap, respectively, based on (SOFR). Hedging relationships may experience hedge ineffectiveness if there is a timing or other mismatch between the transition of the hedged item and that of the hedging instrument to SOFR.

The Branch plans to apply the above amendments and its adoption will not impact amounts reported for 2020 or prior periods.

*Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform phase 1)*

IBOR reform phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The Branch has applied IFRS 9 for the purpose of hedge accounting. Under IFRS 9, hedging relationship qualifies for hedge accounting if there is an economic relationship between hedge item and hedging instrument among other criterions. The assessment of hedge effectiveness is made prospectively. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether an economic relationship exists and whether prospectively the hedging relationship is expected to be effective.

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**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.

**Fair value of financial assets and liabilities**

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2020

**4. Cash and other liquid assets**

	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
Cash and balances with central banks	-	162,700
Cash and balances with banks	18,777	30,570
<b>Cash and cash equivalents</b>	<u>18,777</u>	<u>193,270</u>
Statutory deposit with the CBUAE	23,313	28,048
<b>Cash and other liquid assets</b>	<u>42,090</u>	<u>221,318</u>

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

**5. Placements**

Placements at 31<sup>st</sup> December 2020 entirely comprised inter-bank placements of which AED 460,000 thousand is denominated in AED and the remaining AED 73,450 is in US Dollars with an original maturity of one month. There were no placements at 31<sup>st</sup> December 2019.

**6. Loans and advances**

**6.1 Composition**

	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
Gross loans and advances	1,087,384	800,925
Specific provisions for impairment	(72,075)	-
<b>Carrying amount of loans and advances</b>	<u>1,015,309</u>	<u>800,925</u>
Non-specific provisions for impairment	(15,084)	(4,006)
<b>Net loans and advances</b>	<u>1,000,225</u>	<u>796,919</u>

**6.2 Industrial classification**

	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
Trading and services	341,946	415,011
Manufacturing	262,614	176,921
Real estate	159,137	80,705
Transportation	125,427	-
Construction and engineering	101,545	123,385
Financial	91,812	-
Energy, oil and petrochemical	4,903	4,903
<b>Gross loans and advances</b>	<u>1,087,384</u>	<u>800,925</u>
Provisions for impairment	(87,159)	(4,006)
<b>Net loans and advances</b>	<u>1,000,225</u>	<u>796,919</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> December 2020

## 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		Specific provision	<u>2020</u>	Collective provision		Specific provision	<u>2019</u>
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	AED 000s	AED 000s	AED 000s	AED 000s	AED 000s	AED 000s	AED 000s	AED 000s
<b>At 1<sup>st</sup> January</b>	<b>2,545</b>	<b>1,461</b>	-	<b>4,006</b>	1,258	6,671	38,846	46,775
Transfer to stage 2	(795)	795	-	-	(121)	121	-	-
Transfer to stage 3	(661)	(153)	814	-	-	(1,242)	1,242	-
Exchange rate movements	-	-	(5)	(5)	-	-	5	5
Net remeasurement of loss allowance	8,844	3,048	101,033	112,925	1,408	(4,089)	(1,243)	(3,924)
Amounts utilised	-	-	(29,767)	(29,767)	-	-	(38,850)	(38,850)
<b>At 31<sup>st</sup> December</b>	<b>9,933</b>	<b>5,151</b>	<b>72,075</b>	<b>87,159</b>	2,545	1,461	-	4,006

## 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:-

	<u>31.12.20</u>		<u>31.12.19</u>	
	Gross	Carrying Amount	Gross	Carrying Amount
	AED 000s	AED 000s	AED 000s	AED 000s
Corporates	111,579	39,504	25,829	25,829

## 6.5 Restructured loans

During the years ended 31<sup>st</sup> December 2020 and 31<sup>st</sup> December 2019, 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 31<sup>st</sup> December 2020 and 31<sup>st</sup> December 2019.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2020

**7. Equipment**

	<u>2020</u>	<u>2019</u>
	AED 000s	AED 000s
<b>Cost</b>		
Opening balance	3,071	2,541
(Disposals) / additions during the year	(65)	530
<b>Balance at 31<sup>st</sup> December</b>	<u>3,006</u>	<u>3,071</u>
<b>Accumulated depreciation</b>		
Opening balance	1,888	913
Charge for the year	647	975
<b>Balance at 31<sup>st</sup> December</b>	<u>2,535</u>	<u>1,888</u>
<b>Net book value at 31<sup>st</sup> December</b>	<u>471</u>	<u>1,183</u>

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**

	<u>31.12.20</u>	<u>31.12.19</u>
	AED 000s	AED 000s
Accrued interest, fees and commission	5,132	5,295
Prepayments	1,966	1,319
Expected credit losses	(1,586)	(209)
Derivative financial instruments	194	-
Other, including accounts receivable	449	460
	<u>6,155</u>	<u>6,865</u>

**10. Deposits from customers**

Deposits at 31<sup>st</sup> December 2020 and 31<sup>st</sup> December 2019 were entirely from entities in the Gulf Cooperation Council (GCC) states.

**11. Due to Head Office and Branches**

At 31<sup>st</sup> December 2020, the balance due to Head Office and branches are predominantly interest free and repayable on demand.



**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2020

**12. Other liabilities**

	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
Accrued interest	5,357	2,022
Deferred items	2,507	863
Derivative financial instruments	139	-
Other, including accounts payable and accrued expenses	2,355	2,050
	<u>10,358</u>	<u>4,935</u>

**13. Senior term financing**

	<u>Maturity</u>	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
Floating rate loans	2024	29,994	29,994

**14. Net interest income**

	<u>Year ended</u> <u>31.12.20</u> AED 000s	<u>Year ended</u> <u>31.12.19</u> AED 000s
<b>Interest income</b>		
Placements and other liquid assets	2,839	4,994
Loans and advances	28,267	37,799
Total interest income	<u>31,106</u>	<u>42,793</u>
<b>Interest expense</b>		
Deposits from customers	13,950	11,940
Senior term financing	695	545
Total interest expense	<u>14,645</u>	<u>12,485</u>
<b>Net interest income</b>	<u>16,461</u>	<u>30,308</u>

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 31<sup>st</sup> December 2020 amounted to nil (2019: nil). There was no accrued but uncollected interest included in interest income on past due loans for either the year ended 31<sup>st</sup> December 2020 or year ended 31<sup>st</sup> December 2019.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> December 2020

## 15. Fee and commission income

	Year ended 31.12.20	Year ended 31.12.19
	AED 000s	AED 000s
<b>Fee and commission income</b>		
Commissions on letters of credit and guarantee	1,235	1,168
Loan commitment fee	545	-
Loan agency fees	110	-
Other fee and commission income	142	207
Total fee and commission income	<u>2,032</u>	<u>1,375</u>
<b>Fee and commission expense</b>	<u>(137)</u>	<u>(91)</u>
<b>Net fee and commission income</b>	<u>1,895</u>	<u>1,284</u>

## 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

	2020	2019
	AED 000s	AED 000s
<b>Statement of comprehensive income</b>		
Current:		
For the year	(108,000)	23,827
	<u>(108,000)</u>	<u>23,827</u>
<b>The relationship between the tax expense and the accounting income</b>		
Accounting (loss) / income	(108,000)	23,827
Add: expenses and provisions not deductible	114,303	(4,150)
Less: prior period losses utilised	(6,303)	(19,677)
<b>Adjusted taxable income</b>	<u>-</u>	<u>-</u>
<b>Tax at the applicable rate of 20%</b>	<u>-</u>	<u>-</u>

Taxation is provided at 20% (31<sup>st</sup> December 2019: 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

For the year ended 31<sup>st</sup> December 2020

## 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:-

	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
Direct credit substitutes	76,255	5,142
Transaction-related contingent items	298,030	315,117
Short-term self-liquidating trade-related contingent items	11,794	56,103
Undrawn loan commitments	202,804	-
	<u>588,883</u>	<u>376,362</u>

Commitments may be drawdown on demand.

Direct credit substitutes at 31<sup>st</sup> December 2020 and 31<sup>st</sup> December 2019 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 31<sup>st</sup> December resulting from such transactions included in the financial statements are as follows:-

	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
<b>Gulf International Bank B.S.C. (Head Office)</b>		
Due from Head Office	153,618	129,486
Due to Head Office	102,837	39,418
Interest rate swaps (notionals)	290,886	49,992
<b>Gulf International Bank B.S.C. - Saudi Arabia</b>		
Due from Subsidiaries	196	92
Due to Subsidiaries	2,593	-
<b>Gulf International Bank (UK) Limited</b>		
Other assets	72	72
<b>Gulf International Bank B.S.C. - Retail Branch (Meem)</b>		
Due from Branches	4	42

The compensation of key management personnel was as follows:-

	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
Short-term employee benefits	2,512	2,135
Post-employment benefits	162	120
	<u>2,674</u>	<u>2,255</u>

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**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 31<sup>st</sup> December 2020, the Branch accumulated an amount of AED 72 thousand (2019: AED 72 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:-

	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
Gross loans and advances	338,539	314,322
Specific provisions for impairment	-	-
<b>Carrying amount of loans and advances</b>	<u><b>338,539</b></u>	<u><b>314,322</b></u>

**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 31<sup>st</sup> December 2020 and 31<sup>st</sup> December 2019 all deposits are short-term, with a maximum maturity of one year.

**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.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31<sup>st</sup> December 2020

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31<sup>st</sup> December 2020

#### 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., For corporate exposures, corporate PD estimates are internally derived using the Bank's central default tendency for the Corporate portfolio, for financial institutions and sovereign government exposures, the PDs are based on external rating data of all global financial institutions rated by Standard & Poor's.

The PIT PD estimates are converted to PIT PDs using the Vasicek model. For exposures that have tenors in excess of one year and that are assessed on lifetime PDs, Cumulative 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 31<sup>st</sup> December 2020, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 50:25:25 respectively (2019: 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> December 2020

## 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 internal ratings map directly to the external rating grades used by the international credit rating agencies as follows:-

Internal rating grade	Internal classification	Fitch and Standard & Poor's	Moody's
<b>Investment grade</b>			
Rating grade 1	Standard	AAA	Aaa
Rating grade 2	Standard	AA	Aa
Rating grade 3	Standard	A	A
Rating grade 4	Standard	BBB	Baa
<b>Sub-investment grade</b>			
Rating grade 5	Standard	BB	Ba
Rating grade 6	Standard	B	B
Rating grade 7	Standard	CCC	Caa
<b>Classified</b>			
Rating grade 8	Substandard	CC	Ca
Rating grade 9	Doubtful	C	C
Rating grade 10	Loss	D	-

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31<sup>st</sup> December 2020

20. Risk management (continued)

Credit risk profile

	Placements & other liquid assets	Loans and advances	<u>31.12.20</u> Credit- related contingent items
	AED 000s	AED 000s	AED 000s
<b>Stage 1 (12-month ECL)</b>			
Rating grades 1 to 4-	575,540	385,588	448,714
Rating grades 5+ to 5-	-	299,609	118,714
Rating grades 6+ to 6-	-	118,320	-
<b>Carrying amount (net)</b>	<b>575,540</b>	<b>803,517</b>	<b>567,428</b>
<b>Stage 2 (Lifetime ECL but not credit-impaired)</b>			
Rating grades 5+ to 5-	-	84,856	-
Rating grades 6+ to 6-	-	72,348	600
<b>Carrying amount (net)</b>	<b>-</b>	<b>157,204</b>	<b>600</b>
<b>Stage 3 (Lifetime ECL and credit-impaired)</b>			
Rating grade 8	-	22,157	1,667
Rating grade 9	-	17,347	-
<b>Carrying amount (net)</b>	<b>-</b>	<b>39,504</b>	<b>1,667</b>
<b>Other credit risk exposures</b>			
Performance bonds	-	-	19,188
<b>Carrying amount</b>	<b>-</b>	<b>-</b>	<b>19,188</b>
	<b>575,540</b>	<b>1,000,225</b>	<b>588,883</b>



NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31<sup>st</sup> December 2020

20. Risk management (continued)

Credit risk profile (continued)

	Placements & other liquid assets AED 000s	Loans and advances AED 000s	<u>31.12.19</u> Credit- related contingent items AED 000s
<b>Stage 1 (12-month ECL)</b>			
Rating grades 1 to 4-	221,318	385,589	59,563
Rating grades 5+ to 5-	-	341,375	46,676
<b>Carrying amount (net)</b>	<u>221,318</u>	<u>726,964</u>	<u>106,239</u>
<b>Stage 2 (Lifetime ECL but not credit-impaired)</b>			
Rating grades 5+ to 5-	-	33,446	-
Rating grades 6+ to 6-	-	10,680	4,333
<b>Carrying amount (net)</b>	<u>-</u>	<u>44,126</u>	<u>4,333</u>
<b>Stage 3 (Lifetime ECL and credit-impaired)</b>			
Rating grade 6	-	20,926	-
Rating grade 7	-	4,903	1,667
<b>Carrying amount (net)</b>	<u>-</u>	<u>25,829</u>	<u>1,667</u>
<b>Other credit risk exposures</b>			
Performance bonds	-	-	26,183
<b>Carrying amount</b>	<u>-</u>	<u>-</u>	<u>26,183</u>
	<u>221,318</u>	<u>796,919</u>	<u>138,422</u>

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

	<u>Stage 1</u> AED 000s	<u>Stage 2</u> AED 000s	<u>Stage 3</u> AED 000s	<u>Total</u> AED 000s
Loans and advances	813,450	162,355	111,579	1,087,384
Expected credit losses and credit impairment	(9,933)	(5,151)	(72,075)	(87,159)
At 31 <sup>st</sup> December 2020	<u>803,517</u>	<u>157,204</u>	<u>39,504</u>	<u>1,000,225</u>
	<u>Stage 1</u> AED 000s	<u>Stage 2</u> AED 000s	<u>Stage 3</u> AED 000s	<u>Total</u> 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 31 <sup>st</sup> December 2019	<u>726,964</u>	<u>44,126</u>	<u>25,829</u>	<u>796,919</u>

**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31<sup>st</sup> December 2020**20. Risk management (continued)****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.

*Managing interest rate benchmark reform and associated risks Overview*

A fundamental reform of major interest rate benchmarks is being undertaken globally subsequent to the decision taken by global regulators, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (RFR) (referred to as 'IBOR reform'). The Branch has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives.

The Branch anticipates that IBOR reform will impact its risk management and hedge accounting. The Branch has established a project to manage the transition for any of its contracts that could be affected. The Branch's (risk management committee) monitors and manages this project for the Branch's transition to alternative rates. The (committee) evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Head Office board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of interest rate risk and risks arising from IBOR reform.

IBOR reform exposes the Branch to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk assessment arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Operational risk arising from changes to the Branch's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
- Accounting risk if the Branch's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs

**Derivatives**

International Swaps and Derivatives Association (ISDA) is currently reviewing its standardised contracts in the light of IBOR reform and plans to amend certain floating-rate options in the 2006 ISDA definitions to include fall-back clauses that would apply on the permanent discontinuation of certain key IBORs. ISDA is expected to publish an IBOR fall-back supplement to amend the 2006 ISDA definitions and an IBOR fall-back protocol to facilitate multilateral amendments to include the amended floating-rate options in derivative transactions that were entered into before the date of the supplement. The Branch currently plans to adhere to the protocol if and when it is finalised and to monitor whether its counterparties will also adhere. If this plan changes or there are counterparties who will not adhere to the protocol, the Branch will negotiate with them bilaterally about including new fall-back clauses.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> December 2020

## 20. Risk management (continued)

## Market risk (continued)

## Derivatives (continued)

The table below shows the Branch's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future (the table excludes exposures to IBOR that will expire before transition is required).

31 <sup>st</sup> December 2020	<u>Non-derivative financial assets - carrying value</u> AED 000s	<u>Non-derivative financial liabilities - carrying value</u> AED 000s	<u>Derivatives - nominal amount</u> AED 000s
LIBOR	339,652	29,994	70,759

## Hedge accounting

The specific impact on the Branch's hedging activities is being carefully managed as part of the overall project to achieve IBOR reform. The Branch has evaluated the extent to which its hedging relationships are subject to uncertainty driven by IBOR reform as at 31st December 2020. The Branch's hedged items and hedging instruments continue to be indexed to USD LIBOR. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

The calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority granted authorisation with respect to Euribor under the European Union Benchmarks Regulation. This allows market participants to continue to use Euribor for both existing and new contracts and the Branch expects that Euribor will continue to exist as a benchmark rate for the foreseeable future.

If a hedging relationship is directly affected by uncertainty arising from IBOR reform, then the Branch assumes for this purpose that the benchmark interest rate is not altered as a result of IBOR reform in accordance with the reliefs provided under IBOR reform phase 1 as explained in note 2.17

The below table provides the nominal amounts of interest rate swaps in a hedging relationships that will be affected by IBOR reform as financial instruments transition to RFRs by average maturity. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Branch manages through hedging relationships.

31 <sup>st</sup> December 2020	<u>Derivatives - nominal amount</u> AED 000s	<u>Average maturity (in years)</u>
LIBOR	70,759	3.9

## 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2020

**20. Risk management (continued)**

**Liquidity risk (continued)**

In accordance with CBUAE regulations, the Branch is required to maintain a minimum balance with the Central Bank of UAE equal to 7 per cent of current, bank savings, call and similar accounts and one per cent of fixed deposits (time deposits).

The maturity profile of the carrying amount of assets, liabilities and equity, based on the contractual maturity dates, was as follows:

	Within 3 months AED 000s	4 months to 1 year AED 000s	Years 2 and 3 AED 000s	Over 3 years and other AED 000s	Total AED 000s
<b>At 31<sup>st</sup> December 2020</b>					
Cash and other liquid assets	42,090	-	-	-	42,090
Placements	533,450	-	-	-	533,450
Loans and advances	313,959	177,314	174,013	334,939	1,000,225
Equipment	-	-	-	471	471
Due from Head Office and branches	153,818	-	-	-	153,818
Other assets	-	6,155	-	-	6,155
<b>Total assets</b>	<b>1,043,317</b>	<b>183,469</b>	<b>174,013</b>	<b>335,410</b>	<b>1,736,209</b>
Deposits from customers	907,926	126,250	-	-	1,034,176
Due to Head Office and branches	105,430	-	-	-	105,430
Other liabilities	10,358	-	-	-	10,358
Senior term financing	-	-	-	29,994	29,994
Equity	-	-	-	556,251	556,251
<b>Total liabilities &amp; equity</b>	<b>1,023,714</b>	<b>126,250</b>	<b>-</b>	<b>586,245</b>	<b>1,736,209</b>
<b>At 31<sup>st</sup> December 2019</b>					
Total assets	733,862	203,635	4,307	214,101	1,155,905
Total liabilities & equity	514,777	30,430	-	610,698	1,155,905

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31<sup>st</sup> December 2020**

**20. Risk management (continued)**

**Liquidity risk (continued)**

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

	<b>Within 3 months</b>	<b>4 months to 1 year</b>	<b>Years 2 and 3</b>	<b>Over 3 years and other</b>
	<b>AED 000s</b>	<b>AED 000s</b>	<b>AED 000s</b>	<b>AED 000s</b>
<b>At 31<sup>st</sup> December 2020</b>				
Deposits from customers	925,946	134,556	-	-
Term financing	140	-	-	29,994
Derivative financial instruments				
- contractual amounts payable	48	65	171	96
- contractual amounts receivable	(50)	(149)	(397)	(201)
<b>Total undiscounted financial liabilities</b>	<b>926,085</b>	<b>134,471</b>	<b>(226)</b>	<b>29,889</b>
<b>At 31<sup>st</sup> December 2019</b>				
Deposits from customers	480,977	31,927	-	-
Term financing	248	-	-	29,994
Derivative financial instruments				
- contractual amounts payable	18	-	-	-
- contractual amounts receivable	(62)	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>481,180</b>	<b>31,927</b>	<b>-</b>	<b>29,994</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2020

**20. 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.

The repricing profile of assets and liabilities categories and equity were as follows:-

	Within 3 months AED 000s	Months 4 to 6 AED 000s	Months 7 to 12 AED 000s	Over 1 year AED 000s	Non-interest bearing items AED 000s	Total AED 000s
<b>At 31<sup>st</sup> December 2020</b>						
Cash and other liquid assets	42,090	-	-	-	-	42,090
Placements	533,450	-	-	-	-	533,450
Loans and advances	313,959	156,942	20,372	508,952	-	1,000,225
Equipment	-	-	-	-	471	471
Due from Head Office and branches	153,818	-	-	-	-	153,818
Other assets	-	-	6,155	-	-	6,155
<b>Total assets</b>	<b>1,043,317</b>	<b>156,942</b>	<b>26,527</b>	<b>508,952</b>	<b>471</b>	<b>1,736,209</b>
Deposits from customers	907,926	126,250	-	-	-	1,034,176
Due to Head Office and branches	105,430	-	-	-	-	105,430
Other liabilities	10,358	-	-	-	-	10,358
Senior term financing	-	-	-	29,994	-	29,994
Equity	-	-	-	-	556,251	556,251
<b>Total liabilities &amp; equity</b>	<b>1,023,714</b>	<b>126,250</b>	<b>-</b>	<b>29,994</b>	<b>556,251</b>	<b>1,736,209</b>
<b>Interest rate sensitivity gap</b>	<b>19,603</b>	<b>30,692</b>	<b>26,527</b>	<b>478,958</b>	<b>(555,780)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>19,603</b>	<b>50,295</b>	<b>76,822</b>	<b>555,780</b>	<b>-</b>	<b>-</b>
<b>At 31<sup>st</sup> December 2019</b>						
Cumulative interest rate sensitivity gap	219,085	383,877	392,290	579,521	-	-

Based on the repricing profile at 31<sup>st</sup> December 2020, 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 income before tax for the following year by approximately AED 4,307 thousand and an increase in the Branch's equity by AED 12 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> December 2020

## 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 financial assets and liabilities

The Branch's financial assets and liabilities are accounted for under the historical cost method except of derivative assets and liabilities which are recorded 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.

The derivative financial assets and liabilities are considered to be level 2 inputs (valuation based on market observable data). During the year there were no transfers between level 1,2 and 3.

## 22. Derivatives and foreign exchange instruments

The Branch utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management (ALM) activity to hedge its own exposure to market risk. Derivative instruments are contracts whose value is derived from one or more financial instruments or indices. They include futures, forwards and swaps in the interest rate, foreign exchange, equity, credit and commodity markets. Derivatives and foreign exchange are subject to the same types of credit and market risk as other financial instruments. The Branch has appropriate and comprehensive Board-approved policies and procedures for the control of exposure to both market and credit risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. The Branch measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

	Notional amounts		
	Trading	Hedging	Total
	AED 000s	AED 000s	AED 000s
<b>At 31<sup>st</sup> December 2020</b>			
Foreign exchange contracts:-			
Unmatured spot, forward and futures contracts	-	822,703	822,703
Interest rate contracts:-			
Interest rate swaps	81,529	280,117	361,646
	<b>81,529</b>	<b>1,102,820</b>	<b>1,184,349</b>
<b>At 31<sup>st</sup> December 2019</b>			
	-	649,367	649,367

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> December 2020**23. 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 2020 were AED 550,000 thousand (2019: AED 550,000 thousand).

**24. Other reserve**

Other reserve represents a reserve for impairment ("impairment reserve") calculated under the CBUAE guidance note dated 30<sup>th</sup> April 2018 to banks and finance companies on the implementation of IFRS 9 through notice CBUAE/BS/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.

	<u>31.12.20</u> AED 000s	<u>31.12.19</u> AED 000s
<b>Impairment reserve: General</b>		
General provisions under Circular 28/2010 of CBUAE	20,137	14,114
Less: Stage 1 and Stage 2 provisions under IFRS 9	16,671	4,215
<b>General provision transferred to the impairment reserve</b>	<u>3,466</u>	<u>9,899</u>
<b>Impairment reserve: Specific</b>		
Specific provisions under Circular 28/2010 of CBUAE	74,860	6,458
Less: Stage 3 provisions under IFRS 9	72,075	-
<b>General provision transferred to the impairment reserve</b>	<u>2,785</u>	<u>6,458</u>
<b>Total provision transferred to the impairment reserve</b>	<u>6,251</u>	<u>16,357</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2020

**25. 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:-

	<u>2020</u> AED 000s	<u>2019</u> AED 000s
Tier 1 capital:		
Capital funds	550,000	550,000
IFRS transitional arrangement: Partial addback of ECL	12,256	-
	<u>562,256</u>	<u>550,000</u>
Deductions from Tier 1 capital	-	-
Total Tier 1 capital	<u>562,256</u>	<u>550,000</u>
Tier 2 capital:		
Collective impairment provision for financing assets	16,781	11,761
	<u>16,781</u>	<u>11,761</u>
Deductions from Tier 2 capital	-	-
Total Tier 2 capital	<u>16,781</u>	<u>11,761</u>
<b>Total capital base</b>	<u><b>579,037</b></u>	<u><b>561,761</b></u>
Risk weighted assets		
Credit risk	1,342,481	940,914
Market risk	26	26
Operational risk	39,603	29,748
	<u>1,382,110</u>	<u>970,688</u>
<b>Total risk weighted assets</b>	<u><b>1,382,110</b></u>	<u><b>970,688</b></u>
<b>Tier 1 risk asset ratio</b>	<u><b>40.7%</b></u>	<u><b>56.7%</b></u>
<b>Total risk asset ratio</b>	<u><b>41.9%</b></u>	<u><b>57.9%</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> December 2020

## 25. Capital management (continued)

## 25.1 Basel III capital ratio

CBUAE has put in regulatory thresholds for Common Equity Tier 1, Tier 1 and overall regulatory Capital. 1. CET1 must be at least 7.0% of risk weighted assets (RWA); 2. Tier 1 Capital must be at least 8.5% of RWA; 3. Total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA. On top of this minimum capital requirement CBUAE has also mandated the Banks to keep an additional buffer, in addition to the minimum CET1 capital of 7.0% of RWA, banks must maintain a capital conservation buffer (CCB) of 2.5% of RWAs in the form of CET1 capital.

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

	2020	Minimum capital requirement 2020	2019	Minimum capital requirement 2019
	%	%	%	%
CET1 (including buffer)	40.7	9.50	56.7	9.50
Tier 1 ratio	40.7	11.00	56.7	11.00
Total capital ratio	41.9	13.00	57.9	13.00