BANK SADERAT IRAN

UNITED ARAB EMIRATES BRANCHES

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2019

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Independent auditor's report to the Directors of Bank Saderat Iran

Bank Saderat Iran
United Arab Emirates Branches

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Bank Saderat Iran (United Arab Emirates Branches) (the "Bank")**, which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements as set out on pages - 10 to 64.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Emphasis of matter

Without qualifying our opinion, we draw attention to the following:

1. As discussed in note 32 to the financial statements:

- The Bank has been subjected to implementing notices by the Central Bank of the UAE on account of the restrictions imposed by the Security Council of the United Nations on certain Iranian entities and individuals. Management believes that the Bank has complied with all such notices issued by the Central Bank of the UAE. Management of the Bank also believes that despite such restrictions being imposed, the going concern assumption used in the preparation of financial statements for the year ended December 31, 2019 is still appropriate;

- The Office of Foreign Assets Control ("OFAC") of the United States' Department of the Treasury has also resolved to impose restrictions on certain Iranian entities and individuals, including Bank Saderat Iran. Management of the Bank believes that these restrictions did not have a significant impact on the Bank's ability to continue as a going concern; and

- In the last few years, a number of countries have imposed/reinforced sanctions on Iranian banks. More significantly, European Union Council Decision 2012/152/CFSP of March 15, 2012 provided for a ban on the supply of specialised financial messaging services used to exchange financial data, to certain Iranian banks. As a result of this, the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") disconnected certain Iranian banks, including Bank Saderat Iran from its international network with effect from March 17, 2012.

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P.O. Box: 13742 DUBAI - U.A.E. N.R. Doshi & Partners - Public Accountants

Management of the Bank believes that since the Bank has not had business dealing / relations with any of the banks in the countries referred to above for a long period of time and it mainly deals with Iranian Banks which have there own intra-communication arrangements, the business activities of the Bank have not been significantly affected by the inability to use SWIFT. Further, in response to this, the Bank has introduced measures in order to ensure uninterrupted, legalised, authenticated transmission of messages and continuation of business activities including transfer of funds.

This financial statement do not take account of the potential future impacts of the current and any further restrictions that may be imposed by The Security Council of the United Nations and The Office of Foreign Assets Control of the United States' Department of the Treasury and restrictions that may be imposed by other countries.

2. As discussed in note 33 of the financial statements, the Bank has assessed the forecast conditions considering the impact of COVID-19 for its operations and the significant government support measures being undertaken for the banking industry in United Arab Emirates (UAE) but at this time it is difficult to incorporate the specific effects of COVID-19 and government support measure on a reasonable grounds and supportive basis. The Bank will be monitoring the updated facts and circulars issued by Central Bank of UAE and supporting changes will be incorporated in the statements subsequent to the financial position date. As at statement of financial position date, the Bank is confident that appropriate disclosures and adjustments are made for the ECL based on the judgements and models prescribed by the Bank for the IFRS 9 impact for its financial instruments.

3. As discussed in note 34 of the financial statements, which states that the Bank has incurred a loss of AED 95 million (2018: AED 220 million) and has accumulated losses of AED 1,063 million as at December 31, 2019 (accumulated losses as at December 31, 2018: AED 968 million). The Eligible Liquid Assets Ratio (ELAR) stood at 12.97% as at December 31, 2019 (December 31, 2018: 3.85%) against the minimum requirement of 10%.

These conditions, indicate the existence of a material uncertainty which may cast significant doubt on the Bank's ability to continue as a going concern and that, therefore, the Bank may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements however, have been prepared on a going concern basis. The Bank along with its Head Office is currently committed to continue the business as a going concern and would introduce additional funds as and when required to meet its obligations as they fall due in the foreseeable future.

Key Audit Matters

Key Audit Matters (KAMs) are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon.

(Independent auditor's report on Bank Saderat Iran - United Arab Emirates Branches continued on next page...)

Key audit matter	How our audit addressed the key audit
1. Estimation uncertainty with respect to Expected Credit Losses (ECL) for loans and advances to	
The assessment of the Bank's determination of impairment allowances for loans and advances to customers requires the Bank's management to make judgements over the staging of financial assets and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality of the loans and advances to customers (representing 40% of total assets) and the complexity of judgements, assumptions and estimates used in measurement of ECL models. The measurement of ECL are carried out by the models with limited manual intervention and are valid throughout the reporting period. The material portion of the Bank's portfolio of loans and advances is assessed individually for significant increase in credit risk (SICR) and measurement of ECL. This requires the Bank's management to capture all qualitative and quantitative reasonable forward looking information to assess the SICR or while assessing the credit impaired criteria. The Bank exercises significant judgements and makes a number of assumptions in developing ECL models, which include Probability of Default (PD), Loss given Default (LGD), Exposure at Default (EAD), forward looking information, macroeconomic adjustments and staging criteria. Refer to note 4 to the financial statements for the accounting policy and note 29 for the credit risk disclosure.	We gained an understanding of the Bank's business processes relating to credit risk management and estimation process of determining impairment allowances for loans and advances to customers. We have also tested the operating effectiveness of relevant controls within these processes. We examined the soundness of the Expected Credit Loss Models developed by an external UAE firm appointed by the Bank, by performing recalculations on sample basis for each model to verify their arithmetical accuracy. Also, we enquired with the Bank about the assumptions made during the computation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) to verify for their consistency and reasonableness. We challenged the assumptions underlying the impairment allowance calculation, such as estimated future cash flows, collateral valuations and estimates of recovery. We evaluated controls over approval, accuracy and completeness of impairment allowances including assessing key management and committee meetings for loan impairment allowances. We have updated our assessment of the framework and methodology, designed and implemented by the Bank, regarding the outcomes and stage allocations of the impairment model being reasonable and in line with the assumptions formed by the Bank. We re-performed specific model calculations to confirm the risk parameter outputs and ECL amounts and the same were found to be reasonably appropriate and sufficient. In accordance with the directives issued by the Central Bank of the U.A.E in its letter dated July 2, 2019 reference no. CBUAE/BSD/2019/2610, the Bank has recorded as much as the specific provision amounting to AED 343.98 million in 2019 and provided reasonable assurance on their efforts to record the balance provision of AED 179.22 million in 2020.

(Independent auditor's report on Bank Saderat Iran - United Arab Emirates Branches continued on next page...)

2. Impairment of loans and advances to specific customers

Accounting for the allowance for impairment of loans and advances is an area that requires management of the Bank to make complex and significant judgement over both timing of recognition and quantum of such impairment. The audit was focused on this matter due to the materiality of the loans and advance balances (representing 40% of total assets) and the subjective nature of the calculations. As at December 31, 2019, gross loans and advances amounted to AED 12,631 million against which provisions for impaired loans and advances amounting to AED 4,507 million were recorded. Further, the audit was focused on the gross exposure of a specific group of customers which represented 16% of gross loans and advances as at December 31, 2019.

Based on the objective evidence observed during the year, for a specific group of customers having gross outstanding of AED 2,080 million as at December 31, 2019, the Bank has recognised allowance for the impairment loss of AED 1,299 million against the required impairment allowance of AED 1,206 million. We assessed the level of allowance for impairment loss based on the discussion with the senior management of the Bank and the detailed loan and counterparty information, which is maintained by the management in the credit file. We have also assessed the accuracy of the key data from the portfolios, the provision calculations and critically assessed management estimates and assumptions used in determination of impairment loss allowance.

3. Fair valuation of mortgaged properties situated in Iran as collaterals

The Bank grants loans and advances to the customers after the necessary collaterals are obtained and evaluated by the Bank. Mortgaged properties situated in Iran are one of the major collaterals provided by the customers. The audit was focused on this matter due to the materiality of the fair value of these collaterals (representing 52% of gross amount of loans and advances from customers and constitutes 95% of total collaterals from such customers) and their significance in the calculation of allowance for impairment on loans and advances.

Our audit procedure included evaluating the methodologies, inputs and assumptions used by the Bank in assessing the adequacy of impairment allowance for individually assessed loans. We tested the design and operating effectiveness of relevant controls to determine allowance against the impaired loans. We tested some samples of impaired loans to test quantification, valuation of underlying collateral and estimates of recovery on default. The fair valuation of the properties held in Iran against impaired loans constitutes 90% of the total value of collaterals held by the Bank against such loans. Fair valuation of mortgaged properties held in Iran, valued in UAE Dirhams was estimated by Iran based external real estate agencies, duly approved by Head Office of the Bank.

We have relied on the certified report of external valuer Ref. no. 98-08-005 dated December 21, 2019 for the purpose of assessing the fair valuation of the Iranian properties and thereby, the adequacy of the impairment allowance. In addition, we have also obtained the letter issued by Credit Facility Department of the Bank, Ref no. 182/4/76/2020 dated February 24, 2020 which states that mortgaged properties situated in Islamic Republic Of Iran for Bank Saderat Iran – U.A.E branches customers that have been approximately fair values, are in tangible existence and in reasonable condition as at December 31, 2019.

(Independent auditor's report on Bank Saderat Iran - United Arab Emirates Branches continued on next page...)

4. Recognition and recoverability of deferred tax assets

The Bank is subject to income tax laws of respective Emirates of the United Arab Emirates in the jurisdiction in which it operates. Deferred taxes are recorded for the future consequences of events that have been recognized in financial statements or tax returns, based upon the enacted tax laws and rates. A deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The Bank has assessed deferred tax asset based on the deductible temporary differences as available with the Bank. A deferred tax asset is recognised for an unused tax credit only when it is considered probable that there will be sufficient future taxable profit against which the credit carry forward can be utilised. This raises concern over recognition and measurement of deferred tax asset as the management is required to form assumptions and prepare forecasts of future taxable profits to assess the recoverability of a deferred tax balance. These assumptions and forecasts are subject to future market and economic conditions which involve a high degree of uncertainty. As disclosed in note 11 to the financial statements, as at December 31, 2019 the Bank has recognized AED 1,224 million (December 31, 2018: AED 863 million) of deferred tax assets in the statement of financial position.

Our audit was focused on this matter due to the materiality of the deferred tax asset (representing 19% of total assets) and its recoverability due to its recognition involving judgement by the Bank, which is based on a number of factors including whether there will be sufficient taxable profits in future periods to support recognition.

We reviewed the process of the determination of the deferred tax assets. We have involved our tax specialists in our audit procedures relating to deferred tax assets. We assessed the evidence provided by the Bank to utilize the deferred tax assets against the future taxable income of the Bank and key assumptions used by the management on the future economic development.

We focused on the Bank's examination of the carrying value of deferred tax assets reviewed at the end of the reporting period. The carrying amount of deferred tax assets is recognised to the extent that it is probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

We relied on the correspondences documented between the Bank and the Tax Authority of respective Emirates' regarding the approval of the valuation of Deferred Tax Assets as at December 31, 2019.

We have relied upon the letter (Ref no.: 99/164335) received from the Bank's head office (Tehran, Iran), dated May 17, 2020, where in it states that the head office of the Bank assessed sufficiency of future taxable profits of the Bank to utilise deductible temporary differences and concluded minimal uncertainty to the Bank's future taxable profits. Accordingly, the head office of the Bank has given reasonable assurance for the recovery of the deferred tax assets in foreseeable future in accordance with IAS 12 *Income Taxes*.

5. Adequacy of Eligible Liquid Assets Ratio (ELAR)

The Eligible Liquid Assets Ratio (ELAR) is a measure to ensure that banks hold minimum buffers of liquid assets. The ratio requires the bank to hold a minimum amount equivalent to 10% of its total balance sheet liabilities (excluding those included in regulatory capital) in high quality liquid assets at all times, as described in detail as per Circular Number 33/2015 – Regulations re Liquidity at Banks issued by the Central Bank of the U.A.E. The audit was focused on this matter due to the ratio standing at 3.85% as at December 31, 2018.

We assessed and tested the design and operating effectiveness of the control over Bank's Central Bank of U.A.E. ("CBU") compliance monitoring procedure. We concluded moderate level of design and operative effectiveness of the control over adequacy of ELAR adherence. These controls included those over the liquid assets which banks are required to meet, consisting of physical cash in the bank, account balances at the CBU, central bank certificates of deposit, UAE federal government bonds and sukuk (Islamic bonds), reserve requirements, U.A.E. local government bonds and foreign sovereign debt instruments.

(Independent auditor's report on Bank Saderat Iran - United Arab Emirates Branches continued on next page...)

We performed an assessment of the implemented measures undertaken by the Bank to improve the liquidity position of the Bank. The ELAR ratio of the Bank as at December 31, 2019 stood at 12.97% which was above the minimum requirement of 10%. We were provided reasonable assurance by the management of the Bank to maintain the future liquidity position above minimum requirement as prescribed in the circular issued by the Central Bank of the U.A.E.

6. Large exposure to head office and its branches abroad and other banks outside U.A.E

The Bank has exceeded the exposure limits as prescribed in circular no. 32/2013 dated November 11, 2013 concerning regulations re Monitoring of Large Exposure Limits, its amendments and the table of maximum large exposure limits issued by the Central Bank of the U.A.E. According to Article (2) of circular no. 32/2013 dated November 11, 2013 exposure to banks operating outside the UAE, irrespective of their maturity are not allowed to exceed 30% of the bank's capital base.

The same applies to exposures of branches of foreign banks to their head offices and other branches abroad. The audit was focused on this matter as the Bank's exposure to head office and its branches abroad and to other Iranian banks outside U.A.E, exceeded the prescribed limit of 30% of the bank's Capital base as at December 31, 2019.

We reviewed the credit policy for the purpose of assessing the risks and exposures arising therefrom. Since the Bank is carrying a significantly high exposure against the balances receivable from the head office & its branches abroad and other banks, we assessed the measures undertaken by the Bank to reduce its large exposure limits such as reducing placements to head office of the Bank and offering term loans to other foreign banks.

We were provided reasonable assurance for lowering the exposure relating to the balances of head office and its branches abroad in order to meet the requirement as prescribed in the circular issued by the Central Bank of the U.A.E. We verified the letter issued by the Bank to the Central Bank of U.A.E dated December 10, 2019 bearing reference no. 182/1/2025/2019 stating the actions undertaken by the Bank to reduce large exposure to head office within the permissible limit. For the year ended December 31, 2019, the Bank's exposure to Head office and its branches abroad dropped to 78% of its Capital base. Subsequently, For the next year quarter ended March 31, 2020, the Bank's large exposure to head office and its branches dropped to 47% of its capital base.

We performed an overview of the action plan provided by the Bank to reduce its large exposure limits which includes increasing placements with new foreign banks so as to reduce the large exposures to current banks outside U.A.E in the following financial year. For the next year quarter ended March 31, 2020, the Bank's large exposure to all other banks outside U.A.E fell within the prescribed limit of 30%.

(Independent auditor's report on Bank Saderat Iran - United Arab Emirates Branches continued on next page...)

7. Large exposure to a single borrower or a group of related borrowers

The Bank has exceeded the exposure limits as prescribed in circular no. 32/2013 dated November 11, 2013 concerning regulations re Monitoring of Large Exposure Limits, its amendments and the table of maximum large exposure limits issued by the Central Bank of the U.A.E. According to Article (2) of circular no. 32/2013 dated November 11, 2013, exposure to a single borrower or a group of related borrowers is not allowed to exceed 25% of the bank's capital base. The audit was focused on this matter as the Bank's exposure to a specific group of borrowers exceeded the prescribed limit by 22% of the bank's Capital base as at December 31, 2019.

Further, according to Notice No. 226/2018 dated October 1, 2018, concerning Large Exposures – Credit Concentrations Above Limits issued by the Central Bank of the U.A.E, a 5 year grace period was granted to the banks to comply with the regulations of the aforementioned circular no. 32/2013 . Accordingly, non-compliance with the regulations would result in AED 1 being charged in capital (capital surcharge) for each dirham exceeding the large exposure limit prescribed in the regulations.

We reviewed the credit policy for the purpose of assessing the risks and exposures arising therefrom. Since the Bank is carrying a significantly high exposure against the balances receivable from a specific group of borrowers, we assessed the measures undertaken by the Bank to reduce its large exposure limit such as recovery of outstanding funds from such customers on instalment basis over the course of the following financial year.

We were provided reasonable assurance for lowering the exposure relating to specific group of borrowers and increasing the capital base of the Bank in order to meet the requirement as prescribed in the circular issued by the Central Bank of the U.A.E. The Bank is in active correspondence with the Central Bank of the U.A.E. with regards to the action plan to reduce the large exposure to mitigate the financial impact of non-compliance with Notice No. 226/2018 dated October 1, 2018.

Responsibilities of management and those charged with governance for the financial statements

Management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs) and the UAE Federal Law No. 2 of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 International Standards on Auditing (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 judgement and maintain professional skepticism throughout the audit. We also:

(Independent auditor's report on Bank Saderat Iran - United Arab Emirates Branches continued on next page...)

(Independent auditor's report on Bank Saderat Iran - United Arab Emirates Branches continued...)

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

(Independent auditor's report on Bank Saderat Iran - United Arab Emirates Branches continued on next page...)

Report on other legal and regulatory requirement

As required by the UAE Federal Law No. 2 of 2015, we report that:

i. We have obtained all the information we considered necessary for the purposes of our audit;

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

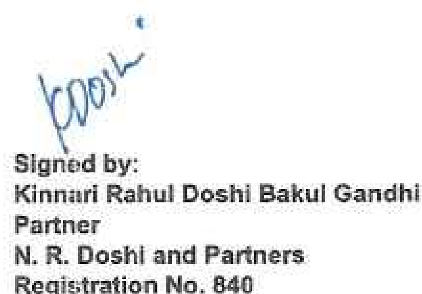
iii. the Bank has maintained proper books of account, and records of the Bank are in agreement with it;

iv. the Bank has not purchased any shares or stocks during the financial year;

v. note 7 to the financial statements of the Bank discloses material related party transactions, the terms under which they were conducted;

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 Bank has contravened during the financial year ended December 31, 2019 any of the applicable provisions of the UAE Federal Law No. 2 of 2015 as amended, which might have a material adverse effect on the Bank's financial position or/and the results of its operations.

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



Signed by:
Kinnari Rahul Doshi Bakul Gandhi
Partner
N. R. Doshi and Partners
Registration No. 840

Dubai, United Arab Emirates
3 1 MAY 2020

Bank Saderat Iran
United Arab Emirates Branches

Statement of financial position

As at December 31, 2019
All figures are expressed in thousands of U.A.E Dirhams

	Note	31.12.2019	31.12.2018	01.01.2018
			(Restated)	(Restated)
		AED '000	*AED '000*	*AED '000*
ASSETS				
Cash and balances with the UAE Central Bank	6	**617,096**	205,226	822,425
Due from head office and its branches abroad	7(a)	**499,565**	2,018,531	3,315,256
Due from other banks	8(a)	**1,342,802**	7,500	531,115
Export bills discounted for Iranian banks abroad	9	**108,493**	232,540	1,851,051
Loans and advances	10	**2,634,253**	3,494,125	3,877,769
Other assets	11	**1,323,810**	953,634	670,405
Property, plant and equipment	12	**24,836**	26,325	28,200
Total assets		**6,550,855**	6,937,881	11,096,221
LIABILITIES AND EQUITY				
Liabilities				
Due to other banks	8(b)	**1,307,747**	1,083,632	2,550,280
Customer deposits	13	**3,103,006**	3,666,232	4,540,426
Due to head office and its branches abroad	7(b)	**210,532**	392,234	1,964,748
Subordinated loans	14	**0**	0	600,000
Other liabilities	15	**121,100**	142,536	167,994
Total liabilities	**(A)**	**4,742,385**	5,284,634	9,823,448
Equity				
Assigned capital	1(a)	**2,350,000**	2,100,000	1,500,000
Statutory reserve	22	**521,553**	521,553	521,553
Accumulated losses		**(1,063,083)**	(968,306)	(748,780)
Net equity	**(B)**	**1,808,470**	1,653,247	1,272,773
Total liabilities and equity	**(A + B)**	**6,550,855**	6,937,881	11,096,221

We approve these financial statements and confirm that we are responsible for them, including selecting the accounting policies and making the judgments underlying them. We also confirm that we have made available all relevant accounting records and information for their compilation.

These financial statements on pages 10 to 64 are approved on May 31, 2020 and signed on behalf of the United Arab Emirates branches by;

Mr. Saeid Mirzaeian Tafti
Regional Manager

Mr. Syed Naqi Abbas Jafri
Chief Finance Officer

The independent auditor's report is set out on pages 1 to 9.

Bank Saderat Iran
United Arab Emirates Branches

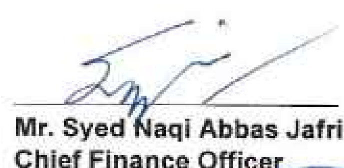
Statement of profit or loss and other comprehensive income

Year ended: December 31, 2019
All figures are expressed in thousands of U.A.E Dirhams

	Note	01.01.2019 to 31.12.2019	01.01.2018 to 31.12.2018
		AED'000	*AED'000*
Interest income	16	**62,598**	65,066
Interest expense	17	**(148,524)**	(215,616)
Net interest (expense)/income		**(85,926)**	(150,550)
Net fees and commission income	18	**3,199**	5,463
Other income / expense - net	19	**(7,316)**	(12,349)
General and administrative expenses	20	**(71,573)**	(77,065)
Allowance for impairment loss on loans and advances and other assets - net	10(d), 11	**(275,602)**	(93,867)
Impairment loss on due from head office and its branches abroad	7(d)	**0**	(102,217)
Loss before tax		**(437,218)**	(430,585)
Taxation for the year	21	**342,441**	211,059
Loss after tax for the year	(a)	**(94,777)**	(219,526)
Items that will not be reclassified to statement of profit or loss		**0**	0
Items that may be reclassified subsequently to the statement of profit or loss		**0**	0
Total comprehensive loss for the year	(b)	**(94,777)**	(219,526)
Loss after tax attributable to:			
Head office of the Bank		**(94,777)**	(219,526)
Non-controlling interests		**0**	0
	(a)	**(94,777)**	(219,526)
Total comprehensive loss attributable to:			
Head office of the Bank		**(94,777)**	(219,526)
Non-controlling interests		**0**	0
	(b)	**(94,777)**	(219,526)

These financial statements on pages 10 to 64 are approved on May 31, 2020 and signed on behalf of the United Arab Emirates branches by;

Mr. Saeid Mirzaeian Tafti
Regional Manager



Mr. Syed Naqi Abbas Jafri
Chief Finance Officer

The independent auditor's report is set out on pages 1 to 9.

Bank Saderat Iran
United Arab Emirates Branches

Statement of changes in equity

Year ended: December 31, 2019
All figures are expressed in thousands of U.A.E Dirhams

	(Available to head office of the Bank)			
	Assigned share capital	**Statutory reserve**	**(Accumulated losses)/ Retained earnings**	**Total**
	AED '000	***AED '000***	***AED '000***	***AED '000***
Balance as at December 31, 2017	1,500,000	521,553	204,176	2,225,729
Impact of adopting IFRS 9 as at January 1, 2018	0	0	(997,161)	(997,161)
Balance as at January 1, 2018 (As originally stated)	1,500,000	521,553	(792,985)	1,228,568
Correction of error (Refer note 24)	0	0	44,205	44,205
Balance as at January 1, 2018 (Restated)	1,500,000	521,553	(748,780)	1,272,773
Transfer from subordinated loans (Refer note 14)	600,000	0	0	600,000
Loss for the year	0	0	(219,526)	(219,526)
Total comprehensive loss for the year	0	0	(219,526)	(219,526)
Other comprehensive income for the year	0	0	0	0
Balance as at December 31, 2018 (Restated)	2,100,000	521,553	(968,306)	1,653,247
Transfer from due to head office (Refer note 7b)	250,000	0	0	250,000
Loss for the year	0	0	(94,777)	(94,777)
Total comprehensive loss for the year	0	0	(94,777)	(94,777)
Other comprehensive income for the year	0	0	0	0
Balance as at December 31, 2019	**2,350,000**	**521,553**	**(1,063,083)**	**1,808,470**

Bank Saderat Iran
United Arab Emirates Branches

Statement of cash flows

Year ended: December 31, 2019
All figures are expressed in thousands of U.A.E Dirhams

	Note	01.01.2019 to 31.12.2019	01.01.2018 to 31.12.2018 (Restated)
		AED'000	*AED'000*
I. Cash flow from operating activities			
Loss before taxation for the year		**(437,218)**	(430,585)
Adjustments for non cash income and expenses:			
Depreciation on property, plant and equipment	12	**2,664**	2,509
Provision for employees' end of service indemnity	15	**1,550**	1,965
Impairment loss on loans and advances and other assets - net	10(d), 11	**275,602**	93,867
Impairment loss on due from head office and its branches abroad	7(d)	**0**	102,217
Profit on disposal of property, plant and equipment	19	**(27)**	(11)
		(157,429)	(230,038)
Changes in operating assets and liabilities			
Decrease in statutory deposits with UAE Central Bank	6	**10,179**	7,935
Decrease in due from head office and its branches abroad	7(a)	**1,518,966**	1,194,508
(Increase)/decrease in due from other banks	8(a)	**(1,335,302)**	523,615
Decrease in export bills discounted for Iranian banks abroad	9	**124,047**	1,618,511
Decrease in loans and advances	10	**584,270**	289,777
Increase in other assets	11	**(8,959)**	(19,429)
Decrease in customer deposits	13	**(563,226)**	(874,194)
Increase/(decrease) in due to head office and its branches abroad	7(b)	**1,852**	(91,342)
Increase/(decrease) in due to other banks	8(b)	**224,115**	(1,466,648)
Decrease in other liabilities	15	**(21,688)**	(16,318)
Net cash generated from operations		**376,825**	936,377
Employees' end of service indemnity paid	15	**(1,413)**	(4,515)
Tax paid	21	**(18,661)**	(59,331)
Net cash flow from operating activities		**356,751**	872,531
II. Cash flow from investing activities			
Purchase of property, plant and equipment	12	**(1,175)**	(634)
Proceeds from disposal of property, plant and equipment	12	**27**	11
Net cash used in investing activities		**(1,148)**	(623)
III. Cash flow from financing activities			
Increase/(decrease) in due to head office and its branches abroad	7(b)	**66,446**	(1,481,172)
Cash flow from/(used in) financing activities		**66,446**	(1,481,172)
Net increase/(decrease) in cash and cash equivalents	**(I + II + III)**	**422,049**	(609,264)
Cash and cash equivalents at beginning of the year	**(Note 4e, 23)**	**118,375**	727,639
Cash and cash equivalents at the end of the year	**(Note 4e, 23)**	**540,424**	118,375

Bank Saderat Iran
United Arab Emirates Branches
Statement of cash flows (continued)
Year ended: December 31, 2019
All figures are expressed in thousands of U.A.E Dirhams

	01.01.2019 to 31.12.2019	01.01.2018 to 31.12.2018
	AED'000	*AED'000*
Supplemental cash flow statement information		
Operational cash flows from interest:		
Interest received	57,976	407,294
Interest paid	165,471	221,033
Non cash transactions		
Transfer from due to head office to assigned share capital	250,000	0
Transfer of subordinated loans to assigned share capital	0	600,000

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1. General information

a. Legal status

Bank Saderat Iran is incorporated in the Islamic Republic of Iran. In the United Arab Emirates, the Bank carries on the business of commercial banking through its following eight branches (collectively referred to as the "Bank"):

1. Al Maktoum Branch having license no. 206725 issued by Department of Economic Development, Government of Dubai dated October 06, 1969.

2. Murshid Bazar Branch having license no. 206597 issued by Department of Economic Development, Government of Dubai dated October 06, 1969.

3. Sheikh Zayed Branch having license no. 544166 issued by Department of Economic Development, Government of Dubai dated April 16, 2003.

4. Bur Dubai Branch having license no. 206454 issued by Department of Economic Development, Government of Dubai dated January 01, 1968.

5. Abu Dhabi Branch having license no. CN-1002012 issued by Department of Economic Development, Abu Dhabi Business Center dated December 31, 1969.

6. Al Ain Branch having license no. CN-1005792 issued by Department of Economic Development, Abu Dhabi Business Center dated October 13, 1972.

7. Sharjah Branch having license no. 12271 issued by Economic Development Department, Government of Sharjah dated July 22, 1974.

8. Ajman Branch having license no. 2692 issued by Municipality and planning department, Ajman dated March 11, 1978.

The Bank's registered office address in the United Arab Emirates is P.O. Box 4182, Dubai, United Arab Emirates.

The head office of the Bank is in Tehran, Islamic Republic of Iran.

These financial statements reflect the activities of the Bank in the United Arab Emirates only and exclude all transactions, assets and liabilities of the head office and other branches of the Bank.

The assigned capital of the Bank amounted to AED 2,350 million (December 31, 2018: AED 2,100 million). During the year 2019, the assigned capital of the Bank was increased by an amount of AED 250 million by the conversion of an equivalent amount from balances due to head office. This conversion was duly approved by the head office. The Central Bank of the U.A.E. vide its letter dated April 12, 2020 reference CBUAE/BSD/2020/1848 ratified such conversion.

b. Business activities

The Bank is engaged in the business of commercial banking.

c. Management

The Bank's regional office in Dubai Emirate is responsible for managing the operations of these UAE Branches.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

The following standards, amendments and interpretations to published standards are mandatory for accounting year 2019:

IFRS 3 (December 2017)	*Business Combinations* (effective for accounting periods beginning on or after January 01, 2019)
IFRS 9 (October 2017)	*Financial Instruments* (effective from accounting periods beginning on or after January 01, 2019)
IFRS 11 (December 2017)	*Joint Arrangements* (effective from accounting periods beginning on or after January 01, 2019)
IFRS 16 (January 2016)	*Leases* (effective from accounting periods beginning from January 01, 2019)
IAS 12 (December 2017)	*Income Taxes* (effective from accounting periods beginning from January 01, 2019)
IAS 19 (February 2018)	*Employee Benefits* (effective from accounting periods beginning from January 01, 2019)
IAS 23 (December 2017)	*Borrowing Cost* (effective from accounting periods beginning from January 01, 2019)
IAS 28 (October 2017)	*Investments in Associates and Joint Ventures* (effective for accounting periods beginning on or after January 01, 2019)
IFRIC 23 (June 2017)	*Uncertainty over Income Tax Treatments* (effective for accounting periods beginning on or after January 01, 2019)

a. Initial application of IFRS 16 *Leases*

(i) Bank as a lessee

The Bank adopted IFRS 16 *Leases* for the first time in the current period. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requires the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets as mentioned in note 4. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

In applying IFRS 16 for the first time, the Bank has used the practical expedient permitted by the standard in case of accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 to be considered as short-term leases.

(ii) Bank as a lessor

Under IFRS 16, a lessor continues to classify leases as either finance lease or operating lease and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental income are recognised in the statement of profit or loss and other comprehensive income on a straight line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

3. Standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following standards, amendments to existing standards and Interpretations were in issue but not yet effective and the Bank has not early adopted them:

IFRS 17 (May 2017)	*Insurance Contracts* (effective from accounting periods beginning from January 1, 2021)
IAS 1 (October 2018)	Presentation of Financial Statements (effective from accounting periods beginning from January 01, 2020)
IAS 8 (October 2018)	Accounting Policies, Changes in Accounting Estimates and Errors (effective from accounting periods beginning from January 01, 2020)

The Management anticipates that these amendments will be adopted in the Bank's financial statements for the period beginning January 1, 2020 or as and when it is applicable. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Bank performs a detailed review.

4. Basis of preparation and accounting policies

a. Statement of compliance

The financial statements are prepared in accordance with and comply with the requirements of each applicable International Financial Reporting Standard (IFRS) and each applicable Interpretation of the International Financial Reporting Interpretations Committee (IFRIC). IFRS also includes all International Accounting Standards (IAS) and Interpretations of Standing Interpretation Committee (SIC).

b. Basis of preparation

The financial statements have been prepared on the historical cost convention except measurement of derivative financial instruments at fair value, if any. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value of measurement and/or disclosure purposes in statement of financial position is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

i. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

ii. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

iii. Level 3 inputs are unobservable inputs for the asset or liability.

There were no transfers between level 1 and level 2 financial instruments during the current or prior year. The Bank did not have any financial instruments carried at fair value and classified within level 3 of fair value hierarchy at the current or prior year-end. Further, during the current or prior year there have been no purchases or sales of financial instruments carried at fair value and classified within level 3 of fair value hierarchy.

All the values in the financial statements are rounded to the nearest thousand (AED '000) except when otherwise indicated.

Initial recognition and measurement

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

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c. Accounting basis

These financial statements, except for the cash flow information are prepared under accrual basis of accounting. Under the accrual basis of accounting, transactions and events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

d. Measurement basis

These financial statements have been prepared on historical cost convention except for the measurement of derivatives at fair value, if any.

e. Financial assets

Financial assets are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

i) Measurement of financial assets

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in the statement of profit or loss and other comprehensive income.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;

- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and

- the Bank may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The financial assets classified as amortised cost consist of cash and cash equivalents, due from head office and its branches abroad, due from other banks, loans and advances and certain other assets.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Financial assets at FVTPL

Financial assets at FVTPL are:

i) assets with contractual cash flows that are not SPPI;

ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; and

iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

In the current year, the Bank has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturities of three months or less from the date of acquisition and include cash and non restrictive current account balances with the Central Bank of the UAE.

ii) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss for the year;

- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss for the year. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;

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- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss for the year; and

- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

iii) Impairment of financial assets

The Bank recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. No impairment loss is recognised for investments in equity instruments which are carried at FVTPL.

For all financial instruments, the Bank recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

The Bank considers whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Especially the following indicators are incorporated:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- actual or forecast significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant deterioration in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Bank and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due. The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Credit - impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events which indicates the borrower is in significant financial difficulty.

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 30 days or more.

Purchased or originated credit - impaired financial assets

Purchased or originated credit-impaired ('POCI') financial assets are the assets that are credit-impaired at initial recognition. The Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the borrower is more than 60 days past due on its contractual payments; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Measurement of expected credit loss (ECL)

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12 month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

For unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and

- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

No impairment loss is recognised on equity investments.

iv) Presentation of allowance for ECL in the financial statements

Loss allowances for ECL are presented in the financial statements as follows:

- for financial assets measured at amortised cost (balances with the UAE Central Bank, due from head office and branches abroad, due from other banks, loans and advances and other financial assets): as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: as part of revaluation reserve of investments designated at FVTOCI and recognised in other comprehensive income; and
- for loan commitments and financial guarantee contracts: as a provision.

v) Modification of financial assets

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

When a financial asset is modified, the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. The Bank considers the qualitative factors (i.e. contractual cash flows after modification, change in currency or counterparty, interest rates, maturity, covenants) and a quantitative assessment (i.e. compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, discounted at the original effective interest) to determine the substantially different terms.

In case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing the credit rating at initial recognition and the original contractual terms; with credit rating at the reporting date based on the modified terms.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for three consecutive months or more.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

vi) Write-offs

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended December 31, 2019 disclosed in note 10d. The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

vii) Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in comprehensive income.

f. Property, plant and equipment

Land is not depreciated. All other property, plant and equipment, are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method as follows:

Buildings	20 Years
Leasehold improvements	Lower of lease terms and 4 years
Furniture, fixtures, fittings and office equipment	1 - 4 Years
Motor vehicles	3 Years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

g. Impairment of non-financial assets

Assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

h. Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

i) Equity instruments

An equity instrument is assigned capital from head office that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

ii) Financial liabilities

Financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are deducted from the fair value of financial liabilities on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognised immediately in the statement of profit or loss and other comprehensive income.

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

The financial liabilities classified as amortised cost consist of due to other banks, customer deposits, due to head office and its branches abroad, subordinated loans and other liabilities.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

iii) Foreign exchange gains and losses

The carrying amount of financial liabilities that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial liabilities measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss for the year; and

- for financial liabilities measured at amortised cost that are part of a designated hedging relationship, foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

iv) Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expired. Where an existing financial liability is replaced by another from same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the comprehensive income.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in comprehensive income.

i. Provision for employees' end of service indemnity

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

The Bank provides end of service benefits to their expatriate 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 Laws. For expatriate staff employed before January 1, 1980, a contribution of 7% deducted from their basic salary restricted to maximum of AED 290 per month towards Provident Fund. The Bank contributes double of this amount and combines it with the employees contribution for employees end of service indemnity.

j. Provisions

A provision is recognised in the financial position when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

k. Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and

- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured at the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

l. Taxation

Income Tax

Taxation is provided for in accordance with local regulations for assessment of tax on the branches of foreign banks operating in the United Arab Emirates.

Taxation for the year comprises current and deferred tax, it is recognised in comprehensive income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rate enacted at the reporting date.

Deferred income tax is determined using the liability method on all temporary differences at the reporting date.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is expected to be realised or liability is expected to be settled, based on laws that have been enacted at the reporting date.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Value Added Tax

Expenses and assets are recognised net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, In which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable,

- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

m. Statutory reserve

UAE Federal Law No. 14 of 2018 requires that 10% of the net profit is transferred to a special reserve until such reserve equals 50% of the capital. This reserve is not available for distribution.

n. Revenue recognition

i) Interest income and expense

Interest income and expense for all interest-bearing financial instruments is calculated by applying the effective interest rate (refer note 4e) to the gross carrying amount of the financial instrument. For financial assets that have subsequently become credit- impaired (or stage 3), for which interest accrual is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision) are recognized directly to suspense in accordance with the regulation of the Central Bank of the United Arab Emirates.

When the recovery of interest or principal is in doubt, the recognition of income ceases and any further income accruals are taken directly to suspense in accordance with the regulations of the Central Bank of the United Arab Emirates.

ii) Revenue from contracts with customers

Under IFRS 15, revenue is recognised when a customer receives the services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

The Bank recognises revenue from rendering of services based on a five step model as set out in IFRS 15:

Step 1 - Identify the contract(s) with a customer:

A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2 - Identify the performance obligations in the contract:

A performance obligation is a promise in a contract with a customer to render services to the customer.

Step 3 - Determine the transaction

The transaction price is the amount of consideration to which the Bank expects to be entitled in exchange for rendering services to a customer, excluding amounts collected on behalf of third parties.

Step 4 - Allocate the transaction price to the performance obligations in the contract:

For a contract that has more than one performance obligation, the Bank will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Bank expects to be entitled in exchange for satisfying each performance obligation.

Step 5 - Recognise revenue when (or as) the entity satisfies a performance obligation:

The Bank satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

i. The customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs; or

ii. The Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

iii. The Bank's performance does not create an asset with an alternative use to the Bank and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which performance obligation is satisfied.

When the Bank satisfies a performance obligation by rendering the promised services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this gives rise to a contract liability.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

- Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

o. Foreign currencies transactions

The financial statements of the Bank are presented in the currency of the primary economic environment in which the Bank operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Bank are expressed in UAE Dirhams, which is the functional currency of the Bank and the presentation currency for these financial statements.

i. Transactions in foreign currencies are converted into UAE Dirhams at rates ruling when entered into.

ii. Monetary foreign currency balances are converted into UAE Dirhams at the rate of exchange ruling at the financial position date.

iii. Resultant gain or loss is taken to statement of profit or loss and other comprehensive income for the year.

iv. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

v. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

p. Leases

IFRS 16 requires the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

(i) Bank as a lessee

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable by the Bank under residual value guarantees;

- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and

- makes adjustments specific to the lease term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the year 2018, leases of property, plant and equipment were classified as either finance leases or operating leases. From January 1, 2019, operating leases are recognised as a right-of-use asset as described in note 4f and a corresponding liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

For leases previously classified as finance leases the Bank recognised the carrying amount of the lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The re-measurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The extension and termination options held are exercisable either by the Bank or by the respective lessor.

Residual value guarantees

To optimise lease costs during the contract period, the Bank sometimes provides residual value guarantees in relation to equipment leases, if any.

Short-term leases and leases of low value asset

For short-term (defined as leases with a lease term of 12 months or less) and leases of low value asset, the Bank recognises the lease payments as an operating lease on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. This expense is presented within other expenses in the statement of profit and loss and other comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease component, and instead account for any lease and associated non-lease component as a single arrangement. The Bank has used this practical expedient.

The Bank has presented right of use asset within 'Property, plant and equipment' and lease liabilities within 'Other liabilities' in the statement of financial position.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

(ii) Bank as a lessor

Operating lease

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operational lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Previous accounting policy for leases

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

(i) Bank as a lessee

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

(ii) Bank as a lessor

Operating lease

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease receivables are recognised as an income in the statement of profit or loss and other comprehensive income on a straight line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

q. Customer acceptances

Customer acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. Customer acceptances are recognised as a financial liability in the statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

r. Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognition on the settlement date, i.e. the date that the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

s. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

t. Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgments, assumptions, and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and income and expenses within the next financial year, as discussed below:

Estimates and judgment are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical accounting judgments

The management has exercised its judgment in the process of applying the Bank's accounting policies. The significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that were applied in the preparation of the financial statements of the Bank as at end for the year ended December 31, 2018, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, which are described in note 2.

i) Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 4). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of these assets. No such changes were required during the periods presented.

ii) Revenue recognition on refinanced bills and overdue bills discounted

The management had made judgment for the effective rate of interest at which interest income on bill discount overdue receivables was being earned and for the period of overdue interest. The effective rate of interest was decided based on the then market trends, Bank's historical interest rates trend, Bank's rate of interest negotiation capability, then economical and political environment. Any variation in effective rate of interest, period of interest or/and collections of such interest income then accounted in these financial statements will impact the performance of the period in which actually realised. During the year, the Bank has not incurred any impairment loss (December 31, 2018: AED 102 million) due to variation in the actual effective rate of interest than accounted effective rate of interest in earlier years.

iii) Identifying whether a contract includes a lease

At inception of a contract, an entity is required to assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A 'period of time' may be described in terms of the amount of use of an identified asset.

iv) Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

v) Amount payable under residual value guarantees (if any)

The Establishment initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period.

b. Key sources of estimation uncertainty

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. However, management opines that following are the estimates and assumptions that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within next financial year.

i) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, Therefore, the financial statements continue to be prepared on the ongoing basis. See also note 32 and 34.

ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4e, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

Assessment of significant increase in credit risk

The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour.

The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Bank considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected;
- to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third party guarantees or credit enhancements;
- significant changes in the actual or expected performance and behaviour of the borrower, including changes

i. in the payment status of borrowers in the Bank and changes in the operating results of the borrower; and
ii. macroeconomic information (such as oil prices or GDP) is incorporated as part of the internal rating model.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Establishing group of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the borrower, etc.). The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that Bank of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Bank uses various models and assumptions in measuring ECL of financial assets. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

- Establishing the number and relative weightings of forward - looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss given default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

iii) Property, plant and equipment

Management determines the estimated useful life and related depreciation charges for its leasehold improvements based on their best estimate. This estimate is based on, among other factors, an assumption that the Bank will renew its annual lease over the estimated useful life. It could change significantly should the annual lease not be renewed. Management will increase the depreciation charge where useful life is less than the previously estimated life.

The cost of other property, plant and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has not considered any residual value as it is deemed immaterial.

iv) Tax exposures

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the tax provisions in the period in which such determination is made. This assessment relies on the estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of the existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

v) Impairment of overdue export bills discounted

The Bank's accounting policy for impairment of financial assets is described in note 4e. Since the overdue export bills discounted are backed by the other Banks, the LGD is taken as zero. The export bills discounted are overdue because of the sanctions imposed on the Bank.

6. Cash and balances with the UAE Central Bank

	31.12.2019	31.12.2018
	AED'000	*AED'000*
Cash on hand	**53,882**	34,093
Balances with the UAE Central Bank in:		
- Current accounts	**486,542**	84,282
- Interest free statutory deposits	**76,672**	86,851
	617,096	205,226

Note:

The statutory deposits are kept with the UAE Central Bank in UAE Dirhams and US Dollars and cannot be withdrawn without its approval. The level of these deposits changes every month in accordance with the UAE Central Bank directives.

7. Related party transactions

Related party comprise of the head office and its branches abroad, key management personnel and entities controlled, jointly controlled or significantly influenced by such parties.

The Bank in the normal course of business enters into transactions with other business enterprises that fall within the definition of related party contained in the International Accounting Standards No. 24. The Bank believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties. The terms of these transactions with related party are approved by the Bank's management and are made on terms agreed by the Board of Directors or management.

The summary of balances with related parties as at the statement of financial position dates are as under:

a) Due from head office and its branches abroad comprises:

	31.12.2019	31.12.2018
	AED'000	*AED'000*
Head office	**486,196**	2,005,425
Branches abroad	**13,369**	13,106
	499,565	2,018,531

Note:

i. Due from Head Office and its branches abroad includes AED 5.17 million (December 31, 2018: AED 5.67 million) of accrued interest not debited to Head Office account.

ii. As at December 31, 2019, the exposure of head office and its branches abroad has exceeded the maximum exposure limit of 30% of the Bank's capital base. As per Circular No. 32/2013, Monitoring of Large Exposure Limits issued by the Central Bank of the U.A.E., exposure to banks operating outside U.A.E. are not allowed to exceed 30% of the bank's capital base. The Bank has vide letter reference no. 182/1/2025/2019 dated December 10, 2019 submitted exemption request to the Central Bank of the UAE to accord them an exemption to the exposure norms relating to the head office and its branches abroad as an exceptional case.

b) Due to head office and its branches abroad comprises:

	31.12.2019	31.12.2018
	AED'000	*AED'000*
Head office	**41,916**	225,470
Branches abroad	**168,616**	166,764
	210,532	392,234

Note:

During the current year, an amount of AED 250 million was transferred to the assigned share capital of the Bank by converting an equivalent amount from the above head office balance. This conversion was duly approved by the head office. The Central Bank of the U.A.E. vide its letter dated April 12, 2020 reference CBUAE/BSD/2020/1848 ratified such conversion.

c) Others:

	31.12.2019	31.12.2018
	AED'000	*AED'000*
Outstanding balance of loans with key management personnel	**137**	88
Customer deposits	**125,272**	126,264
Other liabilities	**6,120**	8,293
Contingent liability	**879**	879
Loans and advances to customers	**477,139**	501,215

Note:

Included in amounts due from other banks is an amount of AED 4,602 thousands (December 31, 2018: AED 4,452 thousands) due from a subsidiary of the Head Office.

d) Related party transactions included in the statement of profit or loss and other comprehensive income are as follows:

	01.01.2019 to 31.12.2019	01.01.2018 to 31.12.2018
	AED'000	*AED'000*
Interest income	**16,133**	19,012
Interest expense	**4,145**	49,248
Head office charges (Refer note 20)	**6,120**	8,293
Compensation of key management personnel	**3,624**	3,301
Impairment loss on due from head office and its branches abroad	**0**	102,217

8. Due from/to other banks

	31.12.2019	31.12.2018
	AED'000	*AED'000*
a) Due from:		
-Banks abroad	**1,342,802**	7,500
-Banks in the UAE	**0**	0
	1,342,802	7,500

Note:

All above amounts are due from Iranian banks.

Due from other banks include foreign currency term loans issued to other Iranian banks and interest receivable from such term loans amounting to AED 1,334 million (December 31, 2018: Nil) and AED 1,526 thousand (December 31, 2018: Nil) respectively.

The bank has entered into a refinancing agreement (the "Agreement") with the Central Bank of Iran. As per the Agreement dated March 7, 2002 and various subsequent addendums, letters of credit opened by banks in the Islamic Republic of Iran would be refinanced by the Bank to the extent of USD 1,100 million (2018: USD 1,100 million).

The above balance includes funds received by the head office (Tehran, Iran) on behalf of the Bank from an Iranian bank in previous years for settlement of outstanding bills discounted. Subsequently, these funds were distributed among various other Iranian banks to continue compliance with large exposure regulations as prescribed in circular no. 32/2013 dated November 11, 2013.

	31.12.2019	31.12.2018
	AED'000	*AED'000*
b) Due to:		
-Banks abroad	**1,307,747**	1,083,632
-Banks in the UAE	**0**	0
	1,307,747	1,083,632

All above amounts are due to the Iranian banks including AED 149.27 million (December 31, 2018: AED 12.97 million) due to the Central Bank of Islamic Republic of Iran.

Due to other banks include local currency term deposits from other Iranian banks and interest payable on such term deposits amounting to AED 268 million (December 31, 2018: AED 168 million) and AED 2,621 thousand (December 31, 2018: AED 1,536 thousand) respectively.

9. Export bills discounted for Iranian banks abroad

This balance is due from Iranian banks abroad, representing amounts due on the export bills issued by them and discounted by the Bank for its customers.

10. Loans and advances

The composition of loans and advances portfolio is as follows:

	31.12.2019	31.12.2018
	AED'000	*AED'000*
a) ***By type***		
Overdrafts	**9,176,962**	9,279,775
Bills/cheques discounted	**556,570**	584,690
Term loans	**1,603,383**	1,660,972
Customer liabilities paid (payment against documents)	**821,122**	861,296
Loans against trust receipts	**473,319**	484,939
Gross amount of loans and advances	**12,631,356**	12,871,672
Less: Allowance for impairment against loans and advances	**(4,506,811)**	(4,283,233)
Interest in suspense	**(5,490,292)**	(5,094,314)
Net amount of loans and advances	**2,634,253**	3,494,125
b) ***By economic sector***		
Wholesale and retail trade	**10,018,262**	10,117,951
Construction	**423,478**	414,475
Mining and quarrying	**173,421**	165,884
Services	**1,230,301**	1,387,200
Personal loans	**92,709**	90,309
Manufacturing	**579,477**	570,337
Transport and communication	**11,300**	10,655
Financial institutions	**102,408**	114,861
	12,631,356	12,871,672
c) ***By geographical area***		
Within UAE	**12,338,563**	12,573,222
Islamic Republic of Iran	**292,793**	298,450
	12,631,356	12,871,672

d) ***Movements in interest in suspense and allowance for impairment against loans and advances***

Loans and advances in the statement of financial position are stated net of interest in suspense and allowance for impairment against loans and advances. The movements in interest in suspense and allowance for impairment against loans and advances during the year are as follows:

	2019		2018	
	Interest in suspense	***Allowance for impairment against loans and advances***	*Interest in suspense*	*Allowance for impairment against loans and advances*
	AED'000	***AED'000***	*AED'000*	*AED'000*
Balance, at the beginning of the year	**5,094,314**	**4,283,233**	4,377,146	3,192,352
Impact of adopting IFRS 9 as at January 1, 2018	**0**	**0**	0	997,161
Allowance made during the year	**0**	**343,984**	0	105,898
Interest suspended during the year	**451,469**	**0**	739,210	0
Amount released/recovered during the year	**(4,864)**	**(68,382)**	(9,025)	(12,031)
Amounts written off during the year	**(50,627)**	**(52,024)**	(13,017)	(147)
Balance, at the end of the year	**5,490,292**	**4,506,811**	5,094,314	4,283,233

Gross amount of loans and advances to customers, individually determined to be impaired, before deducting any individually assessed impairment loss amounted to AED 12,321 million (December 31, 2018: AED 12,699 million).

The fair value of collaterals held by the Bank relating to loans individually determined to be impaired at December 31, 2019 amounts to AED 6,651 million (December 31, 2018: AED 5,796 million). The collateral consists of cash, investments and mortgaged real estate properties.

With reference to the no objection letter from the Central Bank of the U.A.E. dated July 2, 2019, bearing no. CBUAE/BSD/2019/2610 for recognising the shortfall in an allowance for impairment of loans and advances of AED 523.2 million in the year 2019 and 2020, the Bank has created an allowance for impairment of AED 343.98 million in the year 2019 and balance AED 179.22 million will be provided in the year 2020.

11. Other assets

	31.12.2019	31.12.2018	01.01.2018
		(Restated)	(Restated)
	AED'000	*AED'000*	*AED'000*
Interest receivable	**75,273**	70,651	65,425
Prepaid expenses	**3,421**	3,656	4,795
Deferred tax assets	**1,223,984**	862,767	598,967
Value added tax receivable	**993**	507	0
Others	**28,618**	24,532	9,697
	1,332,289	962,113	678,884
Less: Allowance for impairment of other assets	**(8,479)**	(8,479)	(8,479)
	1,323,810	953,634	670,405

Note:

The Bank received from the Bank's head office (Tehran, Iran), a letter (Ref no.: 99/164335) dated May 17, 2020, where in it states that the head office of the Bank assessed sufficiency of future taxable profits of the Bank to utilise deductible temporary differences and concluded minimal uncertainty to the Bank's future taxable profits. Accordingly, the head office of the Bank has given reasonable assurance for the recovery of the deferred tax assets in foreseeable future in accordance with IAS 12 *Income Taxes*.

12. Property, plant and equipment

	Land	Building and leasehold improvements	Furniture, fixtures, fittings and office equipment	Motor vehicles	Total
Rate of depreciation		**5%-25%**	**25%-100%**	**33%**	
Cost					
As at December 31, 2017	9,871	76,227	34,542	2,170	122,810
Additions	0	0	634	0	634
Disposals	0	0	(419)	0	(419)
As at December 31, 2018	9,871	76,227	34,757	2,170	123,025
Additions	0	0	1,175	0	1,175
Disposals	0	0	(103)	(174)	(277)
As at December 31, 2019	**9,871**	**76,227**	**35,829**	**1,996**	**123,923**
Accumulated depreciation					
As at December 31, 2017	0	59,082	33,359	2,169	94,610
Charge for the year	0	1,983	526	0	2,509
Eliminated on disposals	0	0	(419)	0	(419)
As at December 31, 2018	0	61,065	33,466	2,169	96,700
Charge for the year	0	1,947	717	0	2,664
Eliminated on disposals	0	0	(103)	(174)	(277)
As at December 31, 2019	**0**	**63,012**	**34,080**	**1,995**	**99,087**
Carrying amount					
As at December 31, 2019	**9,871**	**13,215**	**1,749**	**1**	**24,836**
As at December 31, 2018	9,871	15,162	1,291	1	26,325

13. Customer deposits

	31.12.2019	31.12.2018
	AED'000	*AED'000*
Current accounts	**230,413**	262,366
Saving accounts	**136,346**	141,261
Deposit accounts	**2,693,620**	3,232,238
Margin accounts	**42,627**	30,367
	3,103,006	3,666,232

Margin accounts and deposits held under lien as security for loans and advances and off balance sheet commitments (not recorded in the statement of financial position) as at December 31, 2019 amounted to AED 356 million (December 31, 2018: AED 875 million).

14. Subordinated loans

During the year 2018, the following subordinated loans representing three loans obtained from the Head Office were converted to assigned Share capital of the Bank:

a) A loan of USD 54.45 million equivalent to AED 200 million obtained in May 2002, was converted to assigned capital based on approval received from Head Office and by the Central Bank of the U.A.E. vide its letter dated July 2, 2019 reference CBUAE/BSD/2019/2611.

b) A loan of USD 27.23 million equivalent to AED 100 million obtained in May 2004, was converted to assigned capital based on approval received from Head Office and by the Central Bank of the U.A.E. vide its letter dated July 2, 2019 reference CBUAE/BSD/2019/2611.

c) A loan of USD 81.68 million equivalent to AED 300 million obtained in October 2011, was converted to assigned capital based on approval received from Head Office and by the Central Bank of the U.A.E. vide its letter dated July 2, 2019 reference CBUAE/BSD/2019/2611.

15. Other liabilities

	31.12.2019	31.12.2018
	AED'000	*AED'000*
Interest payable	**76,691**	93,638
Provision for employees' end of service indemnity (Refer below)	**19,195**	19,058
Provision for taxation (Refer note 21)	**3,710**	3,595
Others	**21,504**	26,245
	121,100	142,536

Notes:

Pension and national insurance contribution for UAE citizens are made by the Bank in accordance with Federal Law No. 7 of 1999. The Bank provides for employees' end of service indemnity to its expatriate employees in compliance with UAE Labour law.

Movement in the employees' end of service indemnity is as follows:

	01.01.2019 to 31.12.2019	01.01.2018 to 31.12.2018
	AED'000	*AED'000*
Balance, at the beginning of the year	**19,058**	21,608
Charge for the year	**1,550**	1,965
Payments during the year	**(1,413)**	(4,515)
Balance, at the end of the year	**19,195**	19,058

16. Interest income

	01.01.2019 to 31.12.2019	01.01.2018 to 31.12.2018
	AED'000	*AED'000*
Interest income on:		
- Loans and advances to customers (including export bills refinanced and export bills discounted)	**31,704**	35,286
- Money market and interbank transactions	**30,886**	29,774
- Others	**8**	6
	62,598	65,066

17. Interest expense

	01.01.2019 to 31.12.2019	01.01.2018 to 31.12.2018
	AED'000	*AED'000*
Interest expense on:		
- Customer deposits	**132,990**	150,628
- Deposits from financial institutions	**15,534**	64,988
	148,524	215,616

18. Net fees and commission income

	01.01.2019 to 31.12.2019 AED'000	01.01.2018 to 31.12.2018 AED'000
Fee and commission incomes	**3,280**	5,569
Fee and commission expenses	**(81)**	(106)
	3,199	5,463

19. Other income / expense - net

	01.01.2019 to 31.12.2019 AED'000	01.01.2018 to 31.12.2018 AED'000
Foreign exchange loss	**10,524**	15,593
Bank charges	**(33)**	(135)
Other income	**(3,175)**	(3,109)
	7,316	12,349

20. General and administrative expenses

	01.01.2019 to 31.12.2019 AED'000	01.01.2018 to 31.12.2018 AED'000
Staff cost and related expenses	**43,305**	45,555
Rent and related expenses	**6,374**	7,864
Head office charges (Refer note 7(d))	**6,120**	8,293
Depreciation on property, plant and equipment (Refer note 12)	**2,664**	2,509
Others	**13,110**	12,844
	71,573	77,065

21. Taxation

The Bank is subject to taxation at the rate of 20% of the individual Emirates' taxable income for the year in the Emirates of Abu Dhabi, Dubai, Sharjah and Ajman. The taxable income is calculated after making certain adjustments to the net profit before tax for the year and is based on management's best estimates.

The movement in the provision for taxation during the year was as follows:

	01.01.2019 to 31.12.2019 AED'000	01.01.2018 to 31.12.2018 (Restated) AED'000
Balance, at the beginning of the year	**3,595**	10,185
Tax charge:		
- Current year	**3,710**	3,595
- Prior year	**15,066**	49,146
	22,371	62,926
Tax paid during the year	**(18,661)**	(59,331)
Balance, at the end of the year (Refer note 15)	**3,710**	3,595

The relationship between the tax expense for the year and the accounting loss before tax for the year is as follows:

	01.01.2019 to 31.12.2019	01.01.2018 to 31.12.2018 (Restated)
	AED'000	*AED'000*
Accounting loss	**(437,218)**	(430,585)
Adjustments for tax purposes	**455,768**	448,560
Taxable profit	**18,550**	17,975
Current tax:		
Tax at the applicable rate of 20%	**3,710**	3,595
Tax charge in respect of prior years	**15,066**	49,146
	18,776	52,741
Deferred taxation	**(361,217)**	(263,800)
Taxation for the year	**(342,441)**	(211,059)

22. Statutory reserve

Article 82 of Union Law No. 10 of 1980 requires that 10% of the net profit is transferred to a special reserve until such reserve equals 50% of the capital. This reserve is not available for distribution.

23. Cash and cash equivalents

Cash and cash equivalents comprise of the following balances with original maturities of three months or less:

	31.12.2019	31.12.2018
	AED'000	*AED'000*
Cash and bank balances with the UAE Central Bank	**617,096**	205,226
Less: Statutory deposits with the UAE Central Bank	**(76,672)**	(86,851)
Cash and cash equivalents	**540,424**	118,375

24. Prior period error

According to the Decree No. (2) of 1996 concerning the Tax Payments from the branches of foreign banks in the Emirate of Ajman, the Bank is liable to pay tax on its net profits on annual basis, and submit a tax return to Financial Audit Authority, Government of Ajman (FAA). The assessment is conducted by the FAA on the tax return submitted by the Bank and tax is paid / claimed back by the Bank due to the adjustments made by the FAA. This results into the difference of tax liability in the books of the Bank and the liability as per FAA. As this difference will be nullified in future, when the Bank will reverse the allowance for impairment on loans and advances or interest suspense created on recovery of the dues from the customers; this difference will be termed as "Temporary Difference" as per IAS 12 "Income Taxes". According to the paragraph 12 of the IAS 12, if the amount actually paid in respect of current year and prior period tax exceeds the amount due for these periods, the excess shall be recognized as an asset. Hence, deferred tax assets were required to be recognised when the allowance for impairment on loans and advances and interest suspense were disallowed by the FAA.

However, the Bank did not recognise the deferred tax assets on the allowance for impairment on loans and advances and interest suspense disallowed by the FAA from the year 2012 to 2018. In the current year, the Bank has prepared the calculations of the amounts rejected by the FAA from their self-assessment returns and the subsequent reversals accepted by the FAA. The net amount rejected from the year 2012 to 2018 is considered for creation of the deferred tax assets in the books of the Bank.

The non-recognition of deferred tax assets shall be constituted as "Prior period error" in accordance with International Accounting Standard 8 "Accounting policies, changes in accounting estimates and errors". Accordingly, the Bank has retrospectively restated the comparative amount of tax expense and deferred tax assets in the prior year financial statement, resulting in decrease of loss for the year 2018 to AED 211.06 million from AED 219.53 million. Further, as the error has occurred before the earliest prior year presented i.e. 2018, the balances of deferred tax assets and retained earnings as at January 1, 2018 are also restated to this effect.

The effect of the above prior period error is disclosed as under:

Deferred tax assets

	Reported before	Adjustment	Restated
	AED'000	*AED'000*	*AED'000*
As at January 1, 2018	554,762	44,205	**598,967**
As at December 31, 2018	818,562	44,205	**862,767**

Accumulated losses

	Reported before	Adjustment	Restated
	AED'000	*AED'000*	*AED'000*
As at January 1, 2018	792,985	(44,205)	**748,780**

Tax expense

	Reported before	Adjustment	Restated
	AED'000	*AED'000*	*AED'000*
For the year 2018	219,526	8,467	**211,059**

Loss

	Reported before	Adjustment	Restated
	AED'000	*AED'000*	*AED'000*
For the year 2018	(219,526)	8,467	**(211,059)**

25. Contingent liabilities and commitments

Credit related commitments

The contractual amounts of the letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These generally have fixed expiry dates or other termination clauses and require a payment of a fee. Since commitments may expire without being drawn down, the total contract amounts do not necessarily represent future cash requirements.

The Bank has the following credit related commitments:

	31.12.2019	31.12.2018
	AED'000	*AED'000*
Contingent liabilities		
Guarantees	**78,751**	140,718

The maturity profile of these contingent liabilities is as follows:

2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
	Within 3 months	*3 months 1 year*	*Over 1 year*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
Guarantees	4,795	5,993	67,963	78,751

2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	Within 3 months	*3 months 1 year*	*Over 1 year*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
Guarantees	67,290	53,478	19,950	140,718

The outstanding approved but unutilised facilities as of December 31, 2019 amounted to AED 44 million (December 31, 2018: AED 33 million). The unutilised portion of approved facilities can be revoked unilaterally at any time by the Bank.

26. Maturity analysis of assets and liabilities

Maturities of assets and liabilities recorded in the statement of financial position based on the remaining contractual maturity period at the reporting date, not taking account of the effective maturities as indicated by the deposit retention history of the Bank and the availability of liquid funds, as at the year-end are as follows:

	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
	Less than 3 months	**3 months to 1 year**	**1 year up to 5 years**	**Over 5 years**	**Total**
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Assets:					
Cash and bank balances with UAE Central Bank	617,096	0	0	0	617,096
Due from head office and its branches abroad	311,295	188,270	0	0	499,565
Due from other banks	1,128,489	214,313	0	0	1,342,802
Export bills discounted for Iranian banks abroad	108,493	0	0	0	108,493
Loans and advances	230,223	55,763	2,348,267	0	2,634,253
Other assets - net	99,826	0	1,223,984	0	1,323,810
Property, plant and equipment	0	0	0	24,836	24,836
Total Assets	2,495,422	458,346	3,572,251	24,836	6,550,855
Liabilities:					
Due to other banks	1,200,670	107,077	0	0	1,307,747
Customer deposits	1,199,732	1,519,156	384,118	0	3,103,006
Due to head office and its branches abroad	140,353	70,179	0	0	210,532
Other liabilities	121,100	0	0	0	121,100
Total Liabilities	2,661,855	1,696,412	384,118	0	4,742,385
Net gap	(166,433)	(1,238,066)	3,188,133	24,836	1,808,470
Represented by:					
Assigned capital					2,350,000
Statutory reserve					521,553
Accumulated losses					(1,063,083)
Net equity					1,808,470

	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	Less than 3 months	3 months to 1 year	1 year up to 5 years	Over 5 years	Total
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Assets:					
Cash and bank balances with UAE Central Bank	205,226	0	0	0	205,226
Due from head office and its branches abroad	1,830,194	188,337	0	0	2,018,531
Due from other banks	7,500	0	0	0	7,500
Export bills discounted for Iranian banks abroad	232,540	0	0	0	232,540
Loans and advances	528,360	62,267	2,903,498	0	3,494,125
Other assets - net	90,867	0	862,767	0	953,634
Property, plant and equipment	0	0	0	26,325	26,325
Total Assets	2,894,687	250,604	3,766,265	26,325	6,937,881
Liabilities:					
Due to other banks	1,069,082	14,550	0	0	1,083,632
Customer deposits	1,692,643	1,757,624	215,965	0	3,666,232
Due to head office and its branches abroad	318,067	74,167	0	0	392,234
Other liabilities	142,536	0	0	0	142,536
Total Liabilities	3,222,328	1,846,341	215,965	0	5,284,634
Net gap	(327,641)	(1,595,737)	3,550,300	26,325	1,653,247
Represented by:					
Assigned capital					2,100,000
Statutory reserve					521,553
Accumulated losses					(968,306)
Net equity					1,653,247

27. Fair values of financial instruments

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book value under the historical cost method and fair value estimates.

The fair values of financial assets and liabilities of the Bank are not materially different from their carrying values as at the year-end. This is based on management's assumption that the carrying amounts of financial assets and financial liabilities that are liquid or have a short term maturity (less than a year) approximate to their fair value.

28. Classification of financial assets and liabilities

	31.12.2019				
	At FVTPL	**At FVTOCI**	**Amortised cost**	**Allowances for impairment (ECL)**	**Carrying amount**
	AED'000	***AED'000***	***AED'000***	***AED'000***	***AED'000***
Financial assets:					
Cash and bank balances with UAE Central Bank	**0**	**0**	**617,096**	**0**	**617,096**
Due from head office and its branches abroad	**0**	**0**	**499,565**	**0**	**499,565**
Due from other banks	**0**	**0**	**1,342,802**	**0**	**1,342,802**
Export bills discounted for Iranian banks abroad	**0**	**0**	**108,493**	**0**	**108,493**
Loans and advances	**0**	**0**	**7,141,064**	**(4,506,811)**	**2,634,253**
Other assets	**0**	**0**	**103,891**	**(8,479)**	**95,412**
Total financial assets	**0**	**0**	**9,812,911**	**(4,515,290)**	**5,297,621**
Financial liabilities:					
Due to other banks	**0**	**0**	**1,307,747**	**0**	**1,307,747**
Customer deposits	**0**	**0**	**3,103,006**	**0**	**3,103,006**
Due to head office and its branches abroad	**0**	**0**	**210,532**	**0**	**210,532**
Other liabilities	**0**	**0**	**98,195**	**0**	**98,195**
Total financial liabilities	**0**	**0**	**4,719,480**	**0**	**4,719,480**

	31.12.2018				
	At FVTPL	At FVTOCI	Amortised cost	Allowances for impairment (ECL)	Carrying amount
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Financial assets:					
Cash and bank balances with UAE Central Bank	0	0	205,226	0	205,226
Due from head office and its branches abroad	0	0	2,018,531	0	2,018,531
Due from other banks	0	0	7,500	0	7,500
Export bills discounted for Iranian banks abroad	0	0	232,540	0	232,540
Loans and advances	0	0	7,777,358	(4,283,233)	3,494,125
Other assets	0	0	95,183	(8,479)	86,704
Total financial assets	0	0	10,336,338	(4,291,712)	6,044,626
Financial liabilities:					
Due to other banks	0	0	1,083,632	0	1,083,632
Customer deposits	0	0	3,666,232	0	3,666,232
Due to head office and its branches abroad	0	0	392,234	0	392,234
Other liabilities	0	0	119,883	0	119,883
Total financial liabilities	0	0	5,261,981	0	5,261,981

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29. Financial risk management

The Bank has set up a strong risk management infrastructure supported by adoption of best practices in the field of risk management to manage and monitor the following major risks arising out of their day to day operations:

i. Credit risk
ii. Liquidity risk
iii. Market risk (including interest rate risk, foreign currency risk and price risk)
iv. Operational risk

The Regional Manager has overall responsibility for the oversight of the risk management framework for the Bank. There are established detailed policies and procedures in this regard along with high powered senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the operations of the Bank.

The Credit Committee, Assets and Liabilities Committee and Investment Committee work under the mandate of the Regional Manager to set up risk limits and manage the overall risk. These Committees approve risk management policies of the Bank developed by Risk Management Department.

The Risk Management function is independent of the business. It is responsible to develop credit, market and operational risk policies. Risk Managers are delegated authority within the risk management framework to approve credit risk transactions. Risk Management Department also monitors market and operational risk. The Credit Risk Unit within Risk Management Department is responsible to develop and validate financial risk models for risk rating.

Audit and Compliance is an independent department which is responsible to review the risk policies, risk exposures and the risk managing and monitoring frame work.

Treasury

The Treasury is responsible for managing the assets and liabilities of the Bank and its overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited periodically by the Internal Audit function that examines both the adequacy of the procedures and the compliance by the Bank of these procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Regional Manager.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Regional Manager, the Risk Committee, and the Head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Regional Manager receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Regional Manager and all other relevant members of management of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the policies and procedures of the Bank include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

i. Credit risk management

The Regional Manager has delegated responsibility for the management of credit risk to its Credit Committee and the Credit Risk Management Department. Their responsibilities include:

a. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

b. Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by Head Office Credit Facilities Committee, Head of Credit Facilities or Regional Credit Facilities Committee.

c. Reviewing and assessing credit risk: Credit Facility Department and Risk Management Department assess all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

d. Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances to customers), and by issuer, credit rating band, market liquidity and country (for investment securities).

e. Developing and maintaining the Bank's risk grading in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by Credit Facility Department, Branches and Risk Management Department.

f. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Regional Credit Facility Committee on the credit quality of local portfolios and appropriate corrective action is taken.

g. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Branches in the management of credit risk.

Policies relating to credit are reviewed and approved by the Regional Credit Facility Committee. All credit lines are approved centrally for the Bank in accordance with the credit policy set out in the Credit Policy Manual. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk.

The Bank further limits risk through diversification of assets by geography and industry sectors.

All credit facilities are administered and monitored by the Credit Facility Department. Periodic reviews are conducted by the Credit Officer and also by Credit Facility Department.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Regional Credit Facility Committee and are monitored by the Risk Management Department.

Commercial/Institutional lending

All credit applications for commercial and institutional lending are subject to the Bank's regional credit policies and to regulatory requirements, as applicable from time to time.

All credit lines or facilities extended by the Bank are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Credit Facility Committee or the regional manager.

The management of the Bank has established country limits for cross border risk. Individual country limits are defined based on a detailed credit policy defining acceptable country credit risk exposure and evaluating and controlling cross border risk. These limits are regularly reviewed by the Bank's regional credit risk management and periodically by the Credit Facility Committee.

Retail lending

Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Regional Credit Facility Committee. All approval authorities are delegated to the Credit Facility Committee by the Regional Manager. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product program contains detailed credit criteria (such as salary multiples, bank statement, age, residency, etc.) and regulatory, compliance and documentation requirements, as well as other operating requirements.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and provisions held in the books.

	Notes	**Gross maximum exposure 31.12.2019**	Gross maximum exposure 31.12.2018
		AED '000	*AED '000*
Balances with the UAE Central Bank	6	**563,214**	171,133
Due from head office and its branches abroad	7(a)	**499,565**	2,018,531
Due from other banks	8(a)	**1,342,802**	7,500
Export bills discounted for Iranian banks abroad	9	**108,493**	232,540
Loans and advances	10	**12,631,356**	12,871,672
Other assets	11	**103,891**	95,183
		15,249,321	15,396,559
Contingent liabilities		**78,751**	140,718
		15,328,072	15,537,277

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client counterparty, by geographical region and by industry sector. The financial assets of the Bank, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

Geographic regions	Gross maximum exposure 31.12.2019 AED '000	Gross maximum exposure 31.12.2018 AED '000
Middle East	**13,006,482**	12,857,497
Iran	**2,224,990**	2,527,431
Organisation for Economic Co-operation and Development countries	**17,849**	11,631
	15,249,321	15,396,559

Industry sector	Gross maximum exposure 31.12.2019 AED '000	Gross maximum exposure 31.12.2018 AED '000
Wholesale and retail trade	**10,018,262**	10,117,951
Construction	**423,478**	414,475
Mining and quarrying	**173,421**	165,884
Services	**1,230,301**	1,387,200
Personal loans	**92,709**	90,309
Manufacturing	**579,477**	570,337
Transport and communication	**11,300**	10,655
Financial institutions	**2,720,373**	2,639,748
	15,249,321	15,396,559

Model risk management

The Bank uses a number of quantitative models in many of its financial and business activities from underwriting a credit facility to reporting expected credit losses under the IFRS 9.

To manage the model risks, the Bank has developed and implemented Business Model Framework which contains Bank wide development, implementation and validation policies and practices. According to the framework, all internally or externally developed risk quantification models that directly affect the financial reporting on expected credit losses require validation periodically (internally or externally). BSI IFRS 9 Committee is responsible for overseeing all model related development, implementation of framework and performance of the models.

The Framework establishes a systematic approach to manage the development, implementation, approval, validation and ongoing use of models. It sets out an effective governance and management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework is approved by the Regional Credit Committee and Risk Policy Committee upon recommendation of BSI IFRS 9 Committee.

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets (excluding cash in hand) below also represent the Bank's maximum exposure to credit risk on these assets.

As at December 31, 2019	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	AED '000	*AED '000*	*AED '000*	*AED '000*
Financial instruments carried at amortised costs				
Balances with the UAE Central Bank	**563,214**	**0**	**0**	**563,214**
Due from head office and its branches abroad	**487,625**	**11,940**	**0**	**499,565**
Due from other banks	**1,342,802**	**0**	**0**	**1,342,802**
Export bills discounted for Iranian banks abroad	**0**	**108,493**	**0**	**108,493**
Loans and advances	**307,454**	**2,501**	**12,321,401**	**12,631,356**
Other assets	**81,191**	**17,309**	**5,391**	**103,891**
Gross financial instruments carried at amortised costs	**2,782,286**	**140,243**	**12,326,792**	**15,249,321**

As at December 31, 2018	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	AED '000	*AED '000*	*AED '000*	*AED '000*
Financial instruments carried at amortised costs				
Balances with the UAE Central Bank	171,133	0	0	171,133
Due from head office and its branches abroad	2,001,322	17,209	0	2,018,531
Due from other banks	7,500	0	0	7,500
Export bills discounted for Iranian banks abroad	51,437	181,103	0	232,540
Loans and advances	169,364	3,587	12,698,721	12,871,672
Other assets	74,228	15,564	5,391	95,183
Gross financial instruments carried at amortised costs	2,474,984	217,463	12,704,112	15,396,559

The movement of gross exposure is as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	AED '000	*AED '000*	*AED '000*	*AED '000*
Financial instruments carried at amortised costs				
Balance as at January 1, 2018	7,511,608	1,905,473	9,575,260	18,992,341
- Transfer from Stage 2 to Stage 3	0	(1,688,010)	1,688,010	0
Other movements within the same stage	(5,036,624)	0	1,440,842	(3,595,782)
Balance as at December 31, 2018	2,474,984	217,463	12,704,112	15,396,559
Other movements within the same stage	307,302	(77,220)	(377,320)	(147,238)
Balance as at December 31, 2019	**2,782,286**	**140,243**	**12,326,792**	**15,249,321**

Credit quality of financial assets

	31.12.2019	
	Other financial assets	**Loans and advances**
	AED '000	***AED '000***
Sub standard	**0**	**2,720,206**
Doubtful	**0**	**2,286,567**
Loss	**5,391**	**7,314,628**
Stage 3	**5,391**	**12,321,401**
Stage 2	**137,742**	**2,501**
Stage 1	**2,474,832**	**307,454**
Carrying amount	**2,617,965**	**12,631,356**

	31.12.2018	
	Other financial assets	Loans and advances
	AED '000	*AED '000*
Sub standard	0	4,864,346
Doubtful	0	2,566,506
Loss	5,391	5,267,869
Stage 3	5,391	12,698,721
Stage 2	213,876	3,587
Stage 1	2,305,620	169,364
Carrying amount	2,524,887	12,871,672

It is the policy of the Bank to maintain accurate and latest risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk.

Ageing analysis of stage 2 investing and financing assets per class of financial assets is as under:

At December 31, 2019	**1 month**	**1 month to 3 months**	**More than 3 months**	**Total**
	AED '000	***AED '000***	***AED '000***	***AED '000***
Due from head office and its branches abroad	**0**	**0**	**11,940**	**11,940**
Export bills discounted for Iranian banks abroad	**0**	**0**	**108,493**	**108,493**
Loans and advances	**0**	**2,501**	**0**	**2,501**
Other assets	**0**	**0**	**17,309**	**17,309**
	0	**2,501**	**137,742**	**140,243**

At December 31, 2018	1 month	1 month to 3 months	More than 3 months	Total
	AED '000	*AED '000*	*AED '000*	*AED '000*
Due from head office and its branches abroad	0	0	17,209	17,209
Export bills discounted for Iranian banks abroad	0	0	181,103	181,103
Loans and advances	106	1,255	2,226	3,587
Other assets	0	0	15,564	15,564
	106	1,255	216,102	217,463

Carrying amount per class of financial assets whose terms have been renegotiated:

	31.12.2019	31.12.2018
	AED '000	*AED '000*
Loans and advances	**1,056,777**	55,141

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The credit manual contains guidelines regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate properties, inventory, trade receivables and guarantees - both corporate and personal.

The Regional Credit Committee monitors the market value of collateral, if needed in accordance with the underlying agreement. The estimates of fair values are generally not updated except when a loan is individually assessed or impaired. Collaterals are usually not held against amounts advanced to banks.

It is the policy of the Bank to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Credit review procedures and loan classification

The Internal Audit Department of the Bank undertakes an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and internal policies in order to assist in the early identification of accrual and potential performance problems.

If a credit is overdue for 90 days or more, interest is suspended and is not credited to income. Specific allowance for impairment of classified assets is made based on probable recoverability of outstanding and risk ratings of the assets.

Internal risk rating

The Bank uses specific internal credit risk rating models tailored to various industry segments / counterparty. Borrower and loan specific information collected at the time of application (such as financial condition, level of collaterals, condition of the market and business segment of customer, reputation of the customer and its owners, management and conduct of accounts) is fed into this rating model. This is supplemented with external data input into the model.

These risk ratings have been mapped into ECL Stages which are defined below:

Stage	**Grade**
Stage 1	Aa+, Ab+, Ac+, Ba+, Bb+, Bc+, Ca+, Cb+, Cc+
Stage 2	Aa, Ab, Ac, Ba, Bb, Bc, Ca, Cb, Cc
Stage 3	Aa-, Ab-, Ac-, Ba-, Bb-, Bc-, Ca-, Cb-, Cc-

The grades above are defined as a combination of component of grades derived from various ranges allocated to following groups:

Group	**Component of grade**	**Range**
Capacity risk	A	65-100
	B	30-64
	C	0-29
Performance risk	a	65-100
	b	30-64
	c	0-29
Credit risk	-	0-29
	+	65-250
	<->	30-64

Expected credit loss measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to note 4e for more details.

Expected credit losses

The following table summarises impairment allowance as at December 31, 2019 per class of assets and stage:

	31.12.2019			
	ECL staging			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
	AED '000	***AED '000***	***AED '000***	***AED '000***
Balances with the UAE Central Bank	**0**	**0**	**0**	**0**
Due from head office and its branches abroad	**0**	**0**	**0**	**0**
Due from other banks	**0**	**0**	**0**	**0**
Export bills discounted for Iranian banks abroad	**0**	**0**	**0**	**0**
Loans and advances	**166,981**	**122**	**4,339,708**	**4,506,811**
Other assets	**0**	**0**	**8,479**	**8,479**
Total allowance for impairment	**166,981**	**122**	**4,348,187**	**4,515,290**

	31.12.2018			
	ECL staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	AED '000	*AED '000*	*AED '000*	*AED '000*
Balances with the UAE Central Bank	0	0	0	0
Due from head office and its branches abroad	0	0	0	0
Due from other banks	0	0	0	0
Export bills discounted for Iranian banks abroad	0	0	0	0
Loans and advances	167,031	72	4,116,130	4,283,233
Other assets	0	0	8,479	8,479
Total allowance for impairment	167,031	72	4,124,609	4,291,712

The movement of impairment allowance is as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	AED '000	AED '000	AED '000	AED '000
Financial instruments carried at amortised costs				
Balance as at December 31, 2018	134,332	32,770	3,033,729	3,200,831
Impact of IFRS 9	236,999	0	760,162	997,161
Balance as at January 1, 2018	371,331	32,770	3,793,891	4,197,992
- Transfer from Stage 2 to Stage 3	0	(32,698)	32,698	0
Other movements within the same stage	(204,300)	0	298,167	93,867
Gross charge for the year	(204,300)	(32,698)	330,865	93,867
Net amounts written-off	0	0	(147)	(147)
Balance as at December 31, 2018	167,031	72	4,124,609	4,291,712
- Transfer from Stage 1 to Stage 2	(50)	50	0	0
Other movements within the same stage	0	0	275,602	275,602
Gross charge for the year	(50)	50	275,602	275,602
Net amounts written-off	0	0	(52,024)	(52,024)
Balance as at December 31, 2019	**166,981**	**122**	**4,348,187**	**4,515,290**

Significant increase in credit risk

The Bank considers a financial asset to have experienced a significant increase in credit risk when a significant change in one year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date.

Quantitative criteria

If the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- Past Due
- Net Worth Erosion
- Fraudulent Activity
- Distressed Restructure
- Financial Covenants Breach
- Significant Operations Disruption
- Operating Performance
- Operating Efficiency
- Debt Service
- Liquidity Assessment
- Capital structure

Qualitative criteria:

If the borrower experiences a significant increase in probability of default which can be triggered by the following qualitative factors:

- Management
- Industry Outlook
- Financial Conduct
- Income Stability
- Lifecycle Stage
- Auditor Information

The Bank has not used the low credit exemption for any financial instruments in the year ended December 31, 2019.

Backstop:

If the borrower is more than 60 days past due on its contractual payments, a backstop is applied and the financial asset is considered to have experienced a significant increase in credit risk.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. In particular, when assessing expected credit losses, the analysis of macroeconomic and financial factors, expected risks and dynamics are taken into account i.e. the PD is predicted by using past event, current conditions and future outcomes. The Bank has performed historical analysis and identified the key economic variables such as GDP growth, unemployment, inflation, oil prices etc., impacting credit risk and expected credit losses for each portfolio. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as systematic adjustment using expert credit judgment on the basis of information available from credible sources.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Off - balance sheet

The Bank applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

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

The CBUAE issued its IFRS 9 guidance on April 30, 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

The reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	31.12.2019	31.12.2018
	AED '000	*AED '000*
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	**56,090**	74,243
Less: Stage 1 and Stage 2 provisions under IFRS 9	**167,103**	167,103
General provision transferred to the impairment reserve	**0**	0
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**4,348,187**	4,124,609
Less: Stage 3 provisions under IFRS 9	**4,348,187**	4,124,609
Specific provision transferred to the impairment reserve*	**0**	0
Total provision transferred to the impairment reserve	**0**	0

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

ii. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities at a given point in time.

Management of liquidity risk

The approach of the Bank towards managing the liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the reputation of the Bank.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units and branches are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

Assets Liability Committee (ALCO)

ALCO has a broad range of authority delegated by the Regional Manager to manage the asset and liability structure and funding strategy of the Bank. ALCO meets on a quarterly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rates and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCO formulates liquidity risk management guidelines for the operation of the Bank on the basis of such review.

Exposure to liquidity risk

The key measure used by the Head of Risk, Head of Accounts and the Head of Dealing Department for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the compliance by the Bank with the liquidity limit established by the regional management. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Uses to stable resources ratio. For all the measures, benchmarks are set and same are reviewed by ALCO on a regular basis.

Mitigating liquidity risk

The Treasury and Marketing of the Bank is responsible for mitigating liquidity risk by implementing liquidity strategies such as diversification of types of investors/depositors including wholesale customers and trading companies. Further, the Bank enters into exposure with other Iranian Banks under refinancing facilities which are backed by the Central Bank of Iran. The Bank closely monitors the global view in respect of sanctions levied by the UN and has developed strategies and business continuity plans that should ensure that the business and liquidity of the Bank are not at risk. The Treasury regularly monitors the liquidity status of the Bank.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the financial liabilities of the Bank at the year-end based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the deposit retention history.

Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
December 31, 2019						
Due to other banks	**1,036,845**	**163,825**	**107,077**	**0**	**0**	**1,307,747**
Customer deposits	**545,517**	**684,762**	**1,550,981**	**395,162**	**0**	**3,176,422**
Due to head office and its branches abroad	**57,407**	**82,946**	**70,179**	**0**	**0**	**210,532**
Other liabilities	**98,195**	**0**	**0**	**0**	**0**	**98,195**
Total undiscounted financial liabilities	**1,737,964**	**931,533**	**1,728,237**	**395,162**	**0**	**4,792,896**

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
December 31, 2018						
Due to other banks	914,475	154,607	14,550	0	0	1,083,632
Customer deposits	1,020,585	676,149	1,804,685	238,966	0	3,740,385
Due to head office and its branches abroad	234,629	83,438	74,167	0	0	392,234
Other liabilities	119,883	0	0	0	0	119,883
Total undiscounted financial liabilities	2,289,572	914,194	1,893,402	238,966	0	5,336,134

iii. Market risk management

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Market risk is managed within the risk limits approved by the Regional Committee. The overall risk limits are divided into sub-limits by reference to different risk factors, including interest rate, foreign exchange rate, commodity price and equity price. Considering the different nature of the products involved, limits are set by using a combination of risk measurement techniques, including position limits and sensitivity limits.

The Bank uses different methodologies to estimate the potential losses that could occur on risk positions taken due to movements in interest rates, foreign exchange rates, commodity prices and equity prices over a specified time horizon and to a given level of confidence.

Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts and the currency of assets and liabilities.

Most of the interest bearing assets and liabilities of the Bank carry a fixed rate of interest and therefore management believes that there is no significant interest rate risk for the Bank.

The effective interest rate on loans and advances 5.71% per annum (2018: 3.39% per annum), on customer deposits 4.03% per annum (2018: 3.68% per annum) and on bank borrowings 1.03% per annum (2018: 3.02% per annum).

If interest rates had been 50 basis points lower throughout the year and all other variables were held constant, the Bank's loss for the year ended December 31, 2019 would have decreased by approximately AED 22.61 million (2018: AED 30.42 million).

Foreign currency risk

Foreign currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Regional Manager has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

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The assets of the Bank are typically funded in the same currency as that of the business transacted in order to minimize foreign exchange exposure. However, the Bank does maintain a long US Dollar position within limits approved by the Assets and Liabilities Committee (ALCO). The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Regional Manager sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposure denominated in foreign currencies:

	Net overall long/(short) position	
	31.12.2019	31.12.2018
	AED '000	*AED '000*
US Dollars	**1,314,025**	1,234,833
Euro	**(2,150)**	(3,249)
Japanese Yen	**(48)**	(47)
Pound Sterling	**3,928**	3,776
Other currencies	**(28,229)**	(27,082)
	1,287,526	1,208,231

The analysis below calculates the effect of a 10 percent possible downward movement in a particular foreign currency rate against UAE Dirham, with all other variables held constant on the profit and loss (due to the fair value of currency sensitive monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income, while positive amount reflects a potential net increase.

	31.12.2019	31.12.2018
	AED '000	*AED '000*
Euro	**215**	325
Japanese Yen	**5**	5
Pound Sterling	**(393)**	(378)
Other currencies	**2,823**	2,708
	2,650	2,660

As the UAE Dirham is currently pegged to the US Dollar, balances in US Dollar are not considered to represent any currency risk. Accordingly, the above table does not include the impact of changes in the foreign exchange rate of the US Dollar.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factor specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

iv. *Operational risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. The Bank aims to manage this risk in line with best practices and in preparation for the implementation of Basel III.

The Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risks, and review the risks inherent in business processes, activities and products through internal consultation. The business processes of the Bank are developed to prevent money laundering or financing terrorist activities. The anti-money laundering policies of the Bank are regularly reviewed to ensure full compliance with local regulatory requirements and international best practices. As part of operational risk management strategy, the Bank has complied with the notices and circulars issued by the UAE Central Bank in relation to the UN sanctions and stopped dealing with all parties detailed in the sanctions list. The Bank regularly monitors operational risk losses and reports the same to the senior management. As part of the internal control environment, the Bank maintains adequate documentation of control procedures for its business processes. The Bank also emphasises the need for appropriate segregation of duties and independent authorisation in all business activities.

The Business Continuity Plan is in place to support business operations in the event of disasters. Adequate backup facilities are maintained and periodic drills are conducted. In addition, the Bank also arrange insurance cover to reduce potential losses in respect of operational risk.

30. Capital management

Regulatory capital

The Central Bank of the UAE sets and monitors capital requirements for banks and branches of foreign banks operating in the United Arab Emirates.

Basel III capital ratio

The Bank calculates its Capital Adequacy Ratio in line with the Basel III guidelines issued by the Central Bank of the U.A.E. These guidelines came into effect from February 01, 2017 with first reporting requirement starting from December 2017 onwards. Under these regulations, minimum capital requirements are monitored at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1('T1') and Total Capital.

The regulatory capital of the Bank is analysed into different tiers:

i. Common Equity Tier 1 Capital, which includes Common shares issued by a bank, Share premium resulting from the issue of instruments included in CET1, retained earnings, legal reserves, statutory reserves, accumulated other comprehensive income and other disclosed reserves, minority interest, which are eligible for inclusion in CET1 and regulatory adjustments including deferred tax asset applied in the calculation of CET1;

ii. Additional Tier 1 Capital (AT1);

iii. Tier 1 capital, which is the total of Common equity Tier 1 (CET1) Capital and Additional Tier 1 (AT1) capital;

iv. Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of credit RWA), perpetual equity instruments, not included in Tier 1 capital and instruments which are eligible for inclusion of Tier 2 e.g. subordinated loan.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced under Basel III guidelines are over and above the minimum CET1 requirement of 7%.

For 2019, CCB will be required to be maintained at 2.5% (2018:1.875%) of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2019.

For the purpose of the value calculation of the regulatory adjustments including deferred tax asset, the Bank is required to apply 100% of the total value for the year 2019 (2018: 100%).

The Bank's RWA are weighted as to their relative credit, market and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The bank is following the standardised measurement approach for credit, market and operational risk, as per Basel Requirements.

The Bank has complied with all externally imposed capital requirements throughout the year.

The regulatory capital position of the Bank at the year-end under Basel III is as follows:

	31.12.2019 AED '000	31.12.2018 AED '000
Capital Base		
Assigned capital	**2,350,000**	2,100,000
Statutory reserve	**521,553**	521,553
Accumulated losses	**(1,063,083)**	(968,306)
CET1 capital (prior to regulatory deductions)	**1,808,470**	1,653,247
Regulatory deductions	**(1,223,984)**	(862,767)
Total CET1 capital after transitional adjustments	**584,486**	790,480
Additional Tier 1 (AT1) Capital	**0**	0
Transitional adjustments	**0**	0
Total AT1 capital after transitional adjustments	**0**	0
Total tier 1 capital	**584,486**	790,480
Collective impairment allowance on loans and advances	**56,090**	74,243
Transitional adjustments	**0**	0
Tier 2 (T2) Capital after transitional adjustments	**56,090**	74,243
Total capital base	**640,576**	864,723
Risk-weighted assets		
Credit risk	**4,487,191**	5,939,416
Market risk	**7,580**	7,586
Operational risk	**263,145**	545,026
Total risk weighted assets (RWA)	**4,757,916**	6,492,028

Capital Ratio	**Minimum requiremen** 2019	**Capital ratios** 2019	Minimum requirement 2018	Capital ratios 2018
a. Total	**10.50%**	**13.46%**	10.50%	13.32%
b. Additional Tier 1 ratio	**8.50%**	**12.28%**	8.50%	12.18%
c. CET 1 ratio	**7.00%**	**12.28%**	7.00%	12.18%
d. CET 1 for the buffer requirement	**2.50%**	**5.28%**	1.875%	5.18%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk and Credit Facility Department, and is subject to review by ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities,, the availability of management and other resources, and the fit of the activity with the longer term strategic objectives of the Bank. The policies of the Bank in respect of capital management and allocation are reviewed regularly.

31. Assets and liabilities re-pricing profile

Assets and liabilities re-pricing profile has been determined on the basis of the final maturity period or interest re-pricing periods, at the reporting date, whichever is earlier.

December 31, 2019		**Less than 3 months**	**3 months to 1 year**	**Over 1 year**	**Non-interest**	**Total**
		AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Assets						
Cash and balances with the UAE Central Bank		**410,000**	**0**	**0**	**207,096**	**617,096**
Due from head office and its branches abroad		**256,158**	**188,270**	**0**	**55,137**	**499,565**
Due from other banks		**1,121,166**	**214,313**	**0**	**7,323**	**1,342,802**
Export bills discounted for Iranian banks abroad		**108,493**	**0**	**0**	**0**	**108,493**
Loans and advances		**230,223**	**55,763**	**2,348,267**	**0**	**2,634,253**
Other assets		**0**	**0**	**0**	**1,323,810**	**1,323,810**
Property, plant and equipment		**0**	**0**	**0**	**24,836**	**24,836**
Total assets	(A)	**2,126,040**	**458,346**	**2,348,267**	**1,618,202**	**6,550,855**
Liabilities						
Due to other banks		**163,824**	**107,077**	**0**	**1,036,846**	**1,307,747**
Customer deposits		**635,754**	**1,519,156**	**384,118**	**563,978**	**3,103,006**
Due to head office and its branches		**82,946**	**70,179**	**0**	**57,407**	**210,532**
Other liabilities		**0**	**0**	**0**	**121,100**	**121,100**
Total liabilities	(B)	**882,524**	**1,696,412**	**384,118**	**1,779,331**	**4,742,385**
Interest rate sensitivity gap	(A - B)	**1,243,516**	**(1,238,066)**	**1,964,149**	**(161,129)**	**1,808,470**
Represented by:						
Assigned capital						**2,350,000**
Statutory reserve						**521,553**
Accumulated losses						**(1,063,083)**
Total equity						**1,808,470**

December 31, 2018		Less than 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
		AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Assets						
Cash and balances with the UAE Central Bank		0	0	0	205,226	205,226
Due from head office and its branches abroad		624,326	188,337	0	1,205,868	2,018,531
Due from other banks		0		0	7,500	7,500
Export bills discounted for Iranian banks abroad		232,540		0	0	232,540
Loans and advances		528,360	62,267	2,903,498	0	3,494,125
Other assets		0	0	0	953,634	953,634
Property, plant and equipment		0	0	0	26,325	26,325
Total assets	(A)	1,385,226	250,604	2,903,498	2,398,553	6,937,881

December 31, 2018		Less than 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
		AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Liabilities						
Due to other banks		167,582	14,550	0	901,500	1,083,632
Customer deposits		643,185	1,757,624	215,965	1,049,458	3,666,232
Due to head office and its branches abroad		83,438	74,167		234,629	392,234
Other liabilities		0	0	0	142,536	142,536
Total liabilities	(B)	894,205	1,846,341	215,965	2,328,123	5,284,634
Interest rate sensitivity gap	(A - B)	491,021	(1,595,737)	2,687,533	70,430	1,653,247
Represented by:						
Assigned capital						2,100,000
Statutory reserve						521,553
Accumulated losses						(968,306)
Total equity						1,653,247

32. United Nations, Office of Foreign Assets Control and other restrictions

In its Resolution No. 1803 of 3 March 2008 the United Nations Security Council called upon its member states to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran, including Bank Saderat Iran and its branches abroad.

The Security Council of the United Nations had also previously resolved to impose restrictions on certain Iranian entities and individuals, which have been subject to implementing notices by the Central Bank of the UAE. The Bank has fully complied with the UAE Central Bank notices issued in this regard. Management of the Bank also believes that despite such restrictions being imposed, the going concern assumption used in the preparation of financial statements for the year ended December 31, 2019 is still appropriate.

The Office of Foreign Assets Control ("OFAC") of the United States Department of the Treasury has also resolved to impose restrictions on certain Iranian entities and individuals, including the Bank. Management believes that to date these restrictions have had no material impact on the Bank's ability to continue as a going concern.

In the last few years, a number of countries including US, UK and other European countries have imposed / reinforced sanctions on Iranian banks. More significantly, European Union Council Decision 2012/152/CFSP of March 15, 2012 provided for a ban on the supply of specialised financial messaging services used to exchange financial data, to certain Iranian banks. As a result of this, the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") has disconnected certain Iranian banks from its international network with effect from March 17, 2012.

Management of the Bank believes that since the Bank has not had business dealings / relations with any of the European / US banks for a long period of time and as it mainly deals with Iranian Banks which have their own intra-communication arrangements, the business activities of the Bank have not been significantly affected by the inability to use SWIFT. Further, in response to this, the Bank has introduced measures in order to ensure uninterrupted, legalised, authenticated transmission of messages and continuation of business activities including transfer of funds.

These financial statements do not take account of the potential future impacts of the current and any further restrictions that may he imposed by The Security Council of the United Nations and The Office of Foreign Assets Control of the United States' Department of the Treasury and restrictions that may be imposed by other countries.

33. Significant events occurring after the statement of financial position date

There are no significant events occurring after the statement of financial position date which require disclosure in the financial statements except the following:

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The Bank has assessed the forecast conditions considering the impact of COVID-19 for its operations and the significant government support measures being undertaken for the banking industry in United Arab Emirates (UAE) but at this time it is difficult to incorporate the specific effects of COVID-19 and government support measure on a reasonable grounds and supportive basis. The Bank will be monitoring the updated facts and circulars issued by Central Bank of UAE and supporting changes will be incorporated in the statements subsequent to the financial position date. As at statement of financial position date, the Bank is confident that appropriate disclosures and adjustments are made for the ECL based on the judgements and models prescribed by the Bank for the IFRS 9 impact for its financial instruments.

34. Bank's future operations

During the year 2019, the Bank has incurred a loss of AED 95 million (2018: AED 220 million) and has accumulated losses of AED 1,063 million as at December 31, 2019 (accumulated losses as at December 31, 2018: AED 968 million). The Bank along with its Head Office is currently committed to continue the business as a going concern and would introduce additional funds as and when required to meet its obligations as they fall due in the foreseeable future.

35. Previous year's figures

Previous year's figures have been re-grouped or re-arranged wherever necessary so as to conform to the current year's presentation.

36. In the opinion of the Management all the assets as shown in the financial statements are existing and realisable at the amount shown against them and there are no liabilities against the Bank, contingent or otherwise, not included in the above financial statements.