Industrial and Commercial Bank of China Limited – Abu Dhabi Branch

FINANCIAL STATEMENTS

31 DECEMBER 2018

KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
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Independent Auditors' Report

To the General Manager of Industrial and Commercial Bank of China Limited, Abu Dhabi Branch

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Industrial and Commercial Bank of China Limited, Abu Dhabi Branch ("the Branch"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2018, and its financial performance 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 (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

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 Branch's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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.

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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.

Report on Other Legal and Regulatory Requirements

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purposes of our audit.

KPMG Lower Gulf Limited

Emilio Pera
Registration No: 1146
Dubai, United Arab Emirates
Date:

2 8 MAR 2019

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Note	2018 AED	2017 AED
Interest income	5	**80,553,875**	54,850,306
Interest expense	5	**(50,828,148)**	(33,327,334)
NET INTEREST INCOME		**29,725,727**	21,522,972
Fees and commission income		**6,070,041**	9,347,682
Fess and commission expense		**(174,574)**	(276,518)
NET FEES AND COMMISSION INCOME		**5,895,467**	9,071,164
Net (loss) / gain on foreign exchange		**(2,110,769)**	9,032,534
Net loss on fair valuation of derivative financial instruments	19	**(2,031,420)**	(1,172,843)
OPERATING INCOME		**31,479,005**	38,453,827
General and administrative expenses	6	**(7,886,937)**	(7,465,105)
Impairment losses released / (charged) on financial instruments	11.1	**3,432,025**	(6,024,062)
PROFIT FOR THE YEAR BEFORE TAX		**27,024,093**	24,964,660
Taxation	15	**(4,729,995)**	(6,197,744)
PROFIT FOR THE YEAR		**22,294,098**	18,766,916
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Debt investments at FVOCI – net change in fair value	10	**(16,055,670)**	(405,682)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**6,238,428**	18,361,234

The attached notes 1 to 24 form part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Note	***2018 AED***	*2017 AED*
ASSETS			
Cash and balances with UAE Central Bank	7	**155,543,988**	1,038,158,048
Due from banks	8	**694,766,456**	2,102,612,786
Due from Head Office, affiliates and branches	21	**55,342,939**	83,946,078
Investment securities	10	**608,788,571**	637,712,913
Loans and advances	11	**999,591,725**	762,702,993
Furniture and equipment	12	**907,761**	191,302
Other assets	13	**23,391,133**	19,730,071
TOTAL ASSETS		**2,538,332,573**	4,645,054,191
LIABILITIES AND HEAD OFFICE EQUITY			
LIABILITIES			
Due to banks and other financial institutions	8	**187,793,757**	1,002,087,978
Certificates of deposit	9	**105,211,375**	109,961,988
Due to Head Office, affiliates and branches	21	**626,620,836**	265,075,846
Subordinated borrowings	17	**183,625,000**	183,665,000
Customer deposits	14	**952,121,541**	2,605,652,215
Other liabilities	16	**26,009,831**	27,899,359
TOTAL LIABILITIES		**2,081,382,340**	4,194,342,386
HEAD OFFICE EQUITY			
Allocated capital	17	**312,120,000**	312,120,000
Legal reserve	18	**16,483,730**	14,254,320
Investment revaluation reserve		**(20,007,071)**	(3,951,401)
Retained earnings		**148,353,574**	128,288,886
TOTAL HEAD OFFICE EQUITY		**456,950,233**	450,711,805
TOTAL LIABILITIES AND HEAD OFFICE EQUITY		**2,538,332,573**	4,645,054,191

Approved by:

Mr. Zhang Junguo
General Manager

28 March 2019

The attached notes 1 to 24 form part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Note	*2018* *AED*	*2017* *AED*
OPERATING ACTIVITIES			
Profit before tax		**27,024,093**	24,964,660
Adjustments for:			
Depreciation	12	**74,233**	8,532
Impairment losses (released) / charged on financial instruments	8,11	**(3,432,025)**	6,024,062
Amortisation of premium on investment securities		**1,019,324**	416,240
Provision for employees' end of service benefits	16	**49,345**	139,806
Changes in operating assets and liabilities:			
Net change in due from UAE Central Bank		**(2,161,583)**	3,936,678
Net change in reserves with Central Bank of China		**-**	924,201
Net change in due from banks, Head Office, affiliates and branches		**(36,725,000)**	514,233,646
Net change in due to banks, Head Office, affiliates and branches		**(487,368,478)**	(354,366,701)
Net change in certificates of deposit		**(4,750,613)**	109,961,988
Net change in loans and advances		**(231,301,856)**	(109,185,520)
Net change in other assets		**(3,661,062)**	1,067,371
Net change in customer deposits		**(1,653,530,674)**	2,150,704,912
Net change in other liabilities		**(844,774)**	(8,186,021)
Employees' end of service benefits paid	16	**(198,745)**	(109,707)
Income tax paid	15	**(6,197,744)**	(2,657,957)
Net cash from / (used in) operating activities		**(2,402,005,559)**	2,337,876,190
INVESTING ACTIVITIES			
Purchase of furniture and equipment	12	**(790,692)**	(188,193)
Proceeds from redemption of investment securities		**157,183,533**	15,848,485
Purchase of investment securities		**(146,900,000)**	(9,564,600)
Net cash from investing activities		**9,492,841**	6,095,692
FINANCING ACTIVITIES			
Net change in subordinated borrowings		**(40,000)**	10,000
Net cash from financing activities		**(40,000)**	10,000
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(2,392,552,718)**	2,343,981,882
Cash and cash equivalents at the beginning of the year		**2,645,783,957**	301,802,075
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**253,231,239**	2,645,783,957
CASH AND CASH EQUIVALENTS:			
Cash and balances with UAE Central Bank maturing within three months	7	**103,734,753**	988,510,396
Due from banks, Head Office, affiliates and branches maturing within three months		**713,400,682**	2,186,558,510
Due to banks, Head Office, affiliates and branches maturing within three months		**(563,904,196)**	(529,284,949)
		253,231,239	2,645,783,957

The attached notes 1 to 24 form part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

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

	Allocated capital AED	*Legal reserve AED*	*Investment revaluation reserve AED*	*Retained earnings AED*	*Total AED*
At 1 January 2017	312,120,000	12,377,628	(3,545,719)	111,398,662	432,350,571
Profit for the year	-	-	-	18,766,916	18,766,916
Other comprehensive income for the year	-	-	(405,682)	-	(405,682)
Total comprehensive income for the year	-	-	(405,682)	18,766,916	18,361,234
Transfer to legal reserve	-	1,876,692	-	(1,876,692)	-
At 31 December 2017	312,120,000	14,254,320	(3,951,401)	128,288,886	450,711,805
At 1 January 2018	**312,120,000**	**14,254,320**	**(3,951,401)**	**128,288,886**	**450,711,805**
Profit for the year	**-**	**-**	**-**	**22,294,098**	**22,294,098**
Other comprehensive income for the year	**-**	**-**	**(16,055,670)**	**-**	**(16,055,670)**
Total comprehensive income for the year	**-**	**-**	**(16,055,670)**	**22,294,098**	**6,238,428**
Transfer to legal reserve	**-**	**2,229,410**	**-**	**(2,229,410)**	**-**
At 31 December 2018	**312,120,000**	**16,483,730**	**(20,007,071)**	**148,353,574**	**456,950,233**

1 LEGAL STATUS AND PRINCIPAL ACTIVITES

Industrial and Commercial Bank of China Limited – Abu Dhabi Branch (the "Branch") is registered as a Branch of Industrial and Commercial Bank of China Limited (the "Head Office") in Abu Dhabi, United Arab Emirates ("UAE"). The Head Office is an international public shareholding bank registered in the People's Republic of China and is listed on both the Shanghai Stock Exchange and The Stock Exchange of Hong Kong.

The Branch obtained a 'wholesale banking license' from the UAE Central Bank on 14 December 2009 and is engaged in the provision of financial services as stipulated by its license. The Branch commenced operations from 7 June 2011. The Branch's registered office is at Addax Tower, Offices 5207, 5208, and 5209, Al Reem Island, Abu Dhabi, UAE, P.O. Box 62108, Abu Dhabi, United Arab Emirates.

The accompanying financial statements represent the operations of the Abu Dhabi Branch only and do not extend to any other operations elsewhere.

For consideration of the financial position relating to the overall operations of Industrial and Commercial Bank of China Limited, reference should be made to its consolidated financial statements.

2 BASIS OF PREPARATION

a) Statement of compliance

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and applicable requirements of the laws of the U.A.E. UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") was issued on 1 April 2015 and has come into force on 1 July 2015. The Branch is in compliance with applicable sections of the UAE Companies Law of 2015.

b) Basis of measurement

The financial statements are prepared under the historical cost basis except for available-for-sale investments and derivative financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

c) Functional and presentation currency

The financial statements have been presented in UAE Dirhams ("AED") which is also the functional currency of the Branch.

d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in note 23.

2 BASIS OF PREPARATION (continued)

d) Use of estimates and judgements (continued)

Impairment losses on financial instruments

Impairment losses are evaluated as described in accounting policy 3 d).

Policy applicable from 1 January 2018

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Policy applicable before 1 January 2018

The Branch reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups) including any provisioning based on regulatory requirements.

The Branch reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances. The Branch also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Branch evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. There has been no impairment loss for any available-for-sale investments during the current year.

Financial asset classification
Significant judgement is applied in the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Classification of financial assets are described in accounting policy note 3.

Taxes
Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Branch establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, including differing interpretations of tax regulations by the Branch and the tax authority. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax provisions in the year in which such determination is made.

3 SIGNIFICANT ACCOUNTING POLICIES

a) Changes in accounting policies

The Branch has initially adopted IFRS 9 (See note A) and IFRS 15 (See note B) from 1 January 2018.

Due to the transition method chosen by the Branch in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Branch. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:
- additional disclosures related to IFRS 9 (See note 22)
- additional disclosures related to IFRS 15 (See note 3 c)

Except for the changes below, the Branch has consistently applied the accounting policies to all periods presented in these financial statements.

A. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Branch has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Branch's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 4.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Branch classifies financial assets under IFRS 9, see Note 4.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Branch classifies financial liabilities under IFRS 9, see Note 4.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Branch applies the impairment requirements of IFRS 9, see Note 3 d).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Changes in accounting policies (continued)

A. IFRS 9 *Financial Instruments* (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 4.

B. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Branch initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Branch's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 3 c).

b) Going concern

The Branch's 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, the 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.

c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Branch and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

<u>Policy applicable from 1 January 2018</u>

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset;

– or the amortised cost of the financial liability.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Revenue recognition (continued)

Interest and similar income and expense (continued)

Policy applicable from 1 January 2018 (continued)

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Branch estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see note 3 d).

Policy applicable before 1 January 2018

For all financial instruments measured at amortised cost and interest-bearing financial instruments, interest income or expense is recorded using the effective interest rate ("EIR"), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Branch revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as an interest income or expense.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Revenue recognition (continued)

Interest and similar income and expense (continued)

Policy applicable before 1 January 2018 (continued)

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original EIR applied to the new carrying amount.

Fee and commission income

Policy applicable from 1 January 2018

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Branch's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Branch first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Policy applicable before 1 January 2018

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

Fee income earned from services that are provided over a certain period of time

Fee income is recognised on an accrual basis when the service is provided over a period of time. These fees mainly include commission income and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR of the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third or related party such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

d) Financial instruments

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at the fair value through profit or loss. All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Branch becomes a party to the contractual provisions of the instrument.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Initial recognition of financial instruments (continued)

This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Classification

Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

• The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

• The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Branch may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as FVTPL.

In addition, on initial recognition, the Branch may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

At initial recognition, financial liabilities are classified into two categories: financial liabilities measured at FVTPL and other financial liabilities.

Business model assessment

The Branch makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

• The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;

• the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and

• how the performance of the portfolio is evaluated and reported to the Branch's management;

• how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Classification (continued)

Policy applicable from 1 January 2018 (continued)

• the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branch's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Branch considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Branch considers:

• Contingent events that would change the amount and timing of cash flows;

• Leverage features;

• Prepayment and extension terms;

• Terms that limit the Branch's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

• Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Branch changes its business model for managing financial assets.

Refer to note 4 for information on the IFRS 9 classifications of the Branch's financial instruments.

Subsequent measurement of financial assets

Financial assets measured at FVTPL:

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

Financial assets measured at amortised cost:

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments (continued)

Classification (continued)

Policy applicable from 1 January 2018 (continued)

Debt instruments measured at FVOCI:

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity instruments measured at FVOCI:

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL and other financial liabilities.

Financial liabilities measured at FVTPL:

A financial liability is classified as measured at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities measured at FVTPL are subsequently measured at fair value and net gains and losses (including any interest expense) are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

For the financial liabilities designated as at FVTPL, the gains and losses arose are accounted for in accordance with the following requirements: (i) the amount of changes in the fair value of the financial liability arising from changes in the Branch's own credit risk should be included in other comprehensive income; (ii) other changes in fair value of the financial liabilities are recognised in current profit or loss. If the treatment of the impact of changes in the financial liabilities' own credit risk will create or enlarge the accounting mismatch in profit or loss in accordance with (i), the Branch shall recognise the entire gain or loss of the financial liabilities (including the amount of the impact of changes in its own credit risk) in profit and loss. When these liabilities are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to retained earnings.

Other financial liabilities:

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

Policy applicable before 1 January 2018

Due from banks and loans and receivables

Due from banks and loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Branch has no intention of trading the assets immediately or in the near term. These mainly include loans and advances to customers and related parties, due from banks and receivables and discounted bills. After initial measurement, such assets are subsequently carried at amortised cost using the EIR, less any allowance for impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when such assets are derecognised or impaired, as well as through the amortisation process.

Discounted bills are granted by the Branch to its customers based on the Branch acceptance hold which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the EIR.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Classification (continued)

Policy applicable before 1 January 2018 (continued)

The Branch may enter into certain lending commitments. Where the loan, on drawdown, is expected to be retained by the Branch, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (e.g., due to a counterparty credit event).

Available-for-sale financial assets
Available-for-sale investments include equity and debt securities. Additionally, certificates of deposit are classified as available-for-sale. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the cumulative changes in fair value. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss and other comprehensive income. Where the Branch holds more than one investment in the same security, they are deemed to be disposed of on a weighted average basis.
Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of profit or loss and other comprehensive income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of profit or loss and other comprehensive income and removed from the cumulative changes in fair value.

Held-to-maturity financial assets
Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Branch's management has the intention of and the ability to hold to maturity. All held-to-maturity financial instruments are recognised at amortised cost using effective interest method less impairment losses, if any.

Deposits and other financial liabilities
Deposits and other financial liabilities are carried at amortised cost using the EIR.

Derivatives recorded at fair value through profit or loss
The Branch uses derivatives such as interest rate swaps, cross-currency swaps and forward foreign exchange contracts on interest rates and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in statement of profit or loss and other comprehensive income.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the statement of profit or loss and other comprehensive income.

Reclassification of financial assets
The Branch is permitted to reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments (continued)

Classification (continued)

Policy applicable before 1 January 2018 (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the statement of profit or loss and other comprehensive income.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Branch does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

Derecognition

Policy applicable from 1 January 2018

Financial assets
The Branch derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Branch neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Branch is recognised as a separate asset or liability.

The Branch enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Branch retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Branch neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Branch continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Branch retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Branch derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Derecognition (continued)

Policy applicable before 1 January 2018

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Branch has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Branch has transferred substantially all the risks and rewards of the asset, or (b) the Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branch has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branch's continuing involvement in the asset. In that case, the Branch also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branch could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in statement of profit or loss and other comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Branch has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements therefore, the related assets and liabilities are presented gross in the statement of financial position.

Fair value measurement principles

'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.
When available, the Branch measures the fair value of an instrument using the quoted price in an active market for that instrument.

If there is no quoted price in an active market, then the Branch uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Fair value measurement principles (continued)

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 recognised in the statement of profit or loss and other comprehensive income 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.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Branch measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Branch on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Branch recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Impairment of financial assets

<u>Policy applicable from 1 January 2018</u>

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

- financial assets measured at amortised cost;
- debt instruments measured at FVOCI;
- financial guarantee contracts issued;
- loan commitments issued.

Financial assets measured at fair value, including debt investments or equity securitiesmeasured at FVTPL, equity securities designated as at FVOCI and derivative financialassets, are not subject to the ECL assessment.

The Branch measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 22).

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Branch considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Branch does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial Instruments (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Branch expects to receive).

The Branch's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Branch is exposed to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 months).

The Branch classifies financial instruments into three stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month expected credit losses is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime expected credit losses is recognised as loss allowance. Refer to Note 22 credit risk for the description of how the Branch determines when a significant increase in credit risk has occurred.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime expected credit losses is recognised as loss allowance. Refer to Note 22 credit risk for the definition of credit-impaired financial assets.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Significant increase in credit risk

The assessment of significant increase since initial recognition in the credit risk is performed at least on a quarterly basis for financial instruments held by the Branch. The Branch takes into consideration all reasonable and supportable information (including forward-looking information) that reflects significantly change in credit risk for the purposes of classifying financial instruments. The main considerations are regulatory and operating environment, internal and external credit risk gradings, debt-servicing capacity, operating capabilities, contractual terms, and repayment records. The Branch compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial application to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments. In determining whether credit risk of a financial instrument has increased significantly since initial recognition, the Branch considers factors indicating whether the probability of default has risen sharply, whether the financial instrument has been past due for more than 30 days, whether the market price has been falling to assess deterioration.

Definition of default

The Branch defines a corporate borrower as in default when it meets one or more of the following criteria at the timing of recognition:

(i)The principal or interest of loan is past due more than 90 days to the Branch;

(ii)The corporate borrower is unlikely to pay its credit obligations to the Branch in full, without recourse by the Branch to actions such as liquidation against collateral;

(iii)The corporate borrower has the above matters in other financial institutions refers to (i), (ii).

The Branch defines a retail business borrower as in default when single credit assets of borrowers meets one or more of the following criteria:

(i)The principal or interest of loan is past due more than 90 days to the Branch;

(ii)Write-offs;

(iii)The Branch considers the borrower is unlikely to pay its credit obligations to the Branch in full.

Impairment assessment

Generally, a financial asset is considered to be credit-impaired if:

• It has been overdue for more than 90 days;

• In light of economic, legal or other factors, the Branch has made concessions to a borrower in financial difficulties, which would otherwise have been impossible under normal circumstances;

• The borrower is probable to be insolvent or carry out other financial restructurings;

• Due to serious financial difficulties, the financial asset cannot continue to be traded in an active market;

• There are other objective evidences that the financial asset is impaired.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Description of parameters, assumptions and estimation techniques

Expected credit losses ("ECL") for a financial instrument is measured at an amount equal to 12-month ECL or lifetime ECL depending on whether a significant increase in credit risk on that financial instrument has occurred since initial recognition or whether an asset is considered to be credit-impaired. The loss allowance for loans and advances to customers, other than those corporate loans and advance to customers which are credit-impaired, is measured using the risk parameters method. The key parameters include Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure at Default ("EAD"), considering the time value of money. Related definitions are as follows:

PD is the possibility that a customer will default on its obligation within a certain period of time in light of forward-looking information. The Branch's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking the forward-looking information into account and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;

LGD is the magnitude of the likely loss if there is a default in light of forward-looking information. The LGD is depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, with taking the forward-looking information into account;

EAD refers to the total amount of on- and off-balance sheet exposures in the event of default and is determined based on the historical repayment records.

The assumptions underlying the ECL calculation, such as how the PDs and LGDs of different maturity profiles change are monitored and reviewed on a quarterly basis by the Branch.
There have been no significant changes in estimation techniques or significant assumptions made during the year.

The impairment loss on credit-impaired corporate loans and advance to customers applied cash flow discount method, if there is objective evidence that an impairment loss on a loan or advance has incurred, the amount of the loss is measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the statement of profit or loss. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the borrower's business plan;

- The borrower's ability to improve performance once a financial difficulty has arisen;

- The estimated recoverable cash flows from projects and liquidation;

- The availability of other financial support and the realisable value of collateral; and

- The timing of the expected cash flows.

It may not be possible to identify a single, or discrete events that result in the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Forward-looking information contained in ECL

The calculation of ECL incorporates forward-looking information. The ICBC Group has performed historical analysis and identified the key economic variables, including Gross Domestic Product ("GDP"), Consumer Price Index ("CPI"), Purchasing Managers' Index ("PMI"), M2, Industrial Added Value and Real Estate Climate Index, impacting ECL for each portfolio. The impact of these economic variables on the PD and LGD has been determined by performing statistical regression analysis to understand the correlations among the historical changes of the economic variables, PD and LGD. Forecasts of these economic variables are provided quarterly by the ICBC Group at least and provide the best estimate view of the economy over the next year.

When calculating the weighted average ECL, the optimism, neutral and pessimism scenarios and its weightings determined by a combination of macro-statistical analysis and expert judgment are taken into account by the ICBC Group.

Modification of loan contracts

In some cases (such as renegotiating loans), the Branch may renegotiate or otherwise modify the financial assets contracts. The Branch would assess whether or not the new contractual terms are substantially different to the original terms. If the terms are substantially different, the Branch derecognises the original financial asset and recognises a 'new' asset under the revised terms. If the renegotiation or modification does not result in derecognition, but lead to changes in contractual cash flows, the Branch assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms.

Credit-impaired financial assets

At each reporting date, the Branch assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Branch on terms that the Branch would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Branch considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL

ECLs are remeasured at the end of each reporting period to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Branch recognises an impairment gain or loss for financial instruments measured at amortised cost with a corresponding adjustment to their carrying amount through a loss allowance account; for debt instruments that are measured at FVOCI, the loss allowance is recognised in other comprehensive income. The Branch recognises loss allowances for loan commitments and financial guarantee contracts through other liabilities (allowance for impairment losses on credit commitments).

Write-off

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Branch determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Branch's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Non-integral financial guarantee contracts

The Branch assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Branch considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Branch determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Branch considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Branch determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. The Branch presents a gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

Improvement in credit risk profile

The Branch has defined the criteria below in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result in the upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1:

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 instalments (for quarterly instalments) have been made or 12 months (for instalments longer than quarterly) curing period is met.

Policy applicable before 1 January 2018

An assessment is made at each reporting date to determine whether there is objective evidence of impairment of financial assets as a result of one or more events that occur after the initial recognition of those assets ("an incurred loss event") and whether the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers, and held-to-maturity investment securities), the Branch first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Branch. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.
If a future write-off is later recovered, the recovery is credited to the statement of profit or loss and other comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Branch's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Impairment of financial assets (continued)

Policy applicable before 1 January 2018 (continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See note 11 for details of impairment allowance on loans and advances.

Available-for-sale financial assets

For available-for-sale financial assets, the Branch assesses at each reporting date whether there is objective evidence that an asset or a group of assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss and other comprehensive income, is removed from equity and recognised in the statement of profit or loss and other comprehensive income. Impairment losses on equity investments are not reversed through the statement of profit or loss and other comprehensive income; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Where there is evidence of impairment, the cumulative loss less any impairment loss on that investment previously recognised in the statement of profit or loss and other comprehensive income is removed from equity and is recognised in the statement of profit or loss and other comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss and other comprehensive income, the impaired loss is reversed through the statement of profit or loss and other comprehensive income.

Renegotiated loans

Where possible, the Branch seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

The Branch seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Branch's reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Branch uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Financial guarantees

In the ordinary course of business, the Branch gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Branch's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the statement of profit or loss and other comprehensive income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss and other comprehensive income in 'Impairment losses on financial instruments'. The premium received is recognised in the statement of profit or loss and other comprehensive income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with UAE Central Bank, due from and due to banks, Head Office, affiliates and branches that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value, and on demand and have a short original maturity of generally within three months.

e) Furniture and equipment

Furniture and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	over 5 years
Computer equipment	over 3 years

The carrying values of furniture and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of furniture and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is included in the statement of profit or loss and other comprehensive income in the period the asset is derecognised. The assets residual values, useful lives and methods of depreciation are reviewed and adjusted if appropriate, at each financial period end.

e) Provisions

Provisions are recognised when the Branch has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Branch expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

f) Taxation

Income tax liability for the year is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in accordance with the fiscal regulations of the United Arab Emirates.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Employees' end of service benefits

The provision for end of service benefits is calculated in accordance with the UAE Labour Law and is based on an estimation of the amount of future benefit that employees have earned in return for their services until retirement. This calculation is performed based on a projected unit credit method.

h) Hedge accounting

The Branch makes use of derivative instruments to manage exposures to interest rate and foreign currency. In order to manage particular risks, the Branch applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Branch formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period to qualify for hedge accounting. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each year end. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Fair value hedges
For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the statement of profit or loss and other comprehensive income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the statement of profit or loss and other comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the statement of profit or loss and other comprehensive income.

Cash flow hedges
For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in statement of profit or loss and other comprehensive income.

When the hedged cash flow affects the statement of profit or loss and other comprehensive income, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the statement of profit or loss and other comprehensive income. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the statement of profit or loss and other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the statement of profit or loss and other comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

j) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at rates of exchange ruling at the statement of financial position date. Any resultant gains and losses are taken to the statement of profit or loss and other comprehensive income.

k) New standards and interpretations not adopted

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Branch has not early adopted the new or amended standards in preparing these financial statements.

The following standards are not expected to have a material impact on the Branch's financial statements in the period of initial application.

IFRS 16 Leases
IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The Branch is required to adopt IFRS 16 from 1 January 2019. Management has assessed the potential impact of this standard and believe that it will not have any material impact on its financial statements.

4 SUMMARY OF IMPACT ANALYSIS AS PER IFRS 9

The following table reconciles the original measurement categories in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Branch's financial assets and financial liabilities. At 1 January 2018, the ECL under IFRS 9 recorded on due from banks, investment securities – FVOCI, investment securities – amortised cost and off balance sheet items totalling AED 2,020,627 was reversed from the Branch's impairment loss allowance on loans and advances.

Financial Assets	**Original classification as per IAS 39**	**New classification as per IFRS 9**	**Original carrying amount**	**ECL under IFRS 9**	**New carrying amount**
			AED	***AED***	***AED***
Cash and balances with Central Bank	Amortised cost	Amortised cost	1,038,158,048	-	1,038,158,048
Due from banks	Amortised cost	Amortised cost	2,102,612,786	7,102	2,102,605,684
Due from Head Office, affiliates and branches	Amortised cost	Amortised cost	83,946,078	-	83,946,078
Investment securities	AFS	FVOCI	496,787,913	858,253	495,929,660
Investment securities	HTM	Amortised cost	140,925,000	35,242	140,889,758
Loans and advances	Loans and receivables	Amortised cost	762,702,993	1,523,946	761,179,047
Other assets – derivatives	FVTPL	FVTPL	2,678,341	-	2,678,341
Other assets – other receivables	Amortised cost	Amortised cost	16,323,055	-	16,323,055
Total financial assets			**4,644,134,214**	**2,424,543**	**4,641,709,671**
Financial Liabilities					
Due to banks and other financial institutions	Amortised cost	Amortised cost	1,002,087,978	-	1,002,087,978
Certificates of deposit	Amortised cost	Amortised cost	109,961,988	-	109,961,988
Due to Head Office, affiliates and branches	Amortised cost	Amortised cost	265,075,846	-	265,075,846
Subordinated borrowings	Amortised cost	Amortised cost	183,665,000	-	183,665,000
Customer deposits	Amortised cost	Amortised cost	2,605,652,215	-	2,605,652,215
Other liabilities – derivatives	FVTPL	FVTPL	4,398	-	4,398
Other liabilities – other payables	Amortised cost	Amortised cost	15,515,837	1,120,030	16,635,867
Total financial liabilities			**4,181,963,262**	**1,120,030**	**4,183,083,292**

5 INTEREST INCOME / INTEREST EXPENSE

(a) Interest income

	2018 AED	*2017 AED*
Interest on loans and advances	**25,726,362**	22,347,629
Interest on money market and interbank transactions	**22,766,946**	11,143,572
Interest on investment securities	**31,126,250**	21,359,105
Net interest income on interest rate swap	**934,317**	-
	80,553,875	54,850,306

(b) Interest expense

	2018 AED	*2017 AED*
Interest on customer deposits	**22,588,047**	2,564,827
Interest on money market and interbank transactions	**19,679,293**	22,291,066
Interest on subordinated borrowings	**8,263,125**	8,264,250
Interest on certificates of deposits	**297,683**	124,977
Net interest expense on interest rate swap	**-**	82,214
	50,828,148	33,327,334

6 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include:

	2018 AED	*2017 AED*
Staff costs	**5,326,408**	5,275,183
Rental costs – operating leases	**899,344**	818,760
Depreciation	**74,234**	8,532

7 CASH AND BALANCES WITH UAE CENTRAL BANK

	2018 AED	*2017 AED*
Cash in hand	**2,876**	62
Balances with UAE Central Bank:		
Current accounts	**42,515,627**	988,510,334
Certificates of deposit	**61,216,250**	-
Reserve requirements	**51,809,235**	49,647,652
	155,543,988	1,038,158,048

The reserve requirements are kept with the UAE Central Bank in AED and USD, are not available for use in the Branch's day to day operations and cannot be withdrawn without the approval of the UAE Central Bank. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

8 DUE FROM / TO BANKS

Due from banks

	2018 AED	2017 AED
Current accounts	**28,422,743**	137,397,286
Placements with banks	**666,360,000**	1,965,215,500
Less: impairment loss allowance	**(16,287)**	-
	694,766,456	2,102,612,786

Due from banks is classified under Stage 1 as per IFRS 9. The expected credit loss recognised in the statement of profit or loss is AED 9,185 (2017: Nil).

Due to banks

	2018 AED	2017 AED
Borrowings from banks	**187,793,757**	1,002,087,978

9 CERTIFICATES OF DEPOSIT

During the year ended 31 December 2018, the Branch issued a single interbank certificate of deposit denominated in EUR and amounting to AED 105,211,375 (2017: 109,961,988).

10 INVESTMENT SECURITIES

FVOCI	2018 AED	2017 AED
Domestic		
Government debt securities	**97,206,743**	11,189,386
Financial institutions debt securities	**72,758,101**	73,665,828
Corporate debt securities	**83,339,273**	96,606,049
Overseas		
Government debt securities	**205,893,614**	160,214,358
Financial institutions debt securities	**120,668,287**	125,436,730
Corporate debt securities	**28,922,553**	29,675,562
	608,788,571	496,787,913
Amortised cost		
Domestic		
Financial institutions debt securities	-	140,925,000
	-	140,925,000
	608,788,571	637,712,913

During the year, an unrealised loss (including allowance for impairment) of AED 16,055,670 (2017: unrealised loss of AED 405,682) has been recorded in other comprehensive income on the above investment securities.

10 INVESTMENT SECURITIES (continued)

The table below presents an analysis of investment securities by rating agency designation, based on Standard & Poor's ratings or equivalent:

	2018 *AED*	*2017* *AED*
AAA to A-	**292,944,454**	410,393,807
BBB to B-	**256,428,860**	125,436,730
Others (include unrated securities)	**59,415,257**	101,882,376
Total	**608,788,571**	637,712,913

11 LOANS AND ADVANCES

The composition of the loans and advances portfolio is as follows:

(a) By type:

	2018 *AED*	*2017* *AED*
Corporate lending:		
Loans	**1,027,799,209**	793,176,690
Trade bills discounted	**-**	3,320,663
Gross amount of loans and advances	**1,027,799,209**	796,497,353
Less: impairment loss allowance	**(28,207,484)**	(33,794,360)
Net loans and advances	**999,591,725**	762,702,993

(b) By economic sector:

	2018 *AED*	*2017* *AED*
Manufacturing	**80,592,179**	242,364,200
Financial institutions	**64,268,750**	64,282,750
Construction and Real Estate	**113,564,000**	5,000,000
Trade and service	**-**	3,320,663
Transport, Storage and Communication	**415,886,960**	270,682,306
Non-banking financial institutions	**-**	159,421,234
Electricity, Gas, and Water	**29,380,000**	-
Other services	**324,107,320**	51,426,200
Gross amount of loans and advances	**1,027,799,209**	796,497,353

(c) By geographical area:

	2018 *AED*	*2017* *AED*
United Arab Emirates	**328,264,672**	306,552,719
China	**453,053,099**	293,790,400
Hong Kong	**139,850,400**	159,421,234
Rest of the world	**106,631,038**	36,733,000
Gross amount of loans and advances	**1,027,799,209**	796,497,353

11 LOANS AND ADVANCES (continued)

Loans and advances are stated net of provision for impairment. The movements for provision are as follows:

	2018 *AED*	*2017* *AED*
Balance at 1 January (note 11.1)	**31,773,733**	27,768,636
Impairment loss (released) / charged for the year (note 11.1)	**(3,559,163)**	6,024,062
Exchange differences	**(7,086)**	1,662
Balance at 31 December	**28,207,484**	33,794,360

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1 *AED*	**Stage 2** *AED*	**Stage 3** *AED*	**Total** *AED*
Gross exposure at 1 January 2018	759,766,783	36,730,570	-	796,497,353
Net additions / (repayments)	249,538,871	(18,237,015)	-	231,301,856
At 31 December 2018	**1,009,305,654**	**18,493,555**	-	**1,027,799,209**

	Stage 1 *AED*	**Stage 2** *AED*	**Stage 3** *AED*	**Total** *AED*
ECL allowance at 1 January 2018	29,937,083	1,836,650	-	31,773,733
Net impairment release	(2,647,065)	(912,098)	-	(3,559,163)
Exchange differences	(7,086)	-	-	(7,086)
At 31 December 2018	**27,282,932**	**924,552**	-	**28,207,484**

11.1 An amount of AED 2,020,067 representing the ECL on transition to IFRS 9 for due from banks, investment securities and off balance sheet items was reversed from the impairment allowance on 1 January 2018. Impairment losses (released) / charged on financial instruments in the statement of profit or loss and other comprehensive income include provision released during the year of AED 3,559,163 (2017: charge of AED 6,024,062) on loans and advances and provision charged during the year on due from banks (note 8), investment securities (note 10) and off balance sheet items (note 20).

12 FURNITURE AND EQUIPMENT

	Furniture and fixtures AED	***Computer equipment AED***	***Total AED***
Cost:			
At 1 January 2018	**337,425**	**718,828**	**1,056,253**
Additions	**690,513**	**100,179**	**790,692**
Written off	**(329,576)**	**(155,901)**	**(485,477)**
At 31 December 2018	**698,362**	**663,106**	**1,361,468**
Depreciation:			
At 1 January 2018	**334,486**	**530,465**	**864,591**
Charge for the year	**799**	**73,434**	**74,233**
Written off	**(329,576)**	**(155,901)**	**(485,477)**
At 31 December 2018	**5,709**	**447,998**	**453,707**
Net carrying amounts:			
At 31 December 2018	**692,653**	**215,108**	**907,761**

	Furniture and fixtures AED	*Computers AED*	*Total AED*
Cost:			
At 1 January 2017	334,376	533,684	868,060
Additions	3,049	185,144	188,193
At 31 December 2017	337,425	718,828	1,056,253
Depreciation:			
At 1 January 2017	333,810	522,609	856,419
Charge for the year	676	7,856	8,532
At 31 December 2017	334,486	530,465	864,951
Net carrying amounts:			
At 31 December 2017	2,939	188,363	191,302

13 OTHER ASSETS

	2018 AED	*2017 AED*
Interest receivable	**16,267,100**	10,235,227
Prepayments	**4,392,396**	728,675
Positive fair value of derivatives (note 19)	**2,579,076**	2,678,341
Others (notes 13.1 and 21)	**152,561**	6,087,828
	23,391,133	19,730,071

13 OTHER ASSETS (continued)

13.1 "Others" includes a receivable of Nil (2017: AED 6,000,000) from Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch. During 2017 the DIFC Branch borrowed this amount from the Branch, in order to pay for staff bonuses and salaries, since the DIFC Branch did not have sufficient AED funds available at the time. The receivable is interest free and is repayable on demand. This transaction has been disclosed as a related party transaction in note 21.

14 CUSTOMER DEPOSITS

	2018 *AED*	*2017* *AED*
Corporate customers		
Current accounts	**420,744,552**	260,800,174
Saving accounts	**6,809,109**	30,673,041
Time deposits	**524,567,880**	2,314,179,000
	952,121,541	2,605,652,215

15 TAXATION

	2018 *AED*	*2017* *AED*
Current year income tax expense	**4,729,995**	6,197,744

The tax rate applicable to the Branch is 20%. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

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

	2018 *AED*	*2017* *AED*
Accounting profit before tax	**27,024,093**	24,964,660
Deduct / add: (non-taxable income) / disallowable expenses (note 15.1)	**(3,374,118)**	6,024,062
	23,649,975	30,988,722
Income tax expense	**4,729,995**	6,197,744

The movement in the provision for taxation is as follows:

	2018 *AED*	*2017* *AED*
Balance at the beginning of the year	**6,227,076**	2,687,289
Expense for the year	**4,729,995**	6,197,744
Less: tax paid during the year	**(6,197,744)**	(2,657,957)
Balance at the end of the year	**4,759,327**	6,227,076

15.1 Due to timing differences, non-taxable income of AED 3,374,118 represents an estimate of the actual impairment losses released on financial instruments of AED 3,432,025 in the statement of profit or loss and other comprehensive income.

16 OTHER LIABILITIES

	2018 *AED*	*2017* *AED*
Interest payable	**10,038,439**	11,154,315
Deferred income	**2,084,204**	2,402,598
Negative fair value of derivatives (note 19)	**22,689**	4,398
Income tax payable (note 15)	**4,759,327**	6,227,076
Output VAT	**42,700**	-
Provision for employees' end of service benefits	**535,184**	684,583
Other staff related provisions	**3,363,850**	3,064,867
Others	**5,163,438**	4,361,522
	26,009,831	27,899,359

Provision for employees' end of service benefits
The movement of provision for employees' end of service benefits is as follows:

	2018 *AED*	*2017* *AED*
At 1 January	**684,583**	654,484
Charge for the year	**49,345**	139,806
Paid during the year	**(198,744)**	(109,707)
At 31 December	**535,184**	684,583

17 ALLOCATED CAPITAL AND SUBORDINATED BORROWINGS

The capital allocated to the branch by the Head Office is USD 85 million. This capital was re-measured to AED 312,120,000 as required by the UAE Central Bank. The allocated capital is not distributable to the Head Office.

The Head Office provided a subordinated loan facility of USD 50 million with a fixed rate of 4.5% pa to the Branch after the approval of the UAE Central Bank. The subordinated loan is eligible at present for inclusion in the calculation of Tier 2 capital as per Basel II. The principal is fully repayable in May 2025.

18 LEGAL RESERVE

As required by Article 82 of the Federal Law No. 10 of 1980, 10% of the net profit for the year is transferred to a legal reserve. Such transfers may be discontinued when the reserve equals 50% of the allocated capital. This reserve is not available for distribution, except under the circumstances stipulated by the law.

19 DERIVATIVES

In the ordinary course of business the Branch enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options. During the year, the Branch entered into currency swaps and interest rate swaps.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

At 31 December 2018

				Notional amounts by term to maturity		
	Positive fair value AED	***Negative fair value AED***	***Notional amount AED***	***Within 3 months AED***	***3-12 months AED***	***Above 1 year AED***
Derivatives designated as hedging instruments						
Interest rate swaps	**2,579,076**	**-**	**88,501,622**	**-**	**-**	**88,501,622**
Derivatives not designated as hedging instruments						
Currency swaps	**-**	**22,689**	**275,524,000**	**55,000,000**	**220,524,000**	**-**
Total	**2,579,076**	**22,689**	**364,025,622**	**55,000,000**	**220,524,000**	**88,501,622**

At 31 December 2017

				Notional amounts by term to maturity		
	Positive fair value AED	*Negative fair value AED*	*Notional amount AED*	*Within 3 months AED*	*3-12 months AED*	*Above 1 year AED*
Derivatives designated as hedging instruments						
Interest rate swaps	2,678,341	-	106,071,275	-	-	106,071,275
Derivatives not designated as hedging instruments						
Currency swaps	-	4,398	146,936,000	146,936,000	-	-
Total	2,678,341	4,398	253,007,275	146,936,000	-	106,071,275

During the year, a net loss on fair valuation of derivative financial instruments of AED 2,031,420 has been recognised in the statement of profit or loss and other comprehensive income (2017: fair value loss of AED 1,172,843).

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Branch.

Over-the-counter derivatives may expose the Branch to the risks associated with the absence of an exchange market on which to close out an open position.

19 DERIVATIVES (continued)

The Branch's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Branch's best estimate of the most appropriate model inputs.

Derivative product types
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index. Interest rate swaps relate to contracts taken out by the Branch with other financial institutions in which the Branch either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Branch pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled. Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Branch has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

Fair value hedges are used by the Branch to protect it against changes in the fair value of financial assets and financial liabilities due to movements in market interest rates. The financial instruments hedged for interest rate risk include fixed rate loans. The Branch uses interest rate swaps to hedge the interest rate risk of financial assets. The Branch's fair value hedge relationship is principally interest rate swaps to hedge the interest rate risk of fixed rate loans.

For the year ended 31 December 2018, the Branch recognised a net gain of AED 2,579,076 (2017: net gain of AED 2,678,341) on the hedging instruments. The total net losses on the hedged items attributable to the hedged risk amounted to an equivalent amount. The cumulative fair value adjustments on hedged items designated as fair value hedges as at 31 December 2018 are included in the loans and advances to customers.

20 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

	2018 ***AED***	*2017* *AED*
Contingent liabilities:		
Letters of credit	**110,069,084**	27,351,715
Guarantees	**738,109,121**	874,328,699
	848,178,205	901,680,414
Less: Counter guaranteed by cash	**(4,167,376)**	(1,324,803)
Counter guaranteed by bank	**(182,171,218)**	(217,806,146)
Net exposure	**661,839,611**	682,549,465

During the year, an impairment loss of AED 556,193 was recognised in profit or loss on these contingent liabilities (2017: nil).

21 RELATED PARTY TRANSACTIONS

The Branch enters into transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in Industrial and Commercial Bank of China Limited, directors of Industrial and Commercial Bank of China Limited and entities in which such shareholders and directors have a significant influence, other branches and subsidiaries of Industrial and Commercial Bank of China Limited and key management personnel. Pricing policies and terms of these transactions are approved by the Branch's management.

The statement of profit and loss and other comprehensive income for the year includes transactions with related parties as follows:

Head Office, its related parties and key management personnel:

	2018 ***AED***	*2017* *AED*
Interest income, fees and commission income	**1,285,271**	323,647
Interest expense, fees and commission expense	**(18,556,212)**	(14,818,618)

The significant balances outstanding at 31 December in respect of related parties included in the financial statements are as follows:

	2018 ***AED***	*2017* *AED*
Due from Head Office, affiliates and branches	**55,342,939**	83,946,078
Due to Head Office, affiliates and branches	**626,620,836**	265,075,846
Interest payable	**2,258,645**	2,170,279
Receivables from other branches	**-**	6,000,000
Subordinated borrowings	**183,625,000**	183,665,000
Counter guarantees	**122,137,897**	148,960,721

Terms and conditions of transactions with related parties
Outstanding balances at the year-end are mainly unsecured, interest bearing and settlement occurs in cash. For the year ended 31 December 2018, the Branch has not recorded any impairment loss allowance on receivables relating to amounts owed by related parties (31 December 2017: no impairment recorded) as these are not past due. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel
The Branch's General Manager was transferred from the payroll of the Branch to the payroll of the Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch in 2014, hence there is no remuneration to disclose in 2018 (2017: Nil).

22 RISK MANAGEMENT

Introduction
Risk is inherent in the Branch's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Branch's continuing profitability and each individual within the Branch is accountable for the risk exposures relating to his or her responsibilities.

Risk management covers all risks including credit, liquidity, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organisation, roles and responsibilities of management level committees, and authorities and processes relating to risk management, internal controls and compliance functions.

The Branch is exposed to credit risk, liquidity risk, market risk and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Branch's strategic planning process.

Credit risk
Credit risk is the risk of financial loss to the Branch if a customer or counterparty fails to meet the contractual obligations. Such risk arises from lending, trade finance and other activities undertaken by the Branch. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The Branch manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Branch has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions, where applicable. The credit quality review process allows the Branch to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities, derivatives and commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Note	***Gross maximum exposure 2018 AED***	*Gross maximum exposure 2017 AED*
Cash and balances with UAE Central Bank	7	**155,541,112**	1,038,157,986
Due from banks	8	**694,782,743**	2,102,612,786
Due from Head Office, affiliates and branches	21	**55,342,939**	83,946,078
Investment securities	10	**608,788,571**	637,712,913
Loans and advances (gross)	11	**1,027,799,209**	796,497,353
Other assets		**18,998,737**	19,001,396
Total		**2,561,253,311**	4,677,928,512
Letters of credit	20	**110,069,084**	27,351,715
Guarantees	20	**738,109,121**	874,328,699
Total		**848,178,205**	901,680,414
Total credit risk exposure		**3,409,431,516**	5,579,608,926

22 RISK MANAGEMENT (continued)

Credit risk (continued)

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown on the following pages.

Risk concentrations of the maximum exposure to credit risk
The Branch's maximum exposure to credit risk, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2018		*2017*	
	Assets AED	***Contingent Liabilities AED***	*Assets AED*	*Contingent Liabilities AED*
United Arab Emirates	**843,966,944**	**666,006,986**	3,374,194,415	683,874,268
Other Middle East countries	**448,227,347**	-	219,988,354	-
China	**1,059,345,276**	**103,513,777**	679,069,400	151,231,671
Hong Kong	**158,215,368**	-	174,548,607	-
Europe	**3,389,075**	**78,657,442**	4,213,295	66,574,475
Rest of the world	**48,109,301**	-	225,914,441	-
Total	**2,561,253,311**	**848,178,205**	4,677,928,512	901,680,414

An industry sector analysis of the Branch's maximum exposure to credit risk, before taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2018 AED	*Gross maximum exposure 2017 AED*
Government and Public Sectors	**566,520,909**	1,312,954,664
Financial sectors	**1,496,373,096**	2,994,459,142
Commercial sectors	**1,346,537,511**	1,272,195,120
	3,409,431,516	5,579,608,926

22 RISK MANAGEMENT (continued)

Credit risk (continued)

Exposure to credit risk

The Branch measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and expected credit allowances, if any.

2018	**Stage 1** *AED*	**Stage 2** *AED*	**Stage 3** *AED*	**Total** *AED*
Due from banks				
Gross exposure	694,782,743	-	-	694,782,743
Allowance for impairment losses	(16,287)	-	-	(16,287)
Net carrying amount	**694,766,456**	**-**	**-**	**694,766,456**
Loans and advances				
Gross exposure	1,009,308,171	18,491,038	-	1,027,799,209
Allowance for impairment losses	(27,282,932)	(924,552)	-	(28,207,484)
Net carrying amount	**982,025,239**	**17,566,486**	**-**	**999,591,725**
Investment securities				
Gross exposure	608,788,571	-	-	608,788,571
Allowance for impairment losses	(1,565,815)	-	-	(1,565,815)
Net carrying amount	**607,222,756**	**-**	**-**	**607,222,756**

2017	Stage 1 *AED*	Stage 2 *AED*	Stage 3 *AED*	Total *AED*
Due from banks				
Gross exposure	2,102,612,786	-	-	2,102,612,786
Allowance for impairment losses	-	-	-	
Net carrying amount	2,102,612,786	-	-	2,102,612,786
Loans and advances				
Gross exposure	759,764,353	36,733,000	-	796,497,353
Allowance for impairment losses	(31,957,710)	(1,836,650)	-	(33,794,360)
Net carrying amount	727,806,643	34,896,350	-	762,702,993
Investment securities				
Gross exposure	637,712,913	-	-	637,712,913
Allowance for impairment losses	-	-	-	
Net carrying amount	637,712,913	-	-	637,712,913

22 RISK MANAGEMENT (continued)

Credit risk (continued)

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

The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

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:

	2018 ***AED***
Allowances for impairment losses: General	
General provisions under Circular 28/2010 of CBUAE	24,734,158
Less: Stage 1 and Stage 2 provisions under IFRS 9	30,353,721
General provision transferred to the impairment reserve*	-
Allowances for impairment losses: Specific	
Specific provisions under Circular 28/2010 of CBUAE	-
Less: Stage 3 provisions under IFRS 9	-
Specific provision transferred to the impairment reserve*	-
Total provision transferred to the impairment reserve	-

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

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash and charge over trade receivables. The Branch also obtains guarantees from the Head Office and other branches and subsidiaries of the Head Office for loans to customers referred by them.

Liquidity risk
Liquidity risk is defined as the risk that the Branch will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Branch maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Branch also has committed lines of credit that it can access to meet liquidity needs. In addition, the Branch maintains a statutory deposit with the Central Bank of UAE equal to 14% of demand deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Branch.

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The table sets out the maturity profile of the assets and liabilities at 31 December 2018 and 31 December 2017.

31 December 2018	***Less than 3 months AED***	***3 to 12 months AED***	***1 to 5 years AED***	***Over 5 years AED***	***Total AED***
Assets					
Cash and balances with CBUAE	**155,543,988**	-	-	-	**155,543,988**
Due from banks	**658,042,354**	**36,724,102**	-	-	**694,766,456**
Due from Head Office, affiliates and branches	**55,342,939**	-	-	-	**55,342,939**
Investment securities	-	-	**608,788,571**	-	**608,788,571**
Loans and advances	**183,113,890**	**235,102,848**	**371,493,223**	**209,881,764**	**999,591,725**
Furniture and equipment	-	-	-	**907,761**	**907,761**
Other assets	**20,812,057**	-	-	**2,579,076**	**23,391,133**
Total	**1,072,855,228**	**271,826,950**	**980,281,794**	**213,368,601**	**2,538,332,573**
Liabilities					
Due to banks and other financial institutions	**187,793,757**	-	-	-	**187,793,757**
Certificate of Deposit	-	**105,211,375**	-	-	**105,211,375**
Due to Head Office, affiliates and branches	**376,110,439**	**162,008,775**	-	**88,501,622**	**626,620,836**
Subordinated borrowings	-	-	-	**183,625,000**	**183,625,000**
Customer deposits	**731,771,541**	**220,350,000**	-	-	**952,121,541**
Other liabilities	**21,142,463**	**4,867,368**	-	-	**26,009,831**
Total	**1,316,818,200**	**492,437,518**	-	**272,126,622**	**2,081,382,340**
Net liquidity gap 2018	**(243,962,972)**	**(220,610,568)**	**980,281,794**	**(58,758,021)**	**456,950,233**
31 December 2017					
Total assets	3,308,537,695	393,773,381	612,394,578	330,348,537	4,645,054,191
Total liabilities	3,334,694,030	459,837,141	110,074,940	289,736,275	4,194,342,386
Net liquidity gap 2017	(26,156,335)	(66,063,760)	502,319,638	40,612,262	450,711,805

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

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The tables below show undiscounted cash flows on the Branch's financial liabilities on the basis of their earliest possible contractual maturity. The Branch's expected cash flows may vary significantly from this analysis.

2018	**Total carrying amount AED**	**Gross nominal outflows AED**	**Less than 3 months AED**	**3 to 12 months AED**	**1 to 5 years AED**	**Over 5 years AED**
Due to banks and other financial institutions	**187,793,757**	**189,003,336**	**189,003,336**	-	-	-
Certificate of Deposit	**105,211,375**	**105,378,725**	-	**105,378,725**	-	-
Due to Head Office, affiliates and branches	**626,620,836**	**654,004,343**	**376,391,154**	**164,598,225**	-	**113,014,964**
Subordinated borrowings	**183,625,000**	**237,013,969**	-	-	-	**237,013,969**
Customer deposits	**952,121,541**	**959,033,358**	**732,282,060**	**226,751,298**	-	-
Other liabilities	**15,224,566**	**15,224,566**	**15,116,530**	**108,036**	-	-
Total liabilities	**2,070,597,075**	**2,159,658,297**	**1,312,793,080**	**496,836,284**	-	**350,028,933**

2017	Total carrying amount AED	Gross nominal outflows AED	Less than 3 months AED	3 to 12 months AED	1 to 5 years AED	Over 5 years AED
Due to banks and other financial institutions	1,002,087,978	1,008,603,807	555,714,241	452,889,566	-	-
Certificate of Deposit	109,961,988	110,438,527	-	-	110,438,527	-
Due to Head Office, affiliates and branches	265,075,846	292,004,434	159,158,382	-	-	132,846,052
Subordinated borrowings	183,665,000	267,529,194	-	-	-	267,529,194
Customer deposits	2,605,652,215	2,606,994,310	2,606,994,310	-	-	-
Other liabilities	15,520,235	15,520,235	15,407,283	-	112,952	-
Total liabilities	4,181,963,262	4,301,090,507	3,337,274,216	452,889,566	110,551,479	400,375,246

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The table below shows the maturity of the Branch's contingent liabilities and commitments:

	On demand AED	***Less than 3 months AED***	***3 to 12 months AED***	***1 to 5 years AED***	***Over 5 years AED***	***Total AED***
2018						
Contingent liabilities	**113,300,588**	**257,406,352**	**368,548,099**	**108,823,166**	**100,000**	**848,178,205**
Total	**113,300,588**	**257,406,352**	**368,548,099**	**108,823,166**	**100,000**	**848,178,205**

	On demand AED	*Less than 3 months AED*	*3 to 12 months AED*	*1 to 5 years AED*	*Over 5 years AED*	*Total AED*
2017						
Contingent liabilities	260,853,644	113,130,958	349,014,384	178,581,428	100,000	901,680,414
Total	260,853,644	113,130,958	349,014,384	178,581,428	100,000	901,680,414

The Branch expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market Risk is the risk that changes in market prices - such as interest rates, equity prices and foreign exchange rates and credit spreads (not relating to change in the obligor's/issuer's credit standing) - will affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Branch's solvency while optimising the return on risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Branch's exposure to interest rate risk arises as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Branch's statement of profit or loss and other comprehensive income. There is no material direct impact on the Branch's equity.

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2018.

	2018	
Currency	***Change in basis points***	***Sensitivity of net interest income AED***
UAE Dirhams and US Dollars	**+100**	**4,196,039**
UAE Dirhams and US Dollars	**-100**	**(4,196,039)**

22 RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

	2017	
Currency	*Change in basis points*	*Sensitivity of net interest income AED*
UAE Dirhams and US Dollars	+100	4,501,271
UAE Dirhams and US Dollars	-100	(4,501,271)

The interest rate sensitivity set out above relates primarily to the UAE Dirhams and US Dollars as the Branch do not have any significant net exposure for non-trading financial assets and financial liabilities denominated in other currencies.

Currency risk

The Branch has foreign exchange exposure on the transactions that are denominated in Chinese Yuan (CNY). At 31 December 2018, the Branch had assets and liabilities of AED 157,926,342 (2017: AED 162,776,359) and AED 157,613,879 (2017: AED 59,725,648) respectively denominated in CNY.

For the year ended 31 December 2018, had the exchange rates on net foreign exchange exposure increased / decreased by 5% with all other variables remaining constant, the approximate impact on the results of the Branch would have been as follows:

	2018 AED	*2017 AED*
Chinese Yuan - net	**15,623**	5,152,536

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Branch's processes, 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 every segment of Branch's operation and are faced by all the business units.

The Branch's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branch's reputation with overall cost effectiveness and innovation. In all cases, Branch policy requires compliance with all applicable legal and regulatory requirements.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets consist of cash and balances with the UAE Central Bank, due from banks, due from the Head Office, affiliates and branches, investment securities, loans and advances, derivative financial instruments and other assets. Financial liabilities consist of due to banks, due to the Head Office, affiliates and branches, derivative financial instruments, subordinated borrowings, customer deposits, certificates of deposit and other liabilities.

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and interest rate curves.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Branch determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Branch uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

Level 3: Inputs are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

a) Fair value hierarchy of assets/liabilities measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

31 December 2018

	Level 1 AED	***Level 2 AED***	***Level 3 AED***	***Total AED***
Financial assets				
FVOCI debt instruments				
Quoted investments				
Investment securities	**608,788,571**	**-**	**-**	**608,788,571**
Derivative financial instruments				
Currency swaps	**-**	**-**	**-**	**-**
Interest rate swaps	**-**	**2,579,076**	**-**	**2,579,076**
Financial liabilities				
Derivative financial instruments				
Currency swaps	**-**	**22,689**	**-**	**22,689**

31 December 2017

	Level 1 AED	*Level 2 AED*	*Level 3 AED*	*Total AED*
Financial assets				
Financial investments available for-sale				
Quoted investments				
Investment securities	496,787,913	-	-	496,787,913
Derivative financial instruments				
Currency swaps	-	-	-	-
Interest rate swaps	-	2,678,341	-	2,678,341
Financial liabilities				
Derivative financial instruments				
Currency swaps	-	4,398	-	4,398

During the year, there were no transfers between level 1, 2 and 3 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the year.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised. The fair values are not materially different from their carrying amounts.

31 December 2018	*Level 1 AED*	*Level 2 AED*	*Level 3 AED*	*Total carrying amount AED*
Assets				
Cash and balances with UAE Central Bank	-	**155,543,988**	-	**155,543,988**
Due from banks	-	**694,766,456**	-	**694,766,456**
Due from Head Office, affiliates and branches	-	**55,342,939**	-	**55,342,939**
Loans and advances	-	-	**999,591,725**	**999,591,725**
Other assets	-	**16,419,661**	-	**16,419,661**
Total	-	**922,073,044**	**999,591,725**	**1,921,664,769**
Liabilities				
Due to banks	-	**187,793,757**	-	**187,793,757**
Certificate of deposit	-	**105,211,375**	-	**105,211,375**
Due to Head Office, affiliates and branches	-	**626,620,836**	-	**626,620,836**
Subordinated borrowings	-	-	**183,625,000**	**183,625,000**
Customer deposits	-	-	**952,121,541**	**952,121,541**
Other liabilities	-	**15,201,877**	-	**15,201,877**
Total	-	**934,827,845**	**1,135,746,541**	**2,070,574,386**

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

b) Financial instruments not measured at fair value (continued)

31 December 2017	*Level 1* *AED*	*Level 2* *AED*	*Level 3* *AED*	*Total carrying amount* *AED*
Assets				
Cash and balances with UAE Central Bank	-	1,038,158,048	-	1,038,158,048
Due from banks	-	2,102,612,786	-	2,102,612,786
Due from Head Office, affiliates and branches	-	83,946,078	-	83,946,078
Investment securities	-	-	140,925,000	140,925,000
Loans and advances	-	-	762,702,993	762,702,993
Other assets	-	16,323,055	-	16,323,055
Total	-	3,241,039,967	903,627,993	4,144,667,960
Liabilities				
Due to banks	-	1,002,087,978	-	1,002,087,978
Certificate of deposit	-	109,961,988	-	109,961,988
Due to Head Office, affiliates and branches	-	265,075,846	-	265,075,846
Subordinated borrowings	-	-	183,665,000	183,665,000
Customer deposits	-	-	2,605,652,215	2,605,652,215
Other liabilities	-	15,515,837	-	15,515,837
Total	-	1,392,641,649	2,789,317,215	4,181,958,864

In respect of those financial assets and liabilities measured at amortised cost, which are of a short term nature (up to 1 year), management believes that the carrying amount is equivalent to its fair value.

Long term loans and advances to customers are fair value based on Discounted Cash Flows (DCF) which takes into account original underlying cash borrower credit grading and expected repayments. These features are used to estimate expected cash flows which are discounted at risk adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk adjusted discount rate, and different assumptions and inputs would yield different results. Management believes that the fair value of these is not significantly different to the carrying value.

Fair values of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

24 CAPITAL ADEQUACY

The Branch maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Branch's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of UAE in supervising the Branch.

24 CAPITAL ADEQUACY (continued)

Capital management
The primary objective of the Branch's capital management is to ensure that the Branch complies with externally imposed capital requirements and that the Branch maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Branch manages the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Branch may adjust the amount of payment to Head Office or return capital.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

The minimum capital adequacy requirements as set out by the Central Bank are as follows:

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

The table below summarises the composition of regulatory capital and the ratios of the Branch as per Basel III guidelines and has complied with all of the externally imposed capital requirements which it is subject to:

	2018	*2017*
	AED	*AED*
Capital base		
Tier 1 Capital	**455,385,000**	431,946,000
Tier 2 Capital	**185,234,000**	206,815,000
Total capital base	**640,619,000**	638,761,000
Risk weighted assets (RWA) Pillar 1		
Credit risk	**1,597,720,000**	1,846,747,000
Market risk	**409,000**	109,576,000
Operational risk	**80,971,000**	88,449,000
Risk weighted assets	**1,679,100,000**	2,044,772,000
Tier 1 ratio	**27.12%**	21.12%
Tier 2 ratio	**11.03%**	10.11%
Capital adequacy ratio	**38.15%**	31.23%

The comparative figures for 2017 have been restated to comply with the Basel III guidelines.