

**EL NILEIN BANK - ABU DHABI BRANCH**  
Abu Dhabi – United Arab Emirates

Financial Statements and  
Independent Auditors' Report  
For the year ended December 31, 2020

**El Nilein Bank - Abu Dhabi Branch**  
**Abu Dhabi - United Arab Emirates**

**Financial Statements and Independent Auditors' Report**  
**For the year ended December 31, 2020**

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## **Independent Auditors' Report**

**To**

**The General Manager of El Nilein Bank - Abu Dhabi Branch**

**Abu Dhabi - United Arab Emirates**

## **Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the financial statements of the **El Nilein Bank - Abu Dhabi Branch** (the Branch), which comprise the statement of financial position as of December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of matters**

- a) The Branch's management has considered the revenue from its Islamic financing instruments, except the financing instruments mentioned in Note 4.20 on the "cash basis of accounting". This method is not consistent with IAS 1 "Presentation of Financial Statements"; it requires that an entity prepare its financial statements, except for cash flow information using "accrual basis of accounting".
- b) During the financial year ended December 31, 2020, the management has neither employed any independent valuers nor considered the valuation of collaterals provided by its customer against the bank facilities granted; while performing the credit assessments or review of its customers. The Central Bank Circular No. 28/2010 "Regulation of loans and their provisions guidelines" suggest that the management also needs to consider collaterals' valuations on a periodical basis at the time of calculation of loss allowances.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), 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.

## **Independent Auditors' Report (continued)**

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### **Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)**

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

## Independent Auditors' Report (continued)

### Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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.

### Report on Other Legal and Regulatory Requirements

Further, we report that:

- The financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. 2 of 2015.
- The Branch has maintained proper books of accounts.
- The disclosures related to the material related party transactions and the terms under which they were executed are mentioned in Note 29.
- Based on the information that has been made available to us, except for the matters described in the emphasis of matters section above, nothing has come to our attention which causes us to believe that the Branch has contravened, during the financial year ended December 31, 2020, any of the applicable provisions of the UAE Federal Law No. 2 of 2015 or in respect of the Branch's Articles of Association which would materially affect its activities or its financial position as at December 31, 2020.
- Further, as required by Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of the audit.



Dubai  
March 30, 2021

Ref: HAMT/SRL/2021/1338

**For HLB HAMT**  
**Chartered Accountants**  
Signed by Vijay Anand  
Partner  
[Reg. No. 654]

**El Nilein Bank - Abu Dhabi Branch**  
**Abu Dhabi – United Arab Emirates**

**Statement of Financial Position as at December 31, 2020**

	Note	<b>2020</b> <b>AED '000</b>	<b>2019</b> <b>AED '000</b>
<b>Assets</b>			
Cash and balances with the Central Bank of UAE	6	<b>1,753,468</b>	430,361
Due from banks	7	<b>48,880</b>	42,901
Due from Head Office	8	<b>31,264</b>	32,066
Loans and advances	9	<b>11,847</b>	1,216
Investments at amortized cost	10	-	9,792
Islamic financing receivables	11	<b>491,833</b>	1,221,115
Other assets	12	<b>3,769</b>	7,909
Intangible assets	13	<b>2,375</b>	2,448
Property and equipment	14	<b>3,597</b>	3,703
<b>Total assets</b>		<b><u>2,347,033</u></b>	<b><u>1,751,511</u></b>
<b>Liabilities</b>			
Customers' deposits	15	<b>2,123,251</b>	1,524,766
Current tax liability	16	<b>737</b>	-
Other liabilities	17	<b>14,570</b>	21,326
Provision for employees' end of service indemnity	18	<b>3,168</b>	3,060
<b>Total liabilities</b>		<b><u>2,141,726</u></b>	<b><u>1,549,152</u></b>
<b>Equity</b>			
Capital	1	<b>212,000</b>	212,000
Statutory reserve	19	<b>4,920</b>	4,625
Accumulated deficit		<b>( 11,613)</b>	( 14,266)
<b>Total equity</b>		<b><u>205,307</u></b>	<b><u>202,359</u></b>
<b>Total liabilities and equity</b>		<b><u>2,347,033</u></b>	<b><u>1,751,511</u></b>
<b>Commitments and contingencies</b>	21	<b><u>98,577</u></b>	<b><u>133,437</u></b>

The accompanying notes form an integral part of these financial statements.

The financial statements on pages 4 to 58 were approved by the management on March 30, 2021 and signed on its behalf by:

*Fatihy Elgasim Abdelgayoum*  
 Fatihy Elgasim Abdelgayoum (Mar 31, 2021 13:34 GMT+4)  
 General Manager

*Rona Abdelrahman Nadeem*  
 Rona Abdelrahman Nadeem (Mar 31, 2021 14:13 GMT+4.5)  
 Head of Finance

**El Nilein Bank – Abu Dhabi Branch**  
**Abu Dhabi – United Arab Emirates**

**Statement of Comprehensive Income**  
**For the year ended December 31, 2020**

	<u>Note</u>	<u>2020</u> <u>AED '000</u>	<u>2019</u> <u>AED '000</u>
<b>Income</b>			
Income from Islamic financing activities	22	<b>49,319</b>	91,676
Investment income	23	-	1,723
Commission, fee & foreign exchange income	24	<b>10,588</b>	8,751
<b>Total income</b>		<b>59,907</b>	102,150
<b>Expenses</b>			
Staff cost	25	<b>(16,027)</b>	(13,607)
General, administrative and other operating expenses	26	<b>( 8,743)</b>	( 5,399)
Loss on disposal of financial assets	10	<b>( 9,792)</b>	-
Amortization	13	<b>( 555)</b>	( 471)
Depreciation	14	<b>( 657)</b>	( 638)
<b>Profit before depositors' share of profits</b>		<b>24,133</b>	82,035
Depositors' share of profits	28	<b>(18,918)</b>	(33,067)
<b>Profit before allowance for impairment</b>		<b>5,215</b>	48,968
Loss allowance on Shahama Certificates and Sukuks		-	(31,000)
Loss allowance on Mudaraba		-	(22,523)
Loss allowance on loans and receivables		<b>(1,530)</b>	(10,999)
Loss allowance on other assets		<b>-</b>	( 4,865)
<b>Profit before tax</b>		<b>3,685</b>	(20,419)
Tax charge for the year	16	<b>( 737)</b>	-
<b>Profit after tax for the year</b>		<b>2,948</b>	(20,419)
Other comprehensive income		<b>-</b>	-
<b>Total comprehensive income for the year</b>		<b>2,948</b>	(20,419)

The accompanying notes form an integral part of these financial statements.

El Nilein Bank – Abu Dhabi Branch  
Abu Dhabi – United Arab Emirates

Statement of Changes in Equity  
For the year ended December 31, 2020

	<u>Capital</u>	<u>Statutory</u>	<u>Impairment</u>	<u>Accumulated</u>	<u>Total</u>
	<u>AED '000</u>	<u>reserve</u>	<u>Reserve*</u>	<u>deficit</u>	
	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>
<b>As at January 01, 2019</b>	<b>110,500</b>	<b>4,625</b>	<b>1,595</b>	<b>4,558</b>	<b>121,278</b>
Capital contribution	101,500	-	-	-	101,500
Profit for the year	-	-	-	(20,419)	(20,419)
Release of Impairment reserve under CBUAE guidance *	-	-	(1,595)	1,595	-
<b>As at December 31, 2019</b>	<b><u>212,000</u></b>	<b><u>4,625</u></b>	<b><u>-</u></b>	<b><u>(14,266)</u></b>	<b><u>202,359</u></b>
 <b>As at January 01, 2020</b>	 <b>212,000</b>	 <b>4,625</b>	 <b>-</b>	 <b>(14,266)</b>	 <b>202,359</b>
Profit for the year	-	-	-	2,948	2,948
Transfer to statutory reserve	-	295	-	( 295)	-
<b>As at December 31, 2020</b>	<b><u>212,000</u></b>	<b><u>4,920</u></b>	<b><u>-</u></b>	<b><u>(11,613)</u></b>	<b><u>205,307</u></b>

The accompanying notes form an integral part of these financial statements.

\*Refer to Note 20



**El Nilein Bank – Abu Dhabi Branch**  
**Abu Dhabi – United Arab Emirates**

**Statement of Cash Flows**  
**For the year ended December 31, 2020**

	Note	<b><u>2020</u></b> <b><u>AED '000</u></b>	<b><u>2019</u></b> <b><u>AED '000</u></b>
<b>Cash flows from operating activities</b>			
Profit/(loss) after tax for the year		<b>2,948</b>	( 20,419)
Adjustments for:			
Amortization	13	<b>555</b>	471
Depreciation	14	<b>657</b>	638
Tax expenses		<b>737</b>	-
Provision for employees' end of service indemnity	18	<b>108</b>	
Loss on disposal of financial assets		<b>9,792</b>	-
Loss allowance		<b>1,530</b>	69,387
<b>Changes in:</b>		<b>16,327</b>	50,077
Due from Head Office	8	<b>802</b>	( 10,005)
Loans and advances	9	<b>( 12,161)</b>	17,506
Other assets	12	<b>4,140</b>	3,861
Islamic financing receivables	11	<b>729,282</b>	(131,501)
Customers' deposits	15	<b>598,485</b>	274,941
Other liabilities	17	<b>( 6,756)</b>	( 859)
Tax paid	16	<b>-</b>	( 1,254)
<b>Net cash generated from operating activities</b>		<b><u>1,330,119</u></b>	<u>202,766</u>
<b>Cash flows from investing activities</b>			
Addition to intangible assets	13	<b>( 482)</b>	( 1,875)
Additions to property and equipment	14	<b>( 551)</b>	( 1,118)
<b>Net cash used in investing activities</b>		<b><u>( 1,033)</u></b>	<u>( 2,993)</u>
<b>Cash flows from financing activities</b>			
Increase in capital	1	<b>-</b>	101,500
<b>Net cash generated from financing activities</b>		<b><u>-</u></b>	<u>101,500</u>
<b>Increase in cash and cash equivalents</b>		<b>1,329,086</b>	301,273
Cash and cash equivalents at the beginning of the year		<b><u>434,977</u></b>	<u>133,704</u>
<b>Cash and cash equivalents at the end of the year</b>		<b><u>1,764,063</u></b>	<u>434,977</u>
Cash and cash equivalents comprise of:			
Cash and balances with the Central Bank of UAE	6	<b>1,753,468</b>	430,361
Due from banks	7	<b>48,880</b>	42,901
Placement with Head Office	7	<b>( 38,285)</b>	( 38,285)
		<b><u>1,764,063</u></b>	<u>434,977</u>

The accompanying notes form an integral part of these financial statements.

**El Nilein Bank – Abu Dhabi Branch**  
**Abu Dhabi - United Arab Emirates**

**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

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**1. Establishment and operations**

**El Nilein Bank – Abu Dhabi Branch** (the Branch) was registered with the Department of Economic Development, Abu Dhabi and the Abu Dhabi Chamber of Commerce and Industry as a branch of Foreign Company.

The Head Office is El Nilein Bank, Republic of Sudan, incorporated as a Private Limited Company in Khartoum, Sudan.

The capital of the Branch is AED 212,000,000/- as of December 31, 2020.

The Head Office operates within U.A.E through its sole branch located in the Emirate of Abu Dhabi.

The principal activity of the Branch is to provide commercial and Islamic banking services within U.A.E.

The address of the registered office of the Branch is the Building of Afra Bint Ali Al Romaithi, Al Muroor Street, P.O Box: 46013, Abu Dhabi.

**2. Adoption of new and revised International Financial Reporting Standards and Interpretations**

**2.1 Standards and interpretations effective in the current year**

The Branch has adopted the following new and amended IFRS's in these financial statements.

	<b><u>Effective for annual periods beginning</u></b>
Amendments to IAS 1 and IAS 8 Definition of Material	January 01, 2020
Amendments to IFRS 3 Definition of a Business	January 01, 2020
Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform	January 01, 2020
Revised Conceptual Framework for Financial Reporting	January 01, 2020
Amendments to IFRS 16 regarding COVID-19 related rent concessions	June 01, 2020

**Amendments to IAS 1 and IAS 8 Definition of Material**

These amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

These amendments had no impact on these financial statements.

**Amendments to IFRS 3 Definition of a Business**

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

These amendments do not have any impact on these financial statements.

**Notes to the Financial Statements (continued)**

**For the year ended December 31, 2020**

**2. Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)**

**2.1 Standards and interpretations effective in the current year (continued)**

**Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark**

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

These amendments do not have any impact on these financial statements as the Branch does not have any interest rate hedge relationships.

**Revised Conceptual Framework for Financial Reporting**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments do not have any impact on these financial statements.

**Amendments to IFRS 16 Covid-19 Related Rent Concessions**

The Branch has early adopted this standard with a date of initial application of January 01, 2020.

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - Amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

**2.2 New and revised IFRS in issue but not effective and not early adopted**

The following standards, amendments thereto, and interpretations have been issued prior to December 31, 2020, but have not been applied in these financial statements as their effective dates of adoption are for future periods. The impact of the adoption of the below standards is currently being assessed by the management. It is anticipated that their adoption in the relevant accounting periods will have an impact only on disclosures within the financial statements.

**Effective for annual periods beginning**

Amendments to IFRS 3- Reference to the Conceptual Framework	January 01, 2022
Amendments to IAS 16- Property, Plant and Equipment: Proceeds before Intended Use	January 01, 2022

Notes to the Financial Statements (continued)

For the year ended December 31, 2020

**2. Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)**

**2.2 New and revised IFRS in issue but not effective and not early (continued)**

	<b><u>Effective for annual periods beginning</u></b>
Amendments to IAS 37- Onerous Contracts – Costs of Fulfilling a Contract	January 01, 2022
IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	January 01, 2022
IFRS 9 Financial Instruments- – Fees in the '10 per cent' test for derecognition of financial liabilities	January 01, 2022
IAS 41 Agriculture – Taxation in fair value measurements	January 01, 2022
IFRS 17 Insurance Contracts	January 01, 2023
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	January 01, 2023
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Indefinitely deferred

**3. Definitions**

The following terms are used in the financial statements with the meaning specified:

**Murabaha**

Is a contract whereby the Bank (the "Seller") sells an asset to its customer (the "Purchaser"), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre-agreed profit amount. Murabaha profit is internally accounted for on a time-apportioned basis over the contract period based on the principal amount outstanding. The Murabaha sale price is paid by the Purchaser to the Seller on an instalment basis over the Murabaha period as stated in the contract.

**Istisna/Mugawla**

Istisna/Mugawla is a type of sale transaction where the buyer places an order with the seller to manufacture certain asset and the sale is completed upon delivery of the asset to the buyer. Istisna/ Mugawla is used for providing financing facility for transactions where customer is involved in manufacturing or construction. Under Istisna/ Mugawla financing transaction, the client manufactures goods for the Bank and upon delivery of the goods to the Bank, the client is appointed as Agent of Bank to sell those goods in the market.

**Wakala**

It is an agreement between two parties whereby one party is a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to an agent (the "Wakeel"), who invests the Wakala Capital in a Shari'a compliant manner and according to the feasibility study or investment plan submitted to the Muwakkil by the Wakeel.

**Notes to the Financial Statements (continued)**

**For the year ended December 31, 2020**

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**3. Definitions (continued)**

**Wakala (continued)**

The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a Wakala Capital percentage. The Wakeel may be granted any excess over and above a specific pre-agreed rate of return as a performance incentive. In principle, the Wakala profit is distributed on declaration or distribution by the Wakeel. However, since the Wakala profit is always reliably estimated, it is internally distributed on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding.

The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise, the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement, the Bank may act either as Muwakkil or as Wakeel, as the case may be.

**Istisna'a**

It is a sale contract between two parties whereby the Bank (the "Sani" or "Seller") undertakes to construct, for its customer (the "Mustasni" or "Purchaser"), a specific asset or property (being "Al-Masnoo") according to precise pre-agreed specifications to be delivered during a pre-agreed period in consideration of a pre-determined price, which comprises the cost of construction and a profit amount.

The work undertaken is not restricted to be accomplished by the Sani' alone, and third parties can undertake the whole or part of the construction or development under the control and responsibility of the Sani'. Under an Istisna'a contract, the Bank could be the Sani' or the Mustasni'. Istisna'a profit (the difference between the sale price of Al-Masnoo to the customer and the Bank's total Istisna'a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

**Mudaraba**

It is a contract between two parties whereby one party is a fund provider (the "Rab Al Mal") who would provide a certain amount of funds (the "Mudaraba Capital") to the other party (the "Mudarib"). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity, deploying its experience and expertise for a particular pre-agreed share in the resultant profit if any. The Rab Al Mal is not involved in the management of the Mudaraba activity. In principle, the Mudaraba profit is distributed on declaration or distribution by the Mudarib.

However, since the Mudaraba profit is always reliably estimated, it is internally distributed on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding.

The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise, the loss would be borne by the Rab Al Mal, provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract, the Bank may act either as Mudarib or as Rab Al Mal, as the case may be.

**Notes to the Financial Statements (continued)**

**For the year ended December 31, 2020**

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**3. Definitions (continued)**

**Musharaka**

It is an agreement between the Bank and its customer, whereby both parties contribute to the Musharaka (the "Musharaka Capital"). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be a particular investment enterprise, whether existing or new or the ownership of a particular property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the total ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement.

In principle, Musharaka profit is distributed on declaration or distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally distributed on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner's negligence, breach or default, the Bank receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

**Ijarah**

It is an agreement whereby the Bank (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing or acquiring the specified asset, either from a third-party seller or from the customer itself, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term or periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, and the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the appropriate rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfilment of all the Lessee obligations under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the lease's commencement and continue throughout the lease term based on the outstanding fixed rentals (which predominantly represent the cost of the leased assets).

**Sukuk**

These comprise asset-backed, Shari'a compliant trust certificates.

**4. Basis of presentation and significant accounting policies**

**4.1 Statement of compliance**

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the applicable requirements of the laws of the UAE, except for income on Islamic financing receivables and deposits that are recognized in the statement of comprehensive income on a cash basis. The principal accounting policies adopted in the preparation of the Branch's financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated. These financial statements were approved and authorized by the General Manager on March 30, 2021.

**4.2 Basis of measurement**

The financial statements have been prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange of goods and services. 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 a liability, the Branch 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.

**4.3 Basis of presentation**

The Branch presents its statement of financial position in order of liquidity.

**4.4 Functional and presentation currency**

The financial statements are prepared, and the items included in the financial statements are measured using the currency of the primary economic environment in which the Branch operates ('the functional currency'). The financial statements are presented in Arab Emirates Dirhams (AED), which is the Branch's functional and presentation currency. The figures in these financial statements have been rounded to the nearest thousands, except as otherwise indicated.

**4.5 Foreign currency translation:**

**4.5.1 Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transactions' dates. Foreign exchange gains and losses resulting from the settlement of outstanding amounts of such transactions and from the retranslation of monetary assets and liabilities denominated in foreign currencies at the end of each reporting period are recognized in the statement of comprehensive income.

At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

**Notes to the Financial Statements (continued)**

**For the year ended December 31, 2020**

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**4. Basis of presentation and significant accounting policies (continued)**

**4.6 Going concern**

At the time of approving the financial statements, the directors have a reasonable expectation that the Branch have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

**4.7 Cash and cash equivalents**

Cash and cash equivalents consist of cash, balances with the Central Bank of UAE and balances with other banks and financial institutions with an original maturity of three months or less at the date of placement, free of encumbrances, which are subject to insignificant risk on their fair value change. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

**4.8 Due from banks**

Amounts due from banks are stated at amortised cost, less provision for impairment, if any.

**4.9 Customers' deposits and due to Head Office**

Customers' deposits and due to Head Office are initially recognized at cost, being the fair value of the consideration received and subsequently measured at their amortised cost using the effective profit method. Amortized cost is calculated by taking into account any discount or premium on the settlement.

**4.10 Property and equipment**

Property and equipment are carried at cost, less accumulated depreciation and any identified impairment loss.

Property and equipment are depreciated using the straight-line method over the expected useful lives of the assets as under:

Furniture and fixtures	13.3 years
Office equipment	6.7 – 10 years
Vehicles	6.7 years

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefit from these assets and adjusted prospectively, if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

Maintenance and repairs are charged to expenses as incurred, and renewals and improvements, which extend the asset's life, are capitalized and depreciated over the asset's remaining life.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.



**Notes to the Financial Statements (continued)**

**For the year ended December 31, 2020**

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**4. Basis of presentation and significant accounting policies (continued)**

**4.11 Intangible assets**

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized, and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortization is charged on a straight-line basis over their estimated useful lives. The amortization method and estimated useful lives are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed periodically to determine whether indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the asset's carrying amount and are recognized in the statement of comprehensive income when the asset is derecognized.

**4.11.1 Software**

Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over their estimated useful lives, which is normally a period of 6.67 years.

**4.12 Impairment of non – financial assets**

At each date of the statement of financial position, the Branch reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Branch estimates the recoverable amount of the cash-generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the asset's carrying amount (cash-generating unit) is reduced to its recoverable amount.

**Notes to the Financial Statements (continued)**

**For the year ended December 31, 2020**

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**4. Basis of presentation and significant accounting policies (continued)**

**4.12 Impairment of non – financial assets (continued)**

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of comprehensive income in expense categories consistent with the impaired asset's function, except for properties previously revalued with the revaluation taken to the statement of other comprehensive income. For such properties, the impairment is recognized in the statement of other comprehensive income up to the amount of any previous revaluation.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

It is the management opinion that no such indication exists at the date of the statement of financial position and accordingly, no adjustments or disclosures are required in respect of this issue.

**4.13 Taxation**

**4.13.1 Income tax expense**

Income tax expense is recognised in the profit or loss to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is the expected tax payable on taxable income for the year using tax rates enacted at the reporting date by tax laws and regulations in the Emirate of Abu Dhabi and any adjustments to the tax payable in respect of the previous year.

Estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Branch recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of those matters is different from the amounts that were initially recorded, such differences will impact the income tax in the period in which such determination is made.

**4.13.2 Value added tax**

Output value-added tax related to sales is payable to tax authorities on the earlier of:

- collection of receivables from customers or
- delivery of goods or services to customers.

Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis – unless the Branch has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the debtor's gross amount, including VAT.

**Notes to the Financial Statements (continued)**

**For the year ended December 31, 2020**

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**4. Basis of presentation and significant accounting policies (continued)**

**4.14 Provision for employees' benefits**

Estimated amounts required to cover employees' end of service indemnity at the date of the statement of financial position are computed pursuant to the UAE Federal Labour Law as per law No. 8 of 1980 based on the employees' accumulated period of service and current remuneration at the date of the statement of financial position.

The management is of the opinion that no significant difference would have arisen the liability been calculated on an actuarial basis as salary inflation and discount rates are likely to have approximately equal and opposite effects.

UAE Nationals employed by the Branch is registered in the General Pension and Social Security Authority scheme. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Branch's internal regulations, which comply with the UAE Federal Labour Law.

**4.15 Financial instruments**

***Financial assets***

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured 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:

- (i) 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 profit on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- (ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);
- (iii) all other debt instruments (e.g. instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL. However, the Branch may make the following irrevocable election/designation at initial recognition of a financial asset on an asset by asset basis:
- (iv) the Branch may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
- (v) the Branch may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Notes to the Financial Statements (continued)

For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

***Islamic financing and investing assets***

Islamic financing and investing assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financing and receivables (including cash and cash equivalents, Islamic finance receivables, due from Banks and other financial institutions, and other receivables) are measured at amortised cost using the effective profit method, less any impairment.

Profit income is recognised by applying the effective profit rate, except for short-term receivables when the effect of discounting is immaterial.

***(i) Debt instruments at amortised cost or at FVTOCI***

The Branch assesses the classification and measurement of a financial asset based on the asset's contractual cash flow characteristics and the Branch'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 profit on the principal outstanding (SPPI).

For the purpose of SPPI test, the principal is the fair value of the financial asset at initial recognition. That principal amount may change over the financial asset's life (e.g. if there are payments of principal). Profit 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 financing risks and costs, as well as a 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 financing arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Branch determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Branch'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 Branch has more than one business model for managing its financial instruments, reflecting how the Branch manages its financial assets to generate cash flows. The Branch's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Branch determines whether newly recognised financial assets are part of an existing business model or whether they reflect a new business model's commencement.

Notes to the Financial Statements (continued)

For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

**Financial assets** (continued)

The Branch reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period, the Branch has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

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

**(i) Financial assets at FVTPL**

Financial assets at FVTPL are:

- a) assets with contractual cash flows that are not SPPI; or/and
- b) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- c) 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.

**Fair value option**

A financial instrument with a reliably measurable fair value could be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing related gains and losses on a different basis (an "accounting mismatch"). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued. Financial assets designated as FVTPL are recorded at fair value, and any unrealized gains or losses arising due to changes in fair value are included in investment income.

**(ii) Reclassifications**

If the business model under which the Branch holds financial assets changes, the financial assets affected are reclassified, the classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in the business model that results in reclassifying the financial assets of the Branch. During the current period and previous accounting period, there was no change in the business model under which the Branch holds financial assets, and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

Notes to the Financial Statements (continued)

For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

*Financial assets (continued)*

(iii) Impairment

The Branch recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions
- Loans and advances
- Islamic investments securities at FVTOCI
- Islamic financing and investing assets
- Off-balance sheet exposures subject to credit risk

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit-impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.
- ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Branch under the contract. The Branch expects to receive the cash flows arising from the weighting of multiple future economic scenarios, discounted at the asset's EPR.
- for undrawn financial commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Branch if the holder of the commitment draws down the finance and the cash flows that the Branch expects to receive if the finance is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed financing instrument less any amounts that the Branch expects to receive from the holder, the customer or any other party.

The Branch measures ECL on an individual basis or on a collective basis for portfolios of finances that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EPR, regardless of whether it is measured on an individual basis or a collective basis.

(iv) 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:

Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

*Financial assets (continued)*

(iv) Credit-impaired financial assets (continued)

- the significant financial difficulty of the customer or issuer;
- a breach of contracts such as a default or past due event;
- the financier of the customer, for economic or contractual reasons relating to the customer's financial difficulty, having granted to the customer a concession that the financier would not otherwise consider;
- the financier of the customer has downgraded the ratings because of deterioration in the financial condition of the customer; or
- the purchase of a financial asset 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 Branch assesses whether financing instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate financing instruments are credit impaired, the Branch considers factors such as delinquency, watchlist indication, restructuring flag, deterioration in credit ratings, and the customer's ability to raise funding.

A financial asset is considered credit-impaired when a concession is granted to the customer due to a deterioration in the customer'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 unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more. However, the cases where the impairment is not recognised for assets beyond 90 days overdue are supported by reasonable information.

(v) Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Branch recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

(vi) 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.

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

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**4. Basis of presentation and significant accounting policies (continued)**

**4.15 Financial instruments (continued)**

***Financial assets (continued)***

***(vi) Definition of default (continued)***

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

- the customer is past due more than 90 days on any material credit obligation to the Branch, or
- the customer is unlikely to pay its credit obligations to the Branch in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Further, the cases where the criteria of 90 days overdue are rebutted using reasonable information. When assessing if the customer is unlikely to pay its credit obligation, the Branch takes into account both qualitative and quantitative indicators.

The information assessed depends on the type of asset, for example, incorporate financing a qualitative indicator used is the 'watchlist flag', which is not used for retail financing.

Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty, are critical inputs in this analysis. The Branch uses a variety of sources of information to assess default which is either developed internally or obtained from external sources.

***(vii) Significant increase in credit risk***

The Branch monitors all financial assets, issued financial 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 Branch will measure the loss allowance based on lifetime rather than 12-month ECL. The Branch's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Branch monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to impairment for a significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Branch 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 Branch 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 Branch'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 form the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.



Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

*Financial assets (continued)*

**(vii) Significant increase in credit risk (continued)**

For corporate financing, forward-looking information includes the future prospects of the macroeconomic indicators like Crude Oil price, obtained from regulatory guidelines, 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, financing forward-looking information includes the same economic forecasts as corporate financing with additional forecasts of local economic indicators.

The Branch allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Branch considers the credit risk upon initial recognition of an asset and whether there has been a significant increase in it on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Branch 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 customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customer; and
- Macroeconomic information: in its models, the Branch relies on a broad range of forward-looking information as economic inputs, such as average oil prices, real estate Dubai and Abu Dhabi, inflation, ECI, hotel room occupancy etc. along with various transformations of the same. 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 temporary adjustments using expert credit judgement.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

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

Notes to the Financial Statements (continued)

For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

*Financial assets (continued)*

**(vii) Significant increase in credit risk (continued)**

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

For retail financing, when an asset becomes 30 days past due, the Branch considers that a significant increase in credit risk has occurred, and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

**(viii) Modification and derecognition of financial assets**

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between the initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of existing finance would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the profit rate that arises when covenants are breached).

The Branch renegotiates finances to customers in financial difficulty to maximise collection and minimise the risk of default. A finance forbearance is granted in cases where although the customer made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened, and the customer is expected to be able to meet the revised terms.

The revised terms in most cases include an extension of the finance's maturity, changes to the timing of the cash flows of the finance (principal and profit payment), reduction in the amount of cash flows due (principal and profit forgiveness) and amendments to covenants. The Branch has an established forbearance policy that applies to corporate and retail financing.

When a financial asset is modified, the Branch assesses whether this modification results in derecognition. In accordance with the Branch's policy, a modification results in derecognition when it gives rise to substantially different terms.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the 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 on the rare occasions where the new finance is considered to be originated credit-impaired. This applies only in the case where the fair value of the new finance 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 Branch monitors the credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the customer is in the past due status under the new terms.

Notes to the Financial Statements (continued)

For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

*Financial assets (continued)*

**(viii) Modification and derecognition of financial assets** (continued)

Where a modification does not lead to derecognition, the Branch calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Branch 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 Branch derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Branch neither transfers nor retains all the risks and rewards of ownership substantially and continues to control the transferred asset, the Branch recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Branch retains all the risks and rewards of ownership of a transferred financial asset substantially, the Branch continues to recognise the financial asset and also recognises collateralised financing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

**(ix) Presentation of allowance for ECL**

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

- for financial assets measured at amortised cost (loans and advances, balances due from central banks and other banks, reverse-repo placements, investment securities carried at amortised cost 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.

**(x) Write-offs**

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a payment plan with the Branch. The Branch categorises a finance or receivable for write off after almost all possible avenues of payments have been exhausted.

However, where finances or receivables have been written off, the Branch continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Notes to the Financial Statements (continued)

For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

**Financial liabilities**

**(i) Classification and subsequent measurement**

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'. The classification of financial liabilities at initial recognition depends on the purpose and management's intention for which the financial liabilities were incurred and their characteristics.

Financial liabilities are recognised in the Branch's statement of financial position when the Branch 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 the acquisition or issue of financial liabilities (other than financial liabilities at FVTPL) are deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at FVTPL are recognised immediately in profit or loss. If the transaction price differs from fair value at initial recognition, the Branch will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the liability).

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: the classification is applied to Islamic derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability).

This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and financial commitments.

Notes to the Financial Statements (continued)

For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

***Financial liabilities (continued)***

*Effective profit method*

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit 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 profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(ii) **Derecognition**

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Branch and its original financier of financing instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective profit rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as currency that the instrument is denominated in, changes in the type of profit rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of financing instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred are recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

**Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified customer fails to make payments when due in accordance with the terms of a financing instrument.

Financial guarantee contracts issued by a Branch entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where the appropriate, cumulative amount of income recognised in accordance with the Branch's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position, and the remeasurement is presented in other revenue.

The Branch has not designated any financial guarantee contracts as at FVTPL.

Notes to the Financial Statements (continued)

For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.15 Financial instruments (continued)

*Financial liabilities (continued)*

(ii) Derecognition (continued)

**Islamic derivative financial instruments**

Islamic derivative financial instruments are primarily used in trading activities. These are also used to manage our exposure to profit, currency, credit and other market risks. All Islamic derivative financial instruments are recorded in the statement of financial position at fair value.

When Islamic derivative financial instruments are used in trading activities, the realized and unrealized gains and losses on these Islamic derivative financial instruments are recognized in other income. Islamic derivative financial instruments with positive fair values are presented as an asset and Islamic derivative financial instruments with negative fair values are reported as liabilities. In accordance with our policy for offsetting financial assets and financial liabilities, the net fair value of certain derivative assets and liabilities are reported as an asset or liability, as appropriate. Valuation adjustments are included in the fair value of Islamic derivative assets and Islamic derivative liabilities. Premiums paid and premiums received are part of Islamic derivative assets and Islamic derivative liabilities, respectively. When derivatives are used to manage our own exposures, we determine for each derivative, whether hedge accounting can be applied.

Offsetting:

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Branch intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Branch's trading activity.

**4.16 Leases**

At the inception of a contract, the Branch assesses whether the contract is, or contains a lease. A contract is or contains a lease if the contracts convey the right to control the use of an identified asset for the Branch for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Branch assesses whether:

- The contract involves the use of an identified asset -this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Branch has the right to obtain all the economic benefits from the use of the asset throughout the period of use substantially; and

**4. Basis of presentation and significant accounting policies (continued)**

**4.16 Leases (continued)**

- The Branch has the right to direct the use of the asset. The Branch has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Branch has the right to direct the use of the asset if either:
  - The Branch has the right to operate the asset; or
  - The Branch designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on a reassessment of a contract that contains a lease component, the Branch allocates the consideration in the contract to each lease component based on their relative stand-alone prices.

However, where the contract is not separable into a lease and non-lease component, then the Branch has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Branch determines the lease term as the non – cancellable period of a lease, together with both:

- a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Branch considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Branch revises the lease term if there is a change in the non-cancellable period of a lease.

**4.16.1 Right-of-use assets**

The Branch recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

The cost of right-to-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, plus an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located and lease payments made at or before the commencement date less any lease incentives received unless the Branch is reasonably certain to obtain ownership of the leased asset at the end of the lease term.

The recognised right-to-use assets are subsequently depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Also, the right-of-use assets are periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

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4. Basis of presentation and significant accounting policies (continued)

4.16 Leases (continued)

**4.16.2 Short-term leases and leases of low-value assets**

The Branch applies the short-term lease recognition exemption to its short-term leases of property and equipment (those leases that have a lease term of 12 months or less and do not contain a purchase option). It also applies the lease of low-value assets exemption to leases that are considered of low value. Lease payments on short-term leases and lease of low-value assets are recognised as expense on a straight-line basis over the lease term.

**4.16.3 Lease liability**

The lease liability is initially recognised at the present value of the lease payments that are not paid in the commencement date. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the Branch used its incremental borrowing rate.

After initial recognition, the lease liability is measured by:

- a) increasing the carrying amount to reflect interest on the lease liability;
- b) reducing the carrying amount to reflect the lease payments made; and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Where,

- a) There is a change in the lease term as a result of a reassessment of certainty to exercise an exercise option, or not to exercise a termination option as discussed above, or
- b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the context of a purchase option, the Branch remeasures the lease liability to reflect changes to lease payments by discounting the revised lease payments using a revised discount rate. The Branch determined the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term if that rate can be readily determined.
- c) There is a change in the amounts expected to be payable under a residual value guarantee; or
- d) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review. The Branch remeasures the lease liabilities by discounting the revised lease payments using an unchanged discount rate unless the change in lease payments results from a change in floating interest rates. In such a case, the Branch uses a revised discount rate that reflects a change in the interest rate.

The Branch recognises the amount of the re-measurements of lease liability as an adjustment to the right-of-use asset. Where the carrying amount of the right-of-use asset is reduced to zero, and there is a further deduction in the measurement of the lease liability, the Branch recognises any remaining amount of the re-measurement in profit or loss.

The Branch accounts for a lease modification as a separate lease if both:

- a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- b) the consideration for the lease increase by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the context.



Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

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**4. Basis of presentation and significant accounting policies (continued)**

**4.16 Leases (continued)**

**4.16.3 Lease liability (continued)**

Lease modifications that are not accounted for as a separate, lease the Branch, at the effective date of the lease modification:

- a) allocates the consideration in the modified contract;
- b) determines the lease term of the modified lease; and
- c) remeasured the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective rate of the modification, if the interest rate implicit in the lease cannot be readily determined.

**4.17 Provisions and contingent liabilities**

A provision is recognized if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Branch's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements, unless they are remote.

**4.18 Sale and repurchase agreements**

Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Branch's financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective yield method.

**4.19 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for asset or liability; or
- In the absence of principal market, in the most advantageous market for assets and liabilities

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

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**4. Basis of presentation and significant accounting policies (continued)**

**4.19 Fair value measurement (continued)**

Fair value is applicable to both financial and non-financial instruments.

The principal or the most advantageous market must be accessible to by the Branch. The Branch uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The fair value hierarchy is described as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2- Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Branch's valuation committee determines the policies and procedures for both recurring and nonrecurring fair value measurement.

**4.20 Revenue recognition**

Revenue is recognized in the statement of comprehensive income at the fair value of the consideration received or receivable, provided it is probable that the economic benefits will flow to the Branch and the revenue and costs, if applicable, can be measured reliably.

**i. Income from Islamic financing and investing receivables**

Income on Islamic financing receivables and deposits are recognized in the statement of comprehensive income on a cash basis except for income on Islamic investments on which profit is accrued using the effective profit rates of the financial assets.

The effective profit rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to them carrying amount of the financial asset or liability. The effective rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating effective profit rates, the Branch estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses. The calculation includes all amounts paid or received by the Branch that is an integral part of the effective profit rate, including transaction costs and all other premiums or discounts.

Income from the following financing and investing receivables are recognized as follows:

**a) Mudaraba**

Income from Mudaraba financing is recognized on distribution by the Mudarib except for quantifiable and contractually determined profits which are recognized on an accrual basis, whereas the losses are charged to income on their declaration by the Mudarib.

**b) Murabaha**

Income from Murabaha financing is recognized in the statement of comprehensive income on a cash basis.

**c) Ijarah**

Income from Ijarah is recognized in the statement of comprehensive income on a cash basis.

**d) Musharaka**

Income from Musharaka is recognized in the statement of comprehensive income on a cash basis over the period.

Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

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**4. Basis of presentation and significant accounting policies (continued)**

**4.20 Revenue recognition (continued)**

**i. Income from Islamic financing and investing receivables (continued)**

**e) Mugawla**

Income from Mugawla is recognized in the statement of comprehensive income on a cash basis over the period.

**ii. Fee and commission**

The Branch earns fee and commission income from a diverse range of services provided to its customers. Recognition of revenue for fee and commission income depends on the purpose for which the fees are assessed and the basis of accounting for the associated financial instrument. Fee and commission income is accounted for as follows:

- Income which forms an integral part of the effective profit rate of a financial instrument is recognized as an adjustment to the effective profit rate (for example, loan commitment fees) and recorded in “profit income”;
- Income earned from the provision of services is recognized as revenue as the services are provided; and
- Profit earned on the execution of a significant act is recognized as revenue when the act is completed.
- Fees and commission expense related mainly to transaction and service fees which are expensed as the services are received.

**4.21 Financial guarantees**

Financial guarantees are contracts that require the Branch to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms. Financial guarantees are initially recognized at their fair value, (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

**5. Significant judgments and estimation uncertainty**

The preparation of the financial statements in compliance with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur, which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates 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.

**5. Significant judgments and estimation uncertainty (continued)**

**5.1 Judgments:**

In the process of applying the Branch's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amount recognized in the financial statements:

**5.1.1 Going concern assumption**

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

**5.1.2 Contingencies**

The Branch may be involved in litigations arising in the ordinary course of business, due to the nature of its operations. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and the reliability of estimating such outflow. Such matters are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance.

**5.1.3 The lease-term of contracts with renewal options:**

The Branch determines the lease term considering all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

**5.1.4 Financial instruments**

Judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements of the year ended December 31, 2020 pertain:

- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) of the principal amount outstanding.
- Calculation of expected credit loss (ECL): Assumptions and estimation uncertainties that have a significant impact on ECL for the year ended December 31, 2020. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

**Inputs, assumptions and techniques used for ECL calculation**

Key concepts that have the most significant impact and require a high level of judgment, as considered by the Branch while determining the ECL, are:

Assessment of Significant Increase in Credit Risk

Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

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**5. Significant judgments and estimation uncertainty** (continued)

**5.1 Judgements** (continued)

**5.1.4 Financial instrument** (continued)

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Branch compares the risk of a default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Branch's existing risk management processes exposure based on three factors. If any of the following factors indicate that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. The Branch has established thresholds for significant increase in credit risk based on movement in Probability of Default relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment is based on individual assessment of financial assets for objective evidence of impairment.

The Branch reviews its loans and receivables portfolio and Islamic financing receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Branch makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans and receivables or Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

**Macroeconomic Factors, Forward-Looking Information (FLI) and Multiple Scenarios**

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information require significant judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) such as occupancy rates, oil prices, housing price index and GDP (where applicable), that are closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Branch's ECL calculation will have forecasts of the relevant macroeconomic variables.

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

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**5. Significant judgments and estimation uncertainty (continued)**

**5.1 Judgements (continued)**

**5.1.4 Financial instrument (continued)**

**Macroeconomic Factors, Forward-Looking Information (FLI) and Multiple Scenarios**  
(continued)

The Branch estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

The Branch base case scenario is based on macroeconomic forecasts published by the external experts and other publicly available data. Upside and downside scenarios are set relative to the Branch base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios, will occur on at least an annual basis and more frequently if conditions warrant.

Scenarios are probability-weighted according to the Branch best estimate of their relative likelihood based on the historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities.

Sensitivity assessment due to movement in each macroeconomic variable and the respective weights under the three scenarios is periodically assessed by the Branch.

In some instances, the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Branch's Governance process for oversight.

**Definition of default**

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define a default, but contains a rebuttable presumption that default has occurred when exposure is greater than 90 days past due.

**Expected Life**

When measuring ECL, the Branch must consider the maximum contractual period over which the Bank is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Branch is exposed to credit risk and where the credit losses would not be mitigated by management actions.

**Governance**

In addition to the existing risk management framework, the Branch has established an internal committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and Economist team and will be responsible for reviewing and approving key inputs and assumptions used in the Branch ECL estimates. It also assesses the appropriateness of the overall allowance results to be included in the Branch's financial statements.

**5. Significant judgments and estimation uncertainty (continued)**

**5.2 Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**5.2.1 Useful life of property and equipment**

Property and equipment are depreciated over their estimated useful lives, which is based on the expected usage of the asset and expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

**5.2.2 Useful life of intangible assets**

Intangible assets are amortized over their estimated useful lives, which is based on the expected pattern of consumption of the future economic benefits embodied in the assets.

**5.2.3 Employees' end of service indemnity**

Provision for employees' end of service indemnity is grouped as non-current liability on the judgment that the employees of the Branch will be continued in the future periods irrespective of the fact about their visa expiry date and other employment terms and conditions.

**5.2.4 Impairment of non-financial assets**

The Branch assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Branch estimates the asset's recoverable amount.

The fair value less costs of disposal calculation are based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model and requires estimation of the expected future cash flows from the asset (or of the cash-generating unit) in the forecasted period and to determine a suitable discount rate in order to calculate the present value of those cash flows. The discount rate reflects current market assessments of the time value of money and the risks specific to the asset.

**5.2.5 Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimates include consideration of inputs such as liquidity risk, credit risk, prepayment rates, recovery rates and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**The Impact of the Coronavirus (Covid-19) pandemic on El Nilein Bank Abu Dhabi Branch**

The Branch is exposed to the COVID- 19 outbreak which has been labelled a global pandemic by the World Health Organization. The disease has negatively impacted the global economic growth resulting in disruption of economic activity, which has in turn affected the ability of the Branch to generate revenues and meet business targets.

**5. Significant judgments and estimation uncertainty (continued)**

**The Impact of the Coronavirus (Covid-19) pandemic on El Nilein Bank Abu Dhabi Branch (continued)**

During the current year the Branch has significantly reduced its client portfolio to manage this crisis. Given the unpredictable global situation, the impact on the operating activities of the Branch and the recoverability of its assets will continue to be assessed during the coming periods.

The Branch will continue to closely monitor as the situation progresses and has activated its business continuity planning and other risk management practices to manage the potential business operations disruption and financial losses.

**Central Bank of UAE Stimulus Plan:**

Central banks across the world have stepped in with measures to protect the stability of the global economy with a wide range of measures from easing of interest rates, to asset purchase programmes besides infusing significant liquidity into the economy.

The Central Bank of UAE has launched an AED 100 billion stimulus scheme to combat the economic repercussions of the coronavirus outbreak. The scheme is called the “Targeted Economic Support Scheme (TESS)” which has been implemented from 15 March 2020. As per this scheme, AED 50 billion has been provided by the Central Bank through collateralized loans at zero cost to all banks operating in the UAE and AED 50 billion will be freed up from the banks’ capital buffers to facilitate the lending facilities of banks.

In addition, the Central Bank, inter alia, directed banks and financial institutions to take the following steps to provide relief to its customers, which include private organizations, individuals and SME’s:

- Offer payment deferral relief for a period of up to 6 months on installments of loans (principal and/or interest/ profit) as rescheduling of loans will prevent borrowers from defaulting on their payments.
- Provide additional financing at reduced rates including but not limited to, working capital relief, granting new credit lines, rescheduling of loans and reducing fees and commissions to ensure businesses remain solvent during the time of this crisis.
- Not charge customers receiving relief under this scheme any fees, penalties or interest in connection with the payment deferral relief and/or increase interest rates. Further, any late payment fees charged shall be reversed within 30 days.

CBUAE has introduced the following stimulus package relating to liquidity and capital requirements to support the banking industry in the UAE through this disruption and to enable banks to fully pass on the TESS related benefits to end customers:

- The Capital Conservation Buffer stays at 2.5%, but banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective from 15 March 2020 until 31 December 2021.
- The Domestic Systemically Important Banks (D-SIBs) buffer remains. D-SIBs are allowed to use 100% of their D-SIB buffer without supervisory consequences, effective from 15 March 2020 until 31 December 2021.
- Restrictions on maximum distributable amount (MDA) has been temporarily suspended.
- Banks are allowed to fall below the regulatory Liquidity Coverage Ratio (LCR) of 100%, so that their actual LCR is higher or equal 70%, to accommodate for the use of ZCF and to provide banks with additional flexibility to support the UAE economy.



**5. Significant judgments and estimation uncertainty (continued)**

**Central Bank of UAE Stimulus Plan (continued)**

- Banks are allowed to fall below the regulatory Eligible Liquid Assets Ratio (ELAR) of 10%, so that their actual ELAR is higher or equal 7%, to accommodate for the use of ZCF and to provide banks with additional flexibility to support the UAE economy.
- Banks are allowed to fall below the regulatory Net Stable Funding Ratio (NSFR) of 100%, so that their actual NSFR is higher or equal 90%, to provide banks with additional flexibility to support the UAE economy.
- Banks are allowed to go above the regulatory Advances to Stable Resources Ratio (ASRR) of 100%, so that their actual ASRR is lower or equal 110%, to provide banks with additional flexibility to support the UAE economy.

In response to this crisis, the Branch continues to monitor and respond to all liquidity and funding requirements through its contingency management plans. As at the reporting date, the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

As per the CBUAE requirements, the Branch also does not use the relief scheme to assist existing defaulted (Stage 3 and classified under CBUAE Circular 28/2010) customers, those customers that are not adversely affected, non-resident customers, government or government related entities (GREs).

**IASB Guidance and Joint Guidance issued by Central Bank of the UAE, Dubai Financial Services Authority (the “DFSA”) and the Financial Services Regulatory Authority (the “FSRA”)**

On March 27, 2020, the IASB issued a guidance note on accounting for expected credit losses in the light of current uncertainty arising from the Covid-19 pandemic. The guidance note states that IFRS 9 requires the application of judgement and allows entities to adjust their approach to determining ECLs in different circumstances. A number of assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold in the current environment. Entities should not continue to apply their existing ECL methodology mechanically.

On April 22, 2020, CBUAE issued guidance on treatment of IFRS 9 ECL in context of the Covid-19 crises. The guidance requires banks to identify customers who are temporarily and mildly impacted by Covid-19 (Group 1) and those who are significantly impacted by Covid-19 in the long term (Group 2). The guidance also requires the Bank to review the credit conversion factor, staging and run scenarios to ascertain the impact of the macro-economic variables. El Nilein Bank Abu Dhabi Branch has taken necessary steps to comply with this guidance.

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**6. Cash and balances with the Central Bank of UAE**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
Cash on hand	8,108	17,868
Cash in transit	360	-
Balances with the Central Bank of UAE		
Current accounts	1,745,000	337,163
Reserve requirements	-	75,330
	<u>1,753,468</u>	<u>430,361</u>

**7. Due from banks**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
<b>Overseas banking units:</b>		
Current accounts	9,090	3,190
Placement with Head Office	38,285	38,285
<b>Local banking units:</b>		
Current accounts	1,505	1,426
	<u>48,880</u>	<u>42,901</u>

**8. Due from Head Office**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
Head Office current account	<u>31,264</u>	<u>32,066</u>

**9. Loans and advances**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
Commercial loans	20,876	20,876
Staff loans	1,339	1,216
Letter of credit under settlement	3,366	3,458
Letter of guarantee under settlement	11,206	698
	36,787	26,248
Less: Loss allowance	( 24,940)	(25,032)
	<u>11,847</u>	<u>1,216</u>

**10. Investment at amortized cost**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
Shahama certificates at amortized cost	35,256	35,256
Sukuks carried at amortized cost	5,536	5,536
Loss on disposal of financial assets	(9,792)	-
Loss allowance written off	(31,000)	-
	-	40,792
Less: Loss allowance on shahama certificates and sukuks	-	(31,000)
	<u>-</u>	<u>9,792</u>

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**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

**11. Islamic financing receivables**

	<u>2020</u> <u>AED '000</u>	<u>2019</u> <u>AED '000</u>
Murabaha	262,620	332,872
Mugawla	8,095	12,508
Musharaka	313	322
Mudaraba	<u>289,528</u>	<u>943,435</u>
	560,556	1,289,137
Deferred profit on Murabaha	<u>(23,550)</u>	<u>( 24,623)</u>
	537,006	1,264,514
Less: Loss allowance	<u>(45,173)</u>	<u>( 43,399)</u>
	<u>491,833</u>	<u>1,221,115</u>

**12. Other assets**

	<u>2020</u> <u>AED '000</u>	<u>2019</u> <u>AED '000</u>
Other financial assets	103	-
Other receivables*	4,977	4,995
VAT receivables	796	408
Prepayments	<u>2,758</u>	<u>7,371</u>
	8,634	12,774
Less: Loss allowance against other assets	<u>( 4,865)</u>	<u>( 4,865)</u>
	<u>3,769</u>	<u>7,909</u>

\*Other receivables include an amount of AED 4.865 million (2019: AED 4.865 million) recoverable from a beneficiary on behalf of the customer due to operational failure of a transfer, against which management has made full loss allowance.

**13. Intangible assets**

	<u>Software</u> <u>AED '000</u>
<b>Cost</b>	
As at December 31, 2018	2,858
Additions	<u>1,875</u>
As at December 31, 2019	4,733
Additions	<u>482</u>
<b>As at December 31, 2020</b>	<b><u>5,215</u></b>
<b>Amortization</b>	
As at December 31, 2018	(1,814)
Amortization for the year	<u>( 471)</u>
As at December 31, 2019	(2,285)
Amortization for the year	<u>( 555)</u>
<b>As at December 31, 2020</b>	<b><u>(2,840)</u></b>
<b>Carrying amount:</b>	
<b>As at December 31, 2020</b>	<b><u>2,375</u></b>
As at December 31, 2019	<u>2,448</u>

Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

14. Property and equipment

	<u>Furniture and fixtures</u> <u>AED '000</u>	<u>Office equipment</u> <u>AED '000</u>	<u>Vehicle</u> <u>AED '000</u>	<u>Total</u> <u>AED '000</u>
<b>Cost</b>				
As at December 31, 2018	1,632	6,596	346	8,574
Additions	<u>32</u>	<u>1,036</u>	<u>50</u>	<u>1,118</u>
As at December 31, 2019	1,664	7,632	396	9,692
Additions	<u>20</u>	<u>341</u>	<u>190</u>	<u>551</u>
<b>As at December 31, 2020</b>	<u>1,684</u>	<u>7,973</u>	<u>586</u>	<u>10,243</u>
<b>Accumulated Depreciation</b>				
As at December 31, 2018	( 65)	(5,250)	( 36)	( 5,351)
Depreciation for the year	<u>(163)</u>	<u>( 416)</u>	<u>( 59)</u>	<u>( 638)</u>
As at December 31, 2019	(228)	(5,666)	( 95)	( 5,989)
Depreciation for the year	<u>(167)</u>	<u>( 430)</u>	<u>( 60)</u>	<u>( 657)</u>
<b>As at December 31, 2020</b>	<u>(395)</u>	<u>(6,096)</u>	<u>( 155)</u>	<u>( 6,646)</u>
<b>Carrying amount</b>	<u><b>1,289</b></u>	<u><b>1,877</b></u>	<u><b>431</b></u>	<u><b>3,597</b></u>
<b>As at December 31, 2020</b>				
As at December 31, 2019	<u>1,436</u>	<u>1,966</u>	<u>301</u>	<u>3,703</u>

15. Customers' deposits

	<u>2020</u> <u>AED '000</u>	<u>2019</u> <u>AED '000</u>
Fixed deposits	241,591	83,091
Savings deposits	10,899	8,243
Call deposits	233,591	320,879
Current deposits	1,239,017	619,999
Margin deposits	34,656	49,339
Mudaraba deposits	<u>363,497</u>	<u>443,215</u>
	<u><b>2,123,251</b></u>	<u><b>1,524,766</b></u>

16. Taxation

	<u>2020</u> <u>AED '000</u>	<u>2019</u> <u>AED '000</u>
<b>Movement in current tax liability:</b>		
At the beginning of the year	-	1,254
Amounts paid during the year	-	(1,254)
Current year tax expenses	<u>737</u>	-
At the end of the year	<u><b>737</b></u>	<u>-</u>

Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

16. **Taxation** (continued)

**Reconciliation between tax expense and accounting profit**

The following is the reconciliation of current tax expenses calculated on accounting profits at the applicable tax rate with the year's current tax expense.

<b>Reconciliation of tax expense</b>	<b>2020</b>	<b>2019</b>
	<b>AED '000</b>	<b>AED '000</b>
Profit before tax	<u>3,685</u>	<u>(20,419)</u>
Add:		
Tax @ 20% of net accounting profit	737	-
Non-deductible expenses	<u>-</u>	<u>-</u>
Total current tax expenses	<u>737</u>	<u>-</u>
Effective tax rate	<u>20%</u>	<u>20%</u>

17. **Other liabilities**

	<b>2020</b>	<b>2019</b>
	<b>AED '000</b>	<b>AED '000</b>
Accruals	8,084	15,846
Cheques payable	2,568	2,644
VAT payable	59	131
Others	-	87
Due to Head Office	<u>3,859</u>	<u>2,618</u>
	<u>14,570</u>	<u>21,326</u>

18. **Provision for employees' end of service indemnity**

	<b>2020</b>	<b>2019</b>
	<b>AED '000</b>	<b>AED '000</b>
Opening balance	3,060	2,628
Charges for the year	<u>108</u>	<u>432</u>
	<u>3,168</u>	<u>3,060</u>

19. **Statutory reserve**

In accordance with Article 82 of Union Law No. 10 of 1980, 10% of the profit for the year is transferred to legal reserve, until this reserve is equal to 50% of the Head Office allocated capital. This reserve is not available for distribution.

20. **Impairment reserve under the Central Bank of UAE guidance**

In accordance with the guideline issued by The Central Bank of UAE in March 2018, the Branch is required to assess general and specific provisions for financial instruments as per Circular 28/2010 and compare with the amounts required as per IFRS 9. If the provisions as per Circular 28/2010 are higher than provisions as per IFRS 9, the difference is to be recorded as an impairment reserve against retained earnings in the statement of changes in equity.

Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

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**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

**20. Impairment reserve under the Central Bank of UAE guidance (continued)**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED'000</u>
<b>Impairment reserve: General</b>		
General provisions under Circular 28/2010 of CBUAE	9,788	6,048
Less: Stage 1 and Stage 2 provisions under IFRS 9	<u>11,134</u>	<u>30,658</u>
	<u>=</u>	<u>=</u>
<b>Impairment reserve: Specific</b>		
General provisions under Circular 28/2010 of CBUAE	50,126	33,393
Less: Stage 3 provisions under IFRS 9	<u>58,980</u>	<u>37,774</u>
	<u>=</u>	<u>=</u>

Provisions as per IFRS 9 are higher than required for CBUAE provisions; as a result, there is no need to create an impairment reserve.

**21. Commitments and contingencies**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
Letters of guarantee	<u>98,577</u>	<u>133,437</u>

**22. Income from Islamic financing activities**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
Murabaha income	18,068	17,903
Mudaraba income	30,105	73,773
Mugawla income	<u>1,146</u>	<u>-</u>
	<u>49,319</u>	<u>91,676</u>

**23. Investment income**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
Income on Sukuk, Placements & Shahama Certificates	<u>=</u>	<u>1,723</u>

**24. Commission, fee & foreign exchange income**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
Gain on foreign currency exchange	3,292	2,259
Fees and commission income	<u>7,296</u>	<u>6,492</u>
	<u>10,588</u>	<u>8,751</u>

**25. Staff cost**

	<u>2020</u>	<u>2019</u>
	<u>AED '000</u>	<u>AED '000</u>
Salaries & wages	7,206	6,098
Staff benefits	<u>8,821</u>	<u>7,509</u>
	<u>16,027</u>	<u>13,607</u>

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

**26. General, administrative and other operating expenses**

	<u>2020</u> <u>AED '000</u>	<u>2019</u> <u>AED '000</u>
Short term leases (Note 27)	1,045	1,126
Network expenses	1,443	981
Advertising	253	464
Other expenses	<u>6,002</u>	<u>2,828</u>
	<u>8,743</u>	<u>5,399</u>

**27. Lease payment not recognized as a liability**

The Branch has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	<u>2020</u> <u>AED '000</u>	<u>2019</u> <u>AED '000</u>
Short term leases (Note 26)	<u>1,045</u>	<u>1,126</u>

**28. Depositors' share of profits**

The depositors' share of profits for the year ended December 31, 2020 has been authorized by the investment committee of the Branch.

**29. Related party transaction**

The Branch enters into transactions with parties that fall within the definition of a related party as contained in International Accounting Standard 24. Related parties comprise entities under common ownership and/or common management and control and key management personnel. The Head Office and the management decide on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges. Banking transactions are entered with related parties on terms and conditions approved by the management and the Head Office of the Branch.

	<u>2020</u> <u>AED '000</u>	<u>2019</u> <u>AED '000</u>
Balances with related parties;		
a) Deposits held with Head Office		
Outstanding at the beginning of the year	32,066	22,061
Additions / (repayments) during the year	<u>(802)</u>	<u>10,005</u>
Outstanding at the end of the year	<u>31,264</u>	<u>32,066</u>
b) Due to Head Office at the end of the year	<u>3,859</u>	<u>2,618</u>
c) Head Office - Mudaraba deposit	<u>12,300</u>	<u>12,300</u>
d) Mudaraba with other Nilein Bank branches & Central Bank of Sudan	<u>277,228</u>	<u>931,135</u>
e) Placement with Head Office	<u>38,285</u>	<u>38,285</u>
	<u>2020</u> <u>AED '000</u>	<u>2019</u> <u>AED '000</u>
<b>Transactions carried out during the year with related parties:</b>		
Realised profit on placement with Head Office	-	1,146
Compensation to key management personnel	<u>403</u>	<u>621</u>
Profit on Head Office - Mudaraba deposit	<u>978</u>	<u>503</u>

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

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**30. Financial risk management**

The Branch has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the exposure of the Branch to each of the above risks, the objectives, policies and processes of the Branch for measuring and managing risk, and the management of capital of the Branch.

**Introduction and overview**

**Risk management framework**

The risk management policies of the Branch are established to identify and analyze the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, to reflect the changes in market condition, products and services offered.

The General Manager of UAE Branch has overall responsibility for the establishment and oversight of the Branch's risk management framework. The Head Office also monitors the risk management framework regularly.

**a) Credit risk**

Credit risk is the risk of a financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations and causes the Branch to incur a financial loss. It arises principally from the Branch's loans and advances, Islamic financing receivables, held-to-maturity investments, due from Head Office and certain other assets.

Management of credit risk:

The credit risk management of the Branch framework includes:

- Establishment of authorization structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorization structure and limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;

Diversification of lending and investment activities:

- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.



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**Notes to the Financial Statements (continued)**  
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**30. Financial risk management (continued)**

**(a) Credit risk (continued)**

The risk management team is responsible for sanctioning high-value credits and responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Branch manages credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Branch may also close out transactions or assign them to other counterparties to mitigate credit risk.

Exposure to credit risk:

The Branch measures its maximum exposure to credit risk by reference to the gross carrying amount of financial assets less amount offset; profit suspended and impairment loan if any without taking into account any collateral held:

	Due from banks and Head Office		Loans and advances		Islamic financing receivables & investments at amortized cost		Other assets	
Individually Impaired	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Gross amount	-	-	35,448	25,032	271,028	345,701	8,634	11,367
Interest suspended	-	-	-	-	-	-	-	-
Specific allowance for impairment	-	-	(24,940)	(25,032)	(34,040)	(12,741)	(4,865)	(4,865)
<b>Carrying amount</b>			<b>10,508</b>	<b>-</b>	<b>236,988</b>	<b>332,960</b>	<b>3,769</b>	<b>6,502</b>
Past due but not impaired								
Neither past due nor impaired	80,144	74,967	1,339	1,216	289,528	943,436	-	-
Includes accounts with renegotiated terms	-	-	-	-	-	-	-	-
Collective allowance for impairment	-	-	-	-	(11,133)	(30,658)	-	-
Deferred profit	-	-	-	-	(23,550)	(24,623)	-	-
<b>Carrying amount</b>	<b>80,144</b>	<b>74,967</b>	<b>11,847</b>	<b>1,216</b>	<b>491,833</b>	<b>1,221,115</b>	<b>3,769</b>	<b>6,502</b>

**30. Financial risk management (continued)**

**(a) Credit risk (continued)**

Exposure to credit risk

*Impaired loans and advances*

Impaired loans and advances are financial assets for which the Branch determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the agreements.

*Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to deterioration in borrower's financial position and where the Branch has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring. Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following the restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

*Financial guarantees:*

For financial guarantees recorded off balance sheet, the gross exposure to credit risk is the maximum amount that the Branch would have to pay if the guarantees were to be called upon.

*Loss allowance*

The Branch establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

*Factors considered for the determination of impairment*

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Branch on terms that the Branch would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or economic conditions.

*Write-off policy*

The Branch writes off a loan/investment balance (and any related loss allowance) when the management determines that the loans/investments are uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product-specific past due status.

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**Notes to the Financial Statements (continued)**  
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**30. Financial risk management (continued)**

**(a) Credit risk (continued)**

Exposure to credit risk *(continued)*

*Past due but not impaired loans*

These are the loans where contractual profit or principal payments are past due, but the Branch believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Branch.

*Credit risk measurement and mitigation policies*

Islamic finance receivables are the main source of credit risk. The Branch's risk management policies and processes are designed to identify and analyses risk, to set appropriate risk appetite and to monitor the risks.

Exposure to credit risk is also managed through analyzing the prospective customers to meet interest and capital repayment obligations and amending the lending limits where appropriate.

*Collateral*

The Branch holds collateral against various credit risk exposures in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. The principal collateral types are:

Cash and marketable securities; Mortgages over residential and commercial properties; Assignment of proceeds; and Guarantees.

*Concentration of credit risk*

The Branch balances are with reputed banks. The Branch monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	<b>Loan and advances</b>		<b>Islamic financing activities</b>		<b>Investments at amortized cost</b>	
	2020	2019	2020	2019	2020	2019
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Concentration by industry sector:						
Real estate	-	-	13,672	55,067	-	-
Trading	35,448	25,032	224,118	296,550	-	-
Transport/aviation	-	-	-	-	-	-
Government	-	-	297,936	921,305	-	40,792
Personal/private loans for business	1,339	1,216	-	-	-	-
Others	-	-	24,831	16,215	-	-
Gross amount	36,787	26,248	560,557	1,289,137	-	40,792
Less: Profit suspended	-	-	-	-	-	-
Less: Allowance for impairment	(24,940)	(25,032)	(45,173)	(43,399)	-	(31,000)
Less: Deferred profit	-	-	(23,550)	(24,623)	-	-
<b>Carrying amount</b>	<b>11,847</b>	<b>1,216</b>	<b>491,833</b>	<b>1,221,115</b>	<b>-</b>	<b>9,792</b>

Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

30. Financial risk management (continued)

(a) Credit risk (continued)

Analysis of the ECL staging of the Branch for all its financial assets (i.e. Islamic receivables and loans & advances).

Classification	Stage 1 12 month AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	2020 Total AED'000
Normal (N)	479,880	2,100	-	481,980
Watchlist (WL)	-	-	5,073	5,073
Substandard (SS)	-	-	98,927	98,927
Doubtful (DF)	-	-	8,994	8,994
Loss (Loss)	-	-	39,326	39,326
<b>Gross carrying amount</b>	<b>479,880</b>	<b>2,100</b>	<b>152,320</b>	<b>634,300</b>
Impairment allowance	(9,108)	(2,026)	(58,980)	(70,114)
<b>Carrying amount</b>	<b>470,772</b>	<b>74</b>	<b>93,340</b>	<b>564,186</b>

Classification	Stage 1 12 month AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	2019 Total AED'000
Normal (N)	1,401,633	2,592	-	1,404,225
Watchlist (WL)	-	-	-	-
Substandard (SS)	-	-	15,316	15,316
Doubtful (DF)	-	-	5,334	5,334
Loss (Loss)	-	-	20,876	20,876
<b>Gross carrying amount</b>	<b>1,401,633</b>	<b>2,592</b>	<b>41,526</b>	<b>1,445,751</b>
Impairment allowance	(28,156)	(2,501)	(37,774)	(68,431)
<b>Carrying amount</b>	<b>1,373,477</b>	<b>91</b>	<b>3,752</b>	<b>1,377,320</b>

**El Nilein Bank – Abu Dhabi Branch**  
**Abu Dhabi- United Arab Emirates**

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

**30. Financial risk management (continued)**

**(a) Credit risk (continued)**

The geographic distribution of assets, liabilities and off-balance sheet date items of the Branch as at December 31 are as follows:

	<b>2020</b>			<b>2019</b>		
	Assets	Liabilities	Off	Assets	Liabilities	Off Balance Sheet
	AED'000	& equity	Balance	AED'000	& equity	Items AED'000
		AED'000	Sheet Items		AED'000	
			AED'000			
UAE	2,099,941	911,845	98,577	749,299	1,751,511	133,437
Sudan	328,661	1,435,188	-	1,001,945	-	-
Indian Subcontinent & Asia	8,110	-	-	164	-	-
Western Europe	321	-	-	103	-	-
	<b>2,437,033</b>	<b>2,347,033</b>	<b>98,577</b>	<b>1,751,511</b>	<b>1,751,511</b>	<b>133,437</b>

**(b) Liquidity risk**

Liquidity or funding risk is the risk that the Branch will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. The below table shows discounted cash flows on the Branch's financial assets and liabilities on the basis of their earliest possible contractual maturity. The Branch's expected cash flows may vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance. The contractual maturities of the financial instrument have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained. Certain liquidity restrictions may arise from holding deposits in Sudan due to money market restrictions. Accordingly, assets held in Sudan may be subject to delays in the transformation to AED currency.

Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

30. Financial risk management (continued)

(b) Liquidity risk (continued)

The maturity profile of the financial assets and financial liabilities on December 31, 2020, was as follows:

	Total AED'000	Unspecified AED'000	Up to 3 Months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 year to 3 years AED'000	Above 3 Years AED'000
<b>Assets</b>							
Cash and balances with the Central Bank of UAE	1,753,468	-	1,753,468	-	-	-	-
Due from Banks	48,880	-	48,880	-	-	-	-
Due from Head Office	31,264	-	31,264	-	-	-	-
Loans and advances	11,847	11,847	-	-	-	-	-
Islamic financing receivables	491,833	-	183,025	30,813	141,639	136,356	-
Other assets	3,769	-	736	2,197	836	-	-
Total assets	<b>2,341,061</b>	<b>11,847</b>	<b>2,017,372</b>	<b>33,010</b>	<b>142,475</b>	<b>136,356</b>	-
<b>Liabilities</b>							
Customers' deposits	2,123,251	-	-	-	-	-	-
Other liabilities	15,307	-	-	-	-	-	-
Total liabilities	<b>2,138,558</b>	-	-	-	-	-	-
Commitments and contingencies	<b>98,577</b>						

Notes to the Financial Statements (continued)  
For the year ended December 31, 2020

30. Financial risk management (continued)

(b) Liquidity risk (continued)

The maturity profile of the financial assets and financial liabilities on December 31, 2019, was as follows:

	<b>Total AED'000</b>	<b>Unspecified AED'000</b>	<b>Up to 3 Months AED'000</b>	<b>Over 3 months to 6 months AED'000</b>	<b>Over 6 months to 1 year AED'000</b>	<b>Over 1 year to 3 years AED'000</b>	<b>Above 3 Years AED'000</b>
<b>Assets</b>							
Cash and balances with the Central Bank of UAE	430,361	-	430,361	-	-	-	-
Due from Banks	42,901	-	42,901	-	-	-	-
Due from Head Office	32,066	-	32,066	-	-	-	-
Loans and advances	1,216	1,216	-	-	-	-	-
Islamic financing receivables	1,221,115	-	710,510	45,500	38,285	426,820	-
Investment at amortized cost	9,792	-	-	9,792	-	-	-
Other assets	6,502	-	480	4,865	651	503	-
<b>Total assets</b>	<b>1,743,953</b>	<b>1,216</b>	<b>1,216,318</b>	<b>60,157</b>	<b>38,936</b>	<b>427,323</b>	
<b>Liabilities</b>							
Customers' deposits	1,524,766	-	1,016,929	294,077	181,866	31,894	-
Other liabilities	21,326	-	6,999	12,346	1,981	-	-
<b>Total liabilities</b>	<b>1,546,092</b>	<b>-</b>	<b>1,023,928</b>	<b>306,423</b>	<b>183,847</b>	<b>31,894</b>	<b>-</b>
Commitments and contingencies	<b>133,437</b>	-	-	-	-	-	-

**30. Financial risk management (continued)**

**(b) Liquidity risk (continued)**

El Nilein Bank — Sudan (Head Office) has confirmed its intention to continue to provide financial support to the Branch to enable its meet its liabilities.

**(c) Market risk**

Market risk is the risk that the income and / or value of a financial instrument of the Branch will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

***Management of market risk***

Corporate banking division has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Head Office.

***Profit rate risk***

Profit rate risk arises from profit bearing financial instruments and reflects the possibility that changes in profit rates will adversely affect the value of the financial instruments and the related cash flow. The Branch manages this risk principally through monitoring profit rate gaps and by matching the re-pricing profile of assets and liabilities.

A substantial portion of the Branch's assets and liabilities are re-priced within six months. Accordingly, there is limited exposure to profit rate risk.

During the year ended December 31, 2020, had profit rates increased/decreased by 100 basis points, with all other variables remaining constant, the impact on the results and equity of the Branch would have been as follows:

	<b><u>Impact on</u></b>	
	<b><u>results and equity of the Branch</u></b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>
	<b><u>AED '000</u></b>	<b><u>AED'000</u></b>
± 100 basis points change in profit rates	<u>5,343</u>	<u>13,923</u>

***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The functional currency of the Branch is the UAE Dirham. At December 31, 2020, the Branch is not significantly exposed to movements in foreign currency exchange rates as its assets and liabilities are mainly denominated in AED, USD or GCC currencies.

***Equity price risk***

Equity price risk arises from the change in fair values of equity investments. The Branch manages this risk through diversification of investments in terms of geographical distribution and industry concentration.



**30. Financial risk management (continued)**

**(d) Operational risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes of the Branch, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Branch's operations and are faced by all business entities.

The objective of the Branch is to manage operational risk so as to balance the avoidance of financial losses and damage, to the reputation of the Branch with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Branch has established a framework of policies and procedures to identify, assess, control, manage and report risks.

Compliance with policies and procedures is supported by periodic reviews undertaken by the internal audit department. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Branch.

**Capital management**

The Branch's lead regulator, the Central Bank of UAE, sets and monitors regulatory capital requirements.

The Branch's objectives when managing capital is:

- safeguarding the Branch's ability to continue as a going concern and increase the returns for the shareholders; and
- complying with regulatory capital requirements set by the Central Bank of UAE.

***Operational risks***

The policy of the Branch is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized, and the Branch recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In implementing current capital requirements, the Branch calculates its risk asset ratio in accordance with capital adequacy guidelines established by the Central Bank of UAE prescribing the ratio of total capital to total risk-weighted assets. Further, the Branch also calculates its capital adequacy ratio in accordance with Basel III Accord, which was adopted by Central Bank of UAE.

**BASEL III CAPITAL RATIO**

The Branch's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes share capital, reserves, retained earnings/accumulated deficit and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy calculation purposes.

Tier 2 capital, which includes collective impairment allowance and fair value reserves relating to unrealised gains/losses on investments classified as FVTOCI. Various limits are applied to elements of the capital base:

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

**30. Financial risk management (continued)**

**BASEL III CAPITAL RATIO (continued)**

CET1 must be at least 7.0% of risk weighted assets (RWA);

Tier 1 Capital must be at least 8.5% of risk weighted assets; and

Total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA.

The Branch's assets are risk 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 profit rate risk, foreign exchange risk, equity exposure risk, and commodity 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 Branch follows the standardised approach for credit, market and operational risk, as permitted by the U.A.E. Central Bank and as per Pillar 1 of Basel III.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Branch's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly or/and quarterly basis.

During the years ended December 31, 2020, the Branch has complied in full with all its externally imposed capital requirements.

During the years ended December 31, 2020, all banks operating in the U.A.E. were required to maintain a capital adequacy ratio at 10.5%.

The Branch computes and reports Basel III ratios in accordance with guidelines of the Central Bank of U.A.E.

No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the management.

**Capital adequacy ratio**

Capital Adequacy Ratio (CAR) under Basel III in accordance with regulations of the Central Bank of the U.A.E. is as follows:

Capital management

	<u>2020</u>	<u>2019</u>
	<u>AED'000</u>	<u>AED'000</u>
Tier 1 capital		
Ordinary share capital	212,000	212,000
Accumulated deficit	(11,613)	(14,266)
Statutory reserve	4,920	4,625
	<b>205,307</b>	<b>202,359</b>
Tier 2 capital		
Collective impairment allowance	8,157	5,891
	<b>8,157</b>	<b>5,891</b>
Total capital base	<b>213,464</b>	<b>208,250</b>
<b>Risk weighted assets</b>	<b>847,894</b>	<b>551,457</b>
<b>Risk asset ratio</b>	<b>25%</b>	<b>38%</b>

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

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**30. Financial risk management (continued)**

**Foreign currency translation**

Translations denominated in foreign currencies are recorded in local currency at the rates of exchange prevailing at the time of transactions. Assets and liabilities denominated in foreign currencies have been translated into United Arab Emirates Dirhams at middle market rates of exchanges prevailing at the reporting date. Gain and losses on foreign exchange transactions are dealt with in statement of comprehensive income.

	<u>2020</u>	<u>2019</u>
	<u>AED</u>	<u>AED</u>
Currency rates used are as follows:		
USD	3.67:1	3.67:1
Euro	4.28:1	4.11:1
Sterling	4.49:1	4.49:1
SAR	0.96:1	0.98:1

**31. Fair value of financial instruments**

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 in the principal or, in its absence, the most advantageous market to which the Branch has access at that date. The fair value of a liability reflects its non-performance risk. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Branch determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Branch classifies all its financial assets under Level 3 of the fair value hierarchy.

The Branch estimates that the fair value of its loans and advances and Islamic financing portfolio is not materially different from its book value since majority of loans and advances carry floating market rates of profit and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realization of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2020**

**31. Fair value of financial instruments (continued)**

The table below sets out the Branch's classification of each class of financial assets and liabilities and their carrying amounts as at December 31, 2020:

	<b>Loans and receivables AED'000</b>	<b>Other amortised cost AED'000</b>	<b>Carrying amount AED'000</b>
Cash and balances with Central Bank of UAE	-	1,753,468	1,753,468
Due from banks	-	48,880	48,880
Due from Head Office	-	31,264	31,264
Loans and advances	11,847	-	11,847
Islamic financing receivables	491,833	-	491,833
Other assets	3,769	-	3,769
	<b>507,449</b>	<b>1,833,612</b>	<b>2,341,061</b>
Customers' deposits		2,123,251	2,123,251
Other liabilities		15,307	15,307
	<b>-</b>	<b>2,138,558</b>	<b>2,138,558</b>

The table below sets out the Branch's classification of each class of financial assets and liabilities and their carrying amounts as at December 31, 2019:

	<b>Loans and receivables AED'000</b>	<b>Other amortised cost AED'000</b>	<b>Carrying amount AED'000</b>
Cash and balances with Central Bank of UAE	-	430,361	430,361
Due from banks	-	42,901	42,901
Due from Head Office	-	32,066	32,066
Loans and advances	1,216	-	1,216
Islamic financing receivables	1,221,115	-	1,221,115
Investment at amortized cost	-	9,792	9,792
Other assets	-	6,502	6,502
	<b>1,222,331</b>	<b>521,622</b>	<b>1,743,953</b>
Customers' deposits	-	1,524,766	1,524,766
Other liabilities	-	21,326	21,326
		<b>1,546,092</b>	<b>1,546,092</b>

**32. Legal proceedings**

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Branch has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Branch makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Branch is expected to arise from legal claims as at December 31, 2020, other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

**33. Comparative figures**

Specific comparative figures have been reclassified/regrouped, wherever necessary, as to conform to the presentation adopted in these financial statements.












# EL Nilein Bank Abu Dhabi Branch - 2020

Final Audit Report

2021-03-31

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