Barclays Bank PLC – UAE Branches

Financial statements
For the year ended 31 December 2018

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KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
Mohammed Bin Rashid Boulevard, Downtown Dubai, UAE
Tel. +971 (4) 403 0300, Fax +971 (4) 330 1515

Independent Auditors' Report

To the Country Manager of Barclays Bank PLC – UAE

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Barclays Bank PLC – UAE Branches ("the Branches"), 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 Branches 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 Branches 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.

Other matter

Subsequent to our Independent Auditors' Report issued on 28 February 2019 on the financial statements as at and for the year ended 31 December 2018, management has included further clarification on the reclassification of certain amounts from "Loans and advances" to "Due from other banks" and "Due from Head Office and other branches" in Notes 6, 7, 8 and 30 of the accompanying financial statements. Our procedures on these amended financial statements are restricted solely to the additional clarifications included in the above mentioned notes. Our opinion is not modified in respect of this matter.

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.

In preparing the financial statements, management is responsible for assessing the Branches' 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 Branches or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branches' 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.

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

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

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

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

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: 25 MAR 2019

Barclays Bank PLC - UAE Branches

Statement of financial position

	Note	As at 31 December 2018 AED'000	2017 AED'000
Assets			
Cash and balances with the UAE Central Bank	5	3,338,154	3,140,658
Due from other banks	6	1,618,434	979,853
Due from Head Office and other branches	7	147,876	85,732
Loans and advances	8	479,822	642,287
Other assets	9	2,097	4,410
Property and equipment	10	16,250	16,012
Deferred income tax assets	11	2,893	782
Total assets		5,605,526	4,869,734
Liabilities, Head Office account and reserves			
Liabilities			
Due to other banks	12	531	1,840
Due to customers	13	2,339,292	1,141,903
Due to Head Office and other branches	14	399,963	843,432
Other liabilities	15	109,617	153,464
Total liabilities		2,849,403	2,140,639
Head Office account and reserves			
Allocated capital	16	2,540,214	2,540,214
Legal reserve	17(a)	130,521	125,001
General reserve	17(b)	22,204	24,884
Share options		-	14,579
Retained earnings		63,184	24,417
Total Head Office account and reserves		2,756,123	2,729,095
Total liabilities, Head Office account and reserves		5,605,526	4,869,734

These financial statements have been approved on 25 March 2019 and signed by:

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Subir Saha
Chief Financial Officer

The independent auditor's report is set out on pages 1-3.
The notes from 1 to 30 form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

	Note	Year ended 31 December	
		2018	**2017**
		AED’000	**AED’000**
Interest income	20	138,083	79,526
Interest expense	21	(24,717)	(7,817)
Net interest income		113,366	71,709
Fee and commission income	22	31,392	35,407
Net foreign exchange income		4,760	4,994
Operating income		149,518	112,110
Operating expenses	23	(81,506)	(101,114)
Release of restructuring costs	24	6,653	-
Impairment charge on financial instruments	3.2.3, 3.2.5	(12,556)	(52,231)
Profit / (loss) before taxation		62,109	(41,235)
Income tax (expense) / credit	25	(6,907)	782
Profit / (loss) for the year		55,202	(40,453)
Other comprehensive income		-	-
Total comprehensive income / (loss) for the year		**55,202**	**(40,453)**

The independent auditor’s report is set out on pages 1-3.
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Barclays Bank PLC - UAE Branches

Statement of movements in Head Office account and reserves

	Note	Allocated capital AED'000	Legal reserve AED'000	General reserve AED'000	Share options AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2017		2,540,214	125,001	32,599	14,579	57,155	2,769,548
Total comprehensive loss for the year							
Loss for the year and total comprehensive loss		-	-	-	-	(40,453)	(40,453)
Other equity movement							
Transfer from general reserve	17(b)	-	-	(7,715)	-	7,715	-
Total movement		-	-	(7,715)	-	(32,738)	(40,453)
At 31 December 2017		2,540,214	125,001	24,884	14,579	24,417	2,729,095
Adjustment on initial impact of IFRS 9	4	-	-	-	-	(13,595)	(13,595)
Restated balance as at 1 January 2018		2,540,214	125,001	24,884	14,579	10,822	2,715,500
Total comprehensive income for the year							
Transfer to Head Office		-	-	-	(14,579)	-	(14,579)
Profit for the year and total comprehensive income		-	-	-	-	55,202	55,202
Other equity movement							-
Transfer to legal reserve	17(a)	-	5,520	-	-	(5,520)	-
Transfer from general reserve	17(b)	-	-	(2,680)	-	2,680	-
Total movement		-	5,520	(2,680)	(14,579)	52,362	40,623
At 31 December 2018		2,540,214	130,521	22,204	-	63,184	2,756,123

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Barclays Bank PLC - UAE Branches

Statement of cash flows

	Note	Year ended 31 December 2018 AED'000	2017 AED'000
Operating activities			
Profit / (loss) for the year before taxation		62,109	(41,235)
Adjustments for:			
Depreciation	10	3,139	2,603
Write off of property and equipment	10	-	1,746
End of service benefits charge for the year	15(a)	282	634
Net impairment charge on financial instruments		1,915	54,860
Operating cash flows before end of service benefits and tax paid and changes in assets and liabilities		67,445	18,608
End of service benefits paid	15(a)	(2,326)	(6,341)
Income tax paid during the year		-	(200)
Changes in assets and liabilities:			
Balances with the UAE Central Bank excluding amounts considered as cash and cash equivalents	5,27	179,448	(323,848)
Due from other banks excluding amounts considered as cash and cash equivalents	6,27	(664,330)	-
Due from Head Office and other branches excluding amounts considered as cash and cash equivalents	7,27	17,101	43,485
Loans and advances	8	149,178	479,431
Other assets	9	2,313	10,183
Due to other banks	12	(1,309)	(4,793)
Due to customers	13	1,197,389	(618,826)
Due to Head Office and other branches	14	(458,048)	574,546
Other liabilities net of provision for income tax	15	(50,557)	(48,160)
Net cash from operating activities		436,304	124,085
Investing activities			
Payment for purchase of property and equipment	10	(3,377)	(1,869)
Net cash used in investing activities		(3,377)	(1,869)
Net increase in cash and cash equivalents		432,927	122,216
Cash and cash equivalents, beginning of year	27	290,152	167,936
Cash and cash equivalents, end of year	27	723,079	290,152

The independent auditor's report is set out on pages 1-3.
The notes from 1 to 30 form an integral part of these financial statements.

1 Establishment and operations

Barclays Bank PLC (the "Head Office") is a public limited company incorporated in the United Kingdom and the address of its registered office is 1 Churchill Place, London E14 5HP. The principal activity of Barclays Bank PLC in the United Arab Emirates ("UAE") is wholesale banking which is carried out from its Branches in Abu Dhabi and Dubai (the "Bank" or "the Branches"). The registered address of the Dubai Branch is Office No.109, Level 1, The Offices 3, One Central, Dubai World Trade Centre, Dubai, UAE and the registered address of the Abu Dhabi Branch is Office No.02, 7th Floor, East Tower, Trade Centre Towers, 2nd Street, Abu Dhabi, UAE.

On 1 April 2015, a new UAE Federal Law No 2 for Commercial Companies ("UAE Companies Law of 2015") was issued with effective date 1 July 2015. The Bank is compliant with applicable sections of the UAE Companies Law of 2015 as at the date thereof.

2 Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Changes in accounting policies

The Bank 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 Bank 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 Bank. 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:

- an increase in impairment losses recognized on financial assets (**See note 4**)
- additional disclosures related to IFRS 9 (**See note 3.2**)
- additional disclosures related to IFRS 15 (**See note 2(n)**)

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

A. IFRS 9 - Financial Instruments

The Bank has transitioned to IFRS 9 Financial Instruments issued in July 2014 with the date of initial application being 1 January 2018.

The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets, certain aspects of the accounting for financial liabilities and measurement of expected credit loss on financial assets included in off balance sheet items such as loan commitments and financial guarantees.

2 Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

A. IFRS 9 - Financial Instruments *(continued)*

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and 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 existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

As per 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. How the Bank classifies financial assets under IFRS 9 has been explained in note 2(c).

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.

How the Bank classifies financial liabilities under IFRS 9 has been explained in note 2(c).

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.

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Bank's methodology for specific provisions remains largely unchanged.

For an explanation of how the Bank applies the impairment requirements of IFRS 9, refer to note 2(d).

2 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 have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and appropriate components of other reserves as at 1 January 2018. 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 of certain investments in equity instruments not held for trading as at FVOCI.

Changes and implications resulting from the adoption of IFRS 9 has been explained in note 4.

B. IFRS 15 - Revenue from Contract 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.

(b) Basis of preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and the applicable requirements of laws of the United Arab Emirates. The financial statements are prepared under the historical cost convention except for derivative financial instruments measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2(s).

2 Significant accounting policies (continued)

(c) Financial assets and liabilities

Recognition and initial measurement

The Bank initially recognises loans and advances, and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets – 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 Bank 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 Bank 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.

Business model assessment

The Bank 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:

2 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Classification (continued)

Business model assessment (continued)

- 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 Bank'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

- 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 Bank'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 Bank 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 Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

2 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Classification (continued)

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

- 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 Bank changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 January 2018

The Bank classifies its financial assets in the following categories: Financial assets at fair value through profit or loss; loans and receivables; held to maturity financial assets; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

A. Financial assets at fair value through profit or loss

This category includes: financial assets held for trading, and those designated at fair value through profit or loss at inception.

(i) Held for trading

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(ii) Fair value through profit or loss

Financial assets are designated at fair value through profit or loss when:

- Doing so reduces measurement inconsistencies that would arise if the related derivative was treated as held for trading and the underlying financial instruments were carried at amortized cost for such as loans and advances to banks and clients, and debt securities in issue.

- Certain investments, such as equity investments that are managed and evaluated on a fair value in accordance with a documented risk management or investment strategy, and reported to key management personnel on that basis are designated at fair value through profit and loss.

- Financial instruments, such as debt instruments held, containing one or more embedded derivatives, significantly modify the cash flows are designated at fair value through profit and loss

2 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Classification (continued)

B. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- Those that the Bank upon initial recognition designates as available for sale; or
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

C. Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount except for specific situations, the entire category would be classified as available for sale.

D. Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Derecognition:

Financial assets:

The Bank 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 Bank 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.

2 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Classification (continued)

Derecognition (continued)

Financial assets (continued)

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.

Financial liabilities:

Financial liabilities are derecognised when they are extinguished − that is, when the obligation is discharged, cancelled or expires.

(d) Impairment of financial assets

Policy applicable from 1 January 2018

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1 – the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
Stage 2 – lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
Stage 3 – lifetime expected credit losses for financial instruments which are credit impaired.

Refer to note 3 for further details regarding the impairment requirements of IFRS 9.

As required by IFRS 9 the Bank applied IFRS 9 retrospectively by adjusting the opening balance sheet at the date of initial application, and comparative periods have not been restated; for more detail refer to note 4.

Accounting for the impairment of financial assets

The Bank is required to recognise expected credit losses (ECLs) based on unbiased forward-looking information for all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. Intercompany exposures, including loan commitments and financial guarantee contracts, are also in scope of IFRS 9 for ECL purposes.

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

Accounting for the impairment of financial assets (continued)

At the reporting date, an allowance (or provision for loan commitments and financial guarantees) is required for the 12 month ECLs. If the credit risk has significantly increased since initial recognition (Stage 2), or if the financial instrument is credit impaired (Stage 3), an allowance (or provision) should be recognised for the lifetime ECLs.

The measurement of ECL is calculated using three main components: (i) probability of default (PD) (ii) loss given default (LGD) and (iii) the exposure at default (EAD).

The 12 month ECL is calculated by multiplying the 12 month PD, LGD and the EAD. The 12 month and lifetime PDs represent the PD occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

Determining a significant increase in credit risk since initial recognition:

The Bank assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. The credit risk of an exposure is considered to have significantly increased when:

i) Quantitative test

The annualised lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination.

PD deterioration thresholds are defined as percentage increases, and are set at an origination score band and segment level to ensure the test appropriately captures significant increases in credit risk at all risk levels. Generally, thresholds are inversely correlated to the origination PD, i.e. as the origination PD increases, the threshold value reduces.

The assessment of the point at which a PD increase is deemed ‘significant’, is based upon analysis of the portfolios’ risk profile against a common set of principles and performance metrics (consistent across both retail and wholesale businesses), incorporating expert credit judgement where appropriate.

For existing/historical exposures where origination point scores/data are no longer available or do not represent a comparable estimate of lifetime PD, a proxy origination score is defined, based upon:

- Back-population of the approved lifetime PD score either to origination date or, where this is not feasible, as far back as possible, (subject to a data start point no later than 1 January 2015); or

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

Accounting for the impairment of financial assets (continued)

i) Quantitative test (continued)

- Use of available historic account performance data and other customer information, to derive a comparable 'proxy' estimation of origination PD.

ii) Qualitative test

Accounts meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

High risk customers may not be in arrears but either through an event or an observed behavior exhibit credit distress. The definition and assessment of high risk includes as wide a range of information as reasonably available, including industry and Group wide customer level data wherever possible or relevant.

Whilst the high risk populations applied for IFRS 9 impairment purposes are aligned with risk management processes, they are also regularly reviewed and validated to ensure that they capture any incremental segments where there is evidence of credit deterioration.

iii) Backstop criteria

Accounts that are 30 calendar days or more past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into Stage 2.

Exposures will move back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk. This means that, at minimum: all payments must be up-to-date, the PD deterioration test is no longer met, the account is no longer classified as high risk, and the customer has evidenced an ability to maintain future payments.

The Bank does not rely on the low credit risk exemption which would assume facilities of investment grade are not significantly deteriorated.

Management overlays and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk.

Forward-looking information

The measurement of ECL involves complexity and judgement, including estimation of PDs, LGD, a range of unbiased future economic scenarios, estimation of expected lives (where contractual life is not appropriate), and estimation of EAD and assessing significant increases in credit risk.

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

Forward-looking information (continued)

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate (EIR). ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, five forward-looking economic scenarios are considered to ensure a sufficient unbiased representative sample of the complete distribution is included in determining the expected loss. Stress testing methodologies are leveraged within forecasting economic scenarios.

The Bank utilises an external consensus forecast as the baseline scenario. In addition, two adverse and two favourable scenarios are derived, with associated probability weightings. The adverse scenarios are calibrated to a similar severity to internal stress tests, whilst also incorporating IFRS 9 specific sensitivities and non-linearity. The most adverse scenarios are benchmarked to the Bank of England's annual cyclical scenarios and to the most severe scenarios from Moody's inventory, but are not designed to be the same. The favourable scenarios are calibrated to be symmetric to the adverse scenarios, subject to a ceiling calibrated to relevant recent favourable benchmark scenarios. The scenarios include six core variables, (GDP, unemployment and House Price Index in both the UK & US markets), and expanded variables which include emerging market indicators, using statistical models based on historical correlations.

The probability weights of the scenarios are estimated such that the baseline (reflecting current consensus outlook) has the highest weight and the weights of adverse and favourable scenarios depend on the deviation from the baseline; the further from the baseline, the smaller the weight. A single set of five scenarios is used across all portfolios and all five weights are normalised to equate to 100%. The impacts across the portfolios are different because of the sensitivities of each of the portfolios to specific macroeconomic variables.

Definition of default, credit impaired assets, write-offs, and interest income recognition

The definition of default for the purpose of determining ECLs has been aligned to the Regulatory Capital CRR Article 178 definition of default (the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security), which considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due. When exposures are identified as credit impaired or purchased or originated as such interest income is calculated on the carrying value net of the impairment allowance.

Credit impaired is when the exposure has defaulted which is also anticipated to align to when an exposure is identified as individually impaired.

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

Definition of default, credit impaired assets, write-offs, and interest income recognition (continued)

Uncollectible loans are written off against the related allowance for loan impairment on completion of the Bank's internal processes and when all reasonably expected recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement.

Loan modifications and renegotiations that are not credit-impaired

When modification of a loan agreement occurs as a result of commercial restructuring activity rather than due to credit risk of the borrower, an assessment must be performed to determine whether the terms of the new agreement are substantially different from the terms of the existing agreement. This assessment considers both the change in cash flows arising from the modified terms as well as the change in overall instrument risk profile.

Where terms are substantially different, the existing loan will be derecognised and new loan recognised at fair value, with any difference in valuation recognised immediately within the income statement, subject to observability criteria.

Where terms are not substantially different, the loan carrying value will be adjusted to reflect the present value of modified cash flows discounted at the original EIR, with any resulting gain or loss recognised immediately within the income statement as a modification gain or loss.

Expected life

Lifetime ECLs must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolver financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. For revolving facilities, expected lifetime is analytically derived to reflect behavioural life of the asset, i.e. the full period over which the business expects to be exposed to credit risk. Behavioural life is typically based upon historical analysis of the average time to default, closure or withdrawal of facility. Where data is insufficient or analysis inconclusive, an additional 'maturity factor' may be incorporated to reflect the full estimated life of the exposures, based upon experienced judgement and/or peer analysis. Potential future modifications of contracts are not taken into account when determining the expected life or EAD until they occur.

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

Discounting

ECLs are discounted at the EIR at initial recognition or an approximation thereof and consistent with income recognition. For loan commitments the EIR is the rate that is expected to apply when the loan is drawn down and a financial asset is recognised. Issued financial guarantee contracts are discounted at the risk free rate. Lease receivables are discounted at the rate implicit in the lease. For variable/floating rate financial assets, the spot rate at the reporting date is used and projections of changes in the variable rate over the expected life are not made to estimate future interest cash flows or for discounting.

Modelling techniques

ECLs are calculated by multiplying three main components, being the PD, LGD and the EAD, discounted at the original EIR. The regulatory Basel Committee of Banking Supervisors (BCBS) ECL calculations are leveraged for IFRS 9 modelling but adjusted for key differences which include:

- BCBS requires 12 months through the economic cycle losses whereas IFRS 9 requires 12 months or lifetime point in time losses based on conditions at the reporting date and multiple forecasts of the future economic conditions over the expected lives.
- IFRS 9 models do not include certain conservative BCBS model floors and downturn assessments and require discounting to the reporting date at the original EIR rather than using the cost of capital to the date of default.
- Management adjustments are made to modelled output to account for situations where known or expected risk factors and information have not been considered in the modelling process, for example forecast economic scenarios for uncertain political events.
- ECL is measured at the individual financial instrument level, however a collective approach where financial instruments with similar risk characteristics are grouped together, with apportionment to individual financial instruments, is used where effects can only be seen at a collective level, for example for forward-looking information.

For the IFRS 9 impairment assessment, Banks’ risk models are used to determine the PD, LGD and EAD. For Stage 2 and 3, Bank applies lifetime PDs but uses 12 month PDs for Stage 1. The ECL drivers of PD, EAD and LGD are modelled at an account level which considers vintage, among other credit factors. Also, the assessment of significant increase in credit risk is based on the initial lifetime PD curve, which accounts for the different credit risk underwritten over time.

Forbearance

A financial asset is subject to forbearance when it is modified due to the credit distress of the borrower. A modification made to the terms of an asset due to forbearance will typically be assessed as a non-substantial modification that does not result in de-recognition of the original loan, except in circumstances where debt is exchanged for equity.

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

Forbearance(continued)

Both performing and non-performing forbearance assets are classified as Stage 3 except where it is established that the concession granted has not resulted in diminished financial obligation and that no other regulatory definitions of default criteria has been triggered, in which case the asset is classified as Stage 2. The minimum probationary period for non-performing forbearance is 12 months and for performing forbearance, 24 months. Hence, a minimum of 36 months is required for non-performing forbearance to move out of a forborne state.

No financial instrument in forbearance can transfer back to Stage 1 until all of the Stage 2 thresholds are no longer met and can only move out of Stage 3 when no longer credit impaired.

Policy applicable before 1 January 2018

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

The Bank assesses at each balance sheet date whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired and impairment losses are incurred only if there is objective evidence that the Bank will not be able to collect all amounts due.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, 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.

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate prevailing at inception of the loan or advance or at the current effective interest rate in respect of a variable rate loan.

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 of obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is uncollectible, it is written off against the related provision for impairment. If no related provision exists, it is written off to the income statement. Subsequent recoveries are credited to the income statement. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the income statement.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

(e) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2 Significant accounting policies (continued)

(e) Property and equipment (continued)

Depreciation is computed on the straight line method at rates calculated to reduce the cost of assets to their estimated residual values over their expected useful lives as follows:

	Years
Leasehold improvements	10-15 years or over the period of the lease if less than 10 years
Motor vehicles, office equipment and furniture and fixtures (Other assets)	4-10

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount being the higher of the net selling price and value in use.

Gains and losses on disposal of property and equipment are determined by comparing sales proceeds to the carrying value of the asset diposal and are taken into account in determining operating income.

Assets under construction is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, assets under construction is transferred to the appropriate category of property and equipment and depreciated in accordance with the Bank's accounting policies.

(f) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(h) Borrowings

Borrowings include due to other banks, due to customers and due to Head Office and other branches. Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2 Significant accounting policies (continued)

(i) Provision for staff benefits

The end of service benefits for international staff are provided in accordance with Barclays group policy, which is in line with the requirements of IAS 19, and are in lieu of the end of service benefits payable under UAE Labour Law. The liability for these benefits is settled through the Head Office current account and recorded as a charge in the income statement.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with Federal Law No. (7), 1999 for Pension and Social Security.

Provision is also made, using actuarial techniques for the end of service benefits due to the non-UAE national employees in accordance with the UAE Labour Law for their periods of service up to the balance sheet date.

A provision is made for the estimated liability for airfares as a result of services rendered by employees up to the balance sheet date.

Share-based compensation

The Head Office employee trusts operate a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the share awards and the options granted is recognised in the Bank as an expense, with the corresponding reserves being recognised in Head Office. Payment to employees are offset from these reserves.

(j) Due from banks, Head Office and other branches

Amounts due from banks and due from Head Office and other branches are stated at amortised cost, less any amounts written off and provision for impairment, if any.

(k) Provisions

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

2 Significant accounting policies (continued)

(l) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured in Arab Emirates Dirham ("AED") being the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are prepared in AED, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into AED at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates ruling at the balance sheet date. Any resultant gains or losses are accounted for in the income statement.

(m) Interest 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.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank 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.

2 Significant accounting policies (continued)

(m) Interest income and expense (continued)

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 2(d).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

2 Significant accounting policies (continued)

(m) Interest income and expense (continued)

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

(n) Fee and commission income

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 Bank'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 Bank 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.

(o) Operating lease

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(p) Taxation

Provision for taxation is made in respect of the Bank's operations in the Emirates of Abu Dhabi and Dubai whereby tax is payable at the rate of 20% of the adjusted net profit generated during the year in each of the Emirates, in accordance with the relevant legislation of the Emirate.

Income tax is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credit to other comprehensive income or to equity (for example, current tax on available-for-sale investment).

2 Significant accounting policies (continued)

(p) Taxation (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of financial instruments designated at FVOCI, provisions for impairments on loans and advances and suspended interests on fully provided loan balances and amortisation of certain disallowed capital expenditures in the prior year.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

Deferred tax related to fair value re-measurement of financial instruments designated at FVOCI, which is recognised in other comprehensive income, is also recognised in the other comprehensive income.

(q) Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise cash in hand, balances in current and call accounts and placements with the UAE Central Bank and with other financial institutions with original maturity of less than or equal to three months, excluding statutory deposits required to be maintained with the UAE Central Bank.

(r) New standards and interpretations not yet adopted

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

IFRS 16

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 Bank is required to adopt IFRS 16 from 1st January 2019. Further, management has assessed the potential impact of this standard and believe that it will not have any material impact on its financial statements.

2 Significant accounting policies (continued)

(s) Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

(i) Impairment charge on financial assets

Impairment losses are evaluated as described in accounting policy 2 (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 Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Restructuring provision

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

The provision recognized is the best reliable estimate of expenditures required to settle the obligations as at the end of the reporting period.

3 Financial risk management

3.1 Risk management review

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The main sources of financial risk that the Bank faces arise from financial instruments, which are fundamental to the Bank's business, and constitute the core of its operations. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Bank's balance sheet. Consequently, the Bank devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business.

Managing financial risks, especially credit risk is a fundamental part of the Bank's business activity and an essential component of the planning process. The Bank achieves its risk management goals by keeping risk management at the centre of the executive agenda and by building a culture that measures risk management with everyday business decision making.

The Bank ensures that it has the capacity to manage the risk in its established businesses as well as new and growing ones, and that its business plans are consistent with the risk appetite, that is, the level of risk that the Bank is willing to accept in fulfilling its business objectives.

The Bank's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. These policies provide written principles for overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and price risk.

3.2 Credit risk

Credit risk is defined as the risk that the Bank's customers, clients or counterparties or other financial instruments fail to perform, are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Bank to suffer a financial loss.

Credit risk also arises through the downgrading of counterparties, whose credit instruments are held by the Bank, thereby resulting in the value of the assets to fall. As credit risk is the Bank's most important risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio,

3 Financial risk management (continued)

3.2 Credit risk (continued)

could result in losses that are different from those provided for at the balance sheet date. Management, therefore, carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances and other receivables. There is also credit risk in off-balance sheet financial arrangements such as credit commitments.

3.2.1 Credit risk management

The granting of credit is one of the Bank's major sources of income and is therefore one of its most significant risks, and the Bank dedicates considerable resources to control it effectively.

The Credit Risk function provides direction on credit risk-taking. These functional teams manage the resolution of all significant credit policy issues, approve credit decisions which fall within its delegated authority, engages with Head Office where appropriate and maintains governance and oversight on all credit risk related matters.

Each business segment has an embedded credit risk management team that assists in the formulation of the risk policy and its implementation across the respective businesses. Examples include ensuring that:

- Maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty;
- Policies are in place that limit lending to certain industrial sectors.

Those corporate accounts which are deemed to contain heightened levels of risk are recorded on graded problem loan lists known as "early warning lists". These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is very carefully monitored and, where possible, exposure reductions are effected.

These lists are graded in line with the perceived severity of the risk attached to the lending. Businesses with exposure to corporate customers having increasing concern relate to one of the three categories (EWL1, EWL2 and EWL3). By the time an account becomes impaired it will normally, but not necessarily, have passed through all three categories, which reflect the need for ever-increasing caution and control.

Where an obligor's financial health gives grounds for concern, it is immediately placed into the appropriate category. All obligors are subject to a full review of all facilities on, at least, an annual basis. Interim reviews and quarterly reviews may be undertaken if circumstances dictate.

Within the retail portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. Consistent with the Head Office's policy, an impairment allowance is raised as soon as an objective evidence of impairment is identified as a result of one or more loss events that have occurred after initial recognition.

Where models are used, they are based upon customer's personal and financial performance and industry norms over recent periods as a predictor for future performance. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk management (continued)

The Bank has implemented an internal rating framework known as Default Grade (DG). DG is a standard internal rating framework used across Barclays Group and is compliant with Basel-II AIRB requirements. In accordance with the framework customers are graded across 21 rating grades with each grade having a specified probability of default (PD) which can be mapped to equivalent of Moody's & S&P rating grade (for classified and write-offs it has additional grades beyond 21). Given that the rating methodology is an advanced methodology and grades are driven from a sophisticated model, there is no static mapping between internal grades to that of Moody's and S&P. However, as a proxy, the following table identifies the mapping of internal DGs with that of Moody's and S&P:

Default Grade	*Wholesale lending Probability of default*	*Credit Quality Description*
1-3	*0.0-0.05%*	
4-5	*0.05-0.15%*	*Strong*
6-8	*0.15-0.30%*	
9-11	*0.30-0.60%*	
12-14	*0.60-2.15%*	*Satisfactory*
15-19	*2.15-11.35%*	
20-21	*11.35%+*	*Higher Risk*

The Bank uses the external ratings where available to benchmark their internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Risk limit control and mitigation policies

The Bank uses a wide variety of techniques to reduce credit risk on its lending. The most fundamental of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. It is the Bank's policy to establish that loans are within the customer's capacity to repay, rather than to rely excessively on security and as a result, depending on the customer's standing and the type of product, facilities may be unsecured.

The Bank manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries and countries.

The credit risk is primarily managed by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

(a) Collateral

When collateral is deemed appropriate, businesses are required to take specific, agreed classes of collateral and ensure that they are holding a correctly perfected charge. The principal collateral types are as follows:

- Personal sector - mortgages over residential properties;
- Commercial and industrial sector - charges over business assets such as premises, inventory and recoverables;
- Commercial real estate sector - charges over the properties being financed.

Valuation of the collateral taken will be within agreed parameters and will be conservative in value. Within the corporate sectors, collateral for impaired loans including guarantees and insurance is reviewed regularly and at least annually, to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation. Where the collateral has decreased in value, an additional impairment allowance may be considered. Conversely, increases in collateral may result in a release of the impairment allowance.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Risk limit control and mitigation policies (continued)

(b) Derivatives

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank. In the case of forward exchange contracts the Bank is exposed to the notional amount should the counterparty fail to honor the contract. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements and entering into forward contracts with other banks, in the form of back to back contracts, commitment to purchase and sell a contract, resulting in limited credit exposure to the Bank.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Amounts arising from Expected Credit Loss

Movement in gross exposure and expected credit loss

The following table presents a reconciliation of the opening to the closing balance of the exposure and expected credit loss.

	STAGE 1		STAGE 2		STAGE 3		Total	
	Exposure	**Loss allowance**	**Exposure**	**Loss allowance**	**Exposure**	**Loss allowance**	**Exposure**	**Loss allowance**
Balance as at 1 January 2018	4,558,725	(3,177)	251,963	(19,704)	198,517	(198,468)	5,009,205	(221,349)
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	(92,720)	16,310	92,720	(16,310)	-	-
New financial assets originated or purchased	2,051,567	(3,767)	40,536	(1,767)	-	-	2,092,103	(5,534)
Net drawdowns/repayments/ risk parameter changes and other movements	(1,094,647)	3,177	(159,243)	3,394	(52,321)	(13,593)	(1,306,211)	(7,022)
Asset derecognised due to write-offs	-	-	-	-	(24,500)	24,500	(24,500)	24,500
Loss allowance as at 31 December 2018	5,515,645	(3,767)	40,536	(1,767)	214,416	(203,871)	5,770,597	(209,405)
Reconciliation of ECL movement to impairment (charge)/release for the period								
ECL movement excluding assets derecognised due to disposals and write-off	-	(590)	-	17,937	-	(29,903)	-	(12,556)
Income statement (charge) / release for the year	-	(590)	-	17,937	-	(29,903)	-	(12,556)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements

The following table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017 without taking into account any collateral held or other credit enhancements attached. For on and off balance sheet assets, the exposures set out below are based on gross amounts as reported in the balance sheet.

	Maximum exposure	
	2018	**2017**
	AED'000	AED'000
On balance sheet:		
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,315,076	3,093,843
Due from other banks	1,620,784	979,853
Due from Head Office and other branches	147,883	85,732
Loans and advances:		
Loans to individual customers	6,077	8,271
Loans to corporate customers	680,777	841,506
Other assets	1,301	1,182
Off balance sheet:		
Letters of credit	993,903	500,043
Guarantees and acceptances	1,643,272	2,584,566
Undrawn credit commitments	2,929,639	2,554,304
At 31 December	11,338,712	10,649,300

Management does not consider exposure on due from Head Office and other branches will result in any potential loss.

Management is confident in its ability to continue to control and minimise the loss arising from its exposure to credit risk resulting from its loans and advances portfolio and amounts due from banks based on the following:

- 80% (2017: 61%) of the loans and advances to corporate customers is categorised in the top grades of the Bank's internal grading system.

- Mortgage loans which represent 100% (2017: 100%) of the retail loans are backed by collateral.

- The Bank continuously reviews its credit policy and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Loans and advances

(a) Loans and advances and amounts due from banks, Head office and other branches as at 31 December 2017 in line with IAS 39:

	2017	
	Loans and advances to customers AED'000	**Amounts due from banks, Head Office and other branches** AED'000
Neither past due nor impaired	558,106	1,065,585
Past due but not impaired	34	-
Impaired	291,637	-
Gross	849,777	1,065,585
Less: allowance for impairment	(207,490)	-
Net	642,287	1,065,585

The total impairment provision for loans and advances was AED 207.49 million in 2017 of which AED 204.74 million represents the individually impaired loans and advances and the remaining amount of AED 2.75 million represents the portfolio provision.

(b) Impairment charge on loans and advances net of write back as at 31 December 2017 in line with IAS 39:

	Corporate loans AED'000	**Retail loans** AED'000	**Total** AED'000
31 December 2017			
Charge of provision for impairment	54,719	141	54,860
Bad debts written off directly	-	29	29
Write back during the year (recovery)	(1,167)	(1,491)	(2,658)
	53,552	(1,321)	52,231

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Financial instruments at amortised cost by product

The table below presents a breakdown of financial instruments at amortised cost and the impairment allowance with stage allocation by asset classification.

	As at 31 December 2018				As at 31 December 2017
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000	Total AED'000
Gross exposure					
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,315,076	-	-	3,315,076	3,093,843
Due from other banks	1,620,784	-	-	1,620,784	979,853
Due from Head Office and other branches	147,883	-	-	147,883	85,732
Mortgages & Overdrafts	-	-	6,077	6,077	8,271
Corporate loans	431,902	40,536	208,339	680,777	841,506
Total	5,515,645	40,536	214,416	5,770,597	5,009,205
Expected Credit Loss					
Cash and balances with the UAE Central Bank (excluding cash in hand)	(16)	-	-	(16)	-
Due from other banks	(2,350)	-	-	(2,350)	(114)
Due from Head Office and other branches	(7)	-	-	(7)	-
Mortgages & Overdrafts	-	-	(6,077)	(6,077)	(8,237)
Corporate loans	(1,394)	(1,767)	(197,794)	(200,955)	(212,998)
Total	(3,767)	(1,767)	(203,871)	(209,405)	(221,349)
Net exposure					
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,315,060	-	-	3,315,060	3,093,843
Due from other banks	1,618,434	-	-	1,618,434	979,739
Due from Head Office and other branches	147,876	-	-	147,876	85,732
Mortgages & Overdrafts	-	-	-	-	34
Corporate loans	430,508	38,769	10,545	479,822	628,508
Total	5,511,878	38,769	10,545	5,561,192	4,787,856
Coverage ratio					
Cash and balances with the UAE Central Bank (excluding cash in hand)	0.00%	-	-	0.00%	0.00%
Due from other banks	0.14%	-	-	0.14%	0.01%
Due from Head Office and other branches	0.00%	-	-	0.00%	-
Mortgages & Overdrafts	-	-	100.00%	-	99.59%
Corporate loans	0.32%	4.36%	94.94%	29.52%	25.31%

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure

31 December 2018	**Financial institutions**	**Construction & real estate**	**Wholesale and retail trade**	**Other industries**	**Individuals**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
On balance sheet items						
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,315,076	-	-	-	-	3,315,076
Due from other banks	1,620,784	-	-	-	-	1,620,784
Due from Head Office and other branches	147,883	-	-	-	-	147,883
Loans and advances to customers:						
Loans to individuals:						
− Overdrafts	-	-	-	-	-	-
− Mortgages	-	-	-	-	6,077	6,077
Loans to corporate entities	-	33,021	461,158	186,598	-	680,777
Other assets	-	-	-	1,301	-	1,301
Total	5,083,743	33,021	461,158	187,899	6,077	5,771,898
Off balance sheet items						
Letters of credit	945,499	-	8,880	39,524	-	993,903
Guarantees and acceptances	619,231	-	335,224	688,817	-	1,643,272
Undrawn credit commitments	1,128,502	-	1,042,985	758,152	-	2,929,639
Total	2,693,232	-	1,387,089	1,486,493	-	5,566,814

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

31 December 2017	Financial institutions	Construction & real estate	Wholesale and retail trade	Other industries	Individuals	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
On balance sheet items						
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,093,843	-	-	-	-	3,093,843
Due from other banks	979,853	-	-	-	-	979,853
Due from Head Office and other branches	85,732	-	-	-	-	85,732
Loans and advances to customers:						
Loans to individuals:						
− Overdrafts	-	-	-	-	34	34
− Mortgages	-	-	-	-	8,237	8,237
Loans to corporate entities	-	33,021	631,383	177,102	-	841,506
Other assets	-	-	-	1,182	-	1,182
Total	4,159,428	33,021	631,383	178,284	8,271	5,010,387
Off balance sheet items						
Letters of credit	466,478	-	8,392	25,173	-	500,043
Guarantees and acceptances	1,497,739	-	399,305	687,522	-	2,584,566
Undrawn credit commitments	626,588	20	1,219,167	708,529	-	2,554,304
Total	2,590,805	20	1,626,864	1,421,224	-	5,638,913

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical regions as of 31 December 2018 and 31 December 2017.

For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties:

31 December 2018	**UAE** AED'000	**OECD** AED'000	**Asia** AED'000	**Others** AED'000	**Total** AED'000
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,315,076	-	-	-	3,315,076
Due from other banks	230,487	3,204	1,370,592	16,501	1,620,784
Due from Head Office and other branches	27,691	120,182	10	-	147,883
Loans and advances					
- Corporate loans	620,592	-	60,185	-	680,777
- Retail loans	6,077	-	-	-	6,077
Other assets	1,301	-	-	-	1,301
Total	4,201,224	123,386	1,430,787	16,501	5,771,898

31 December 2017	**UAE** AED'000	**OECD** AED'000	**Asia** AED'000	**Others** AED'000	**Total** AED'000
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,093,843	-	-	-	3,093,843
Due from other banks	13,189	371	931,614	34,679	979,853
Due from Head Office and other branches	43,076	42,628	28	-	85,732
Loans and advances					
- Corporate loans	841,506	-	-	-	841,506
- Retail loans	8,271	-	-	-	8,271
Other assets	1,182	-	-	-	1,182
Total	4,001,067	42,999	931,642	34,679	5,010,387

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Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

Concentration of credit risk by industry

The following table breaks down the Bank's credit exposures on loans and advances, due from banks, Head Office and other branches, cash and balances with UAE Central Bank and off balance sheet items categorised by industry as at 31 December 2018 and 31 December 2017.

	On balance sheet items					
	Loans and advances AED'000	**Amounts due from banks, Head Office and other branches** AED'000	**Cash and balances with the UAE Central Bank (excluding cash in hand)**	**Total funded** AED'000	**Off balance sheet Items** AED'000	**Total** AED'000
31 December 2018						
Crude oil , gas, mining & quarrying	-	-		-	442,210	442,210
Manufacturing	10	-		10	335,757	335,767
Construction	33,021	-		33,021	-	33,021
Trade	469,364	-		469,364	1,438,770	1,908,134
Transport, storage & communication	-	-		-	188,955	188,955
Financial institutions	-	1,768,667	3,315,076	5,083,743	2,693,232	7,776,975
Services	178,382	-		178,382	467,890	646,272
Retail and consumer banking	6,077	-		6,077	-	6,077
Total exposures	686,854	1,768,667	3,315,076	5,770,597	5,566,814	11,337,411

Barclays Bank PLC - UAE Branches

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

Concentration of credit risk by industry (continued)

	On balance sheet items					
	Loans and advances AED'000	**Amounts due from banks, Head Office and other branches** AED'000	**Cash and balances with the UAE Central Bank (excluding cash in hand)**	**Total funded** AED'000	**Off balance sheet Items** AED'000	**Total** AED'000
31 December 2017						
Crude oil , gas, mining & quarrying	-	-	-	-	662,362	662,362
Manufacturing	7	-	-	7	164,913	164,920
Construction	33,021	-	-	33,021	20	33,041
Trade	631,383	-	-	631,383	1,643,094	2,274,477
Transport, storage & communication	3	-	-	3	235,658	235,661
Financial institutions	-	1,065,585	3,093,843	4,159,428	2,590,805	6,750,233
Services	177,092	-	-	177,092	342,061	519,153
Retail and consumer banking	8,271	-	-	8,271	-	8,271
Total exposures	849,777	1,065,585	3,093,843	5,009,205	5,638,913	10,648,118

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

Concentration of credit risk by maturity

	On balance sheet items				
	Loans and advances AED'000	Amounts due from banks, Head Office and other branches AED'000	Cash and balances with the UAE Central Bank (excluding cash in hand)	Total funded AED'000	Total unfunded AED'000
31 December 2018					
Less than 3 months	337,533	956,881	2,460,046	3,754,460	1,090,691
3 months to 1 year	349,321	811,786	855,030	2,016,137	3,609,622
One to five years	-	-	-	-	814,661
Over five years	-	-	-	-	51,840
Total exposures	686,854	1,768,667	3,315,076	5,770,597	5,566,814

	On balance sheet items				
	Loans and advances AED'000	Amounts due from banks, Head Office and other branches AED'000	Cash and balances with the UAE Central Bank (excluding cash in hand)	Total funded AED'000	Total unfunded AED'000
31 December 2017					
Less than 3 months	504,148	304,301	3,093,843	3,902,292	942,803
3 months to 1 year	228,902	761,284	-	990,186	3,133,553
One to five years	116,727	-	-	116,727	1,460,448
Over five years	-	-	-	-	102,109
Total exposures	849,777	1,065,585	3,093,843	5,009,205	5,638,913

3 Financial risk management (continued)

3.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

The Assets Liability Forum (ALFO) is responsible to formalise the Bank's key financial indicators and ratios, set the thresholds to manage and monitor the market risk and also analyse the sensitivity of the Bank's interest rate and maturity mismatches. ALFO also guides the Bank's investment decisions and provides guidance in terms of interest rate and currency movements.

3.3.1 Market risk measurement techniques

The stress test technique provides an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank treasury include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions − for example, the stress outcome to a region following a currency peg break. The results of the stress tests are reviewed by senior management.

3.4 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Head Office sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's financial instruments at carrying amounts, categorised by currency.

3 Financial risk management (continued)

3.4 Foreign exchange risk (continued)

3.4.1 Foreign exchange risk

	AED	**USD**	**EUR**	**GBP**	**Other**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2018						
Assets						
Cash and balances with the UAE Central Bank	3,289,583	48,587	-	-	-	3,338,170
Due from other banks	5,692	1,586,285	-	-	28,807	1,620,784
Due from Head Office and other branches	27,691	53,940	36,360	13,384	16,508	147,883
Loans and advances	346,762	334,390	5,702	-	-	686,854
Other assets	2,097	-	-	-	-	2,097
Total financial assets	3,671,825	2,023,202	42,062	13,384	45,315	5,795,788
Liabilities						
Due to other banks	531	-	-	-	-	531
Due to customers	318,155	1,950,193	41,294	13,004	16,646	2,339,292
Due to Head Office and other branches	387,910	-	-	-	12,053	399,963
Other Liabilities	80,376	28,269	639	333	-	109,617
Total financial liabilities	786,972	1,978,462	41,933	13,337	28,699	2,849,403
Net on-balance sheet financial position	2,884,853	44,740	129	47	16,616	2,946,385

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Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Financial risk management (continued)

3.4 Foreign exchange risk (continued)

3.4.1 Foreign exchange risk (continued)

	AED AED'000	USD AED'000	EUR AED'000	GBP AED'000	Other AED'000	Total AED'000
31 December 2017						
Assets						
Cash and balances with the UAE Central Bank	3,083,345	57,313	-	-	-	3,140,658
Due from other banks	-	927,761	-	-	52,092	979,853
Due from Head Office and other branches	24,781	14,155	36,675	10,121	-	85,732
Loans and advances	513,469	330,849	5,459	-	-	849,777
Other assets	4,410	-	-	-	-	4,410
Total financial assets	3,626,005	1,330,078	42,134	10,121	52,092	5,060,430
Liabilities						
Due to other banks	1,840	-	-	-	-	1,840
Due to customers	271,117	732,444	38,881	58,555	40,906	1,141,903
Due to Head Office and other branches	281,315	551,041	-	-	11,076	843,432
Other Liabilities	118,134	29,624	2,832	2,874	-	153,464
Total financial liabilities	672,406	1,313,109	41,713	61,429	51,982	2,140,639
Net on-balance sheet financial position	2,953,599	16,969	421	(51,308)	110	2,919,791

The Bank has limited exposure to foreign exchange risk as most of the foreign currency financial instruments are either in US Dollar or in currencies pegged to US Dollars. Liabilities received in other currencies, mainly EUR and GBP, are placed with Barclays Group or swapped into AED via foreign exchange swaps to remain compliant with the Central Bank regulation on managing large exposures.

3 Financial risk management (continued)

3.4 Foreign exchange risk (continued)

3.4.2 Sensitivity of currency risk

31 December 2018	EUR AED'000	GBP AED'000	Others AED'000	Total AED'000
Total assets	42,062	13,384	16,596	72,042
Total liabilities	(41,933)	(13,337)	(16,485)	(71,755)
Net assets	129	47	111	287
FX Forward Purchases / (Sales)	44	-	1	45
5% sensitivity	8.65	2.35	5.60	16.60

31 December 2017	EUR AED'000	GBP AED'000	Others AED'000	Total AED'000
Total assets	42,134	10,121	35,077	87,332
Total liabilities	(41,713)	(61,429)	(34,944)	(138,086)
Net assets	421	(51,308)	133	(50,754)
FX Forward Purchases / (Sales)	62	49,662	4	49,728
5% sensitivity	24.15	(82.30)	6.85	(51.30)

All the currencies pegged with US Dollar are excluded from the above analysis.

3 Financial risk management (continued)

3.5 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The ALFO sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by Treasury.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re pricing or maturity dates.

31 December 2018	Up to 1 month AED'000	1-3 months AED'000	3-6 months AED'000	6-12 months AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Assets							
Cash and Balances with the UAE Central Bank	1,550,000	250,000	550,000	300,000	-	688,170	3,338,170
Due from other banks	109,465	714,690	683,319	113,310	-	-	1,620,784
Due from Head Office and other branches	123,037	9,689	15,157	-	-	-	147,883
Loans and advances	314,556	144,285	196,425	31,588	-	-	686,854
Other assets	-	-	-	-	-	1,301	1,301
Total financial assets	2,097,058	1,118,664	1,444,901	444,898	-	689,471	5,794,992
Liabilities							
Due to other banks	-	-	-	-	-	531	531
Due to customers	902,064	377,543	-	516,175	-	543,510	2,339,292
Due to Head Office and other branches	-	-	-	-	-	399,963	399,963
Other liabilities	-	-	-	-	-	104,536	104,536
Total financial liabilities	902,064	377,543	-	516,175	-	1,048,540	2,844,322
Interest sensitivity gap	1,194,994	741,121	1,444,901	(71,277)	-	(359,069)	2,950,670

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Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Financial risk management (continued)

3.5 Interest rate risk (continued)

31 December 2017	Up to 1 month AED'000	1-3 months AED'000	3-6 months AED'000	6-12 months AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Assets							
Cash and Balances with the UAE Central Bank	2,450,000	400,000	-	-	-	290,658	3,140,658
Due from other banks	84,813	153,525	469,067	272,448	-	-	979,853
Due from Head Office and other branches	47,945	18,018	17,140	2,629	-	-	85,732
Loans and advances	310,339	360,416	179,022	-	-	-	849,777
Other assets	-	-	-	-	-	1,182	1,182
Total financial assets	2,893,097	931,959	665,229	275,077	-	291,840	5,057,202
Liabilities							
Due to other banks	-	-	-	-	-	1,840	1,840
Due to customers	240,174	136,700	34,390	69,363	49,535	611,741	1,141,903
Due to Head Office and other branches	550,950	-	-	-	-	292,482	843,432
Other liabilities	-	-	-	-	-	142,511	142,511
Total financial liabilities	791,124	136,700	34,390	69,363	49,535	1,048,574	2,129,686
Interest sensitivity gap	2,101,973	795,259	630,839	205,714	(49,535)	(756,734)	2,927,516

3 Financial risk management (continued)

3.5 Interest rate risk (continued)

The table below summarises the average interest rate on the outstanding interest bearing balances by major currencies for monetary financial instruments:

	AED	USD	EUR	GBP
	%	%	%	%
31 December 2018				
Assets				
Deposits with Central Bank	2.03	-	-	-
Bills discounted	-	3.34	-	-
Due from Head Office and other branches	-	2.40	-	-
Loans and advances	5.52	3.73	0.44	-
Liabilities				
Due to Head Office and other branches	-	-	-	-
Due to customers	0.23	2.63	-	-
31 December 2017				
Assets				
Deposits with Central Bank	1.11	-	-	-
Bills discounted	-	2.27	-	-
Due from Head Office and other branches	-	-	-	-
Loans and advances	4.88	2.92	1.10	1.34
Liabilities				
Due to Head Office and other branches	-	1.48	-	-
Due to customers	0.40	1.05	-	-

3 Financial risk management (continued)

3.5 Interest rate risk (continued)

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Bank assumes a fluctuation in interest rates of 25 basis points (bps) as being reasonable and estimates the following impact on the interest income and interest expense for the year:

	Interest income	**Interest expense**
	AED'000	AED'000
31 December 2018		
Fluctuation in yield by 25 bps	2,667	2,764
31 December 2017		
Fluctuation in yield by 25 bps	1,746	2,347

The above sensitivity analysis does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.6 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the Bank's internal guidelines mandated by ALFO. The Central Bank of the U.A.E. has reserve requirements on deposits ranging between 1% and 14% on demand and time deposits. The Central Bank of the U.A.E. also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. ALFO monitors liquidity ratios on a regular basis and for covering the risk of any mismatch in liquidity, Head Office funding is available for the UAE Branches.

3 Financial risk management (continued)

3.6 Liquidity risk (continued)

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Liquidity risk	**Total carrying amount**	**Gross nominal outflows**	**Up to 3 Months**	**3 - 12 months**	**1 - 5 years**
Liabilities	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
31 December 2018					
Due to other banks	531	531	531	-	-
Due to customers	2,339,292	2,352,860	1,825,173	527,687	-
Due to Head Office and other branches	399,963	399,963	399,963	-	-
Other liabilities	109,617	109,617	109,617	-	-
	2,849,403	2,862,971	2,335,284	527,687	-
31 December 2017					
Due to other banks	1,840	1,840	1,840	-	-
Due to customers	1,141,903	1,143,307	989,684	104,066	49,557
Due to Head Office and other branches	843,432	843,545	843,545	-	-
Other liabilities	153,464	153,464	153,464	-	-
	2,140,639	2,142,156	1,988,533	104,066	49,557

The Bank's derivatives that will be settled on a gross basis include foreign exchange contracts.

The table below analyses the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
31 December 2018 Foreign exchange contracts						
− Outflow	16,293	-	-	-	-	16,293
− Inflow	16,293	-	-	-	-	16,293
31 December 2017 Foreign exchange contracts						
− Outflow	112,682	-	-	-	-	112,682
− Inflow	113,178	-	-	-	-	113,178

3 Financial risk management (continued)

3.6 Liquidity risk (continued)

Off-balance sheet items	**No later than 1 year** AED'000	**1-5 years** AED'000	**Total** AED'000
31 December 2018			
Letter of credit, guarantees and acceptances	1,770,674	866,501	2,637,175
Undrawn credit commitments	2,929,639	-	2,929,639
Total	4,700,313	866,501	5,566,814
31 December 2017			
Letter of credit, guarantees and acceptances	1,522,051	1,562,558	3,084,609
Undrawn credit commitments	2,554,304	-	2,554,304
Total	4,076,355	1,562,558	5,638,913

3.7 Fair value of financial assets and liabilities

(a) Definition

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 Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The Bank has determined that the fair value of its current financial assets and liabilities not measured at fair value approximates its carrying amount as at the year end.

Fair value hierarchy

When measuring the fair value of an asset or liability the Bank uses observable market data whenever available. Fair values are classified within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Dubai Financial Market, Nasdaq Dubai, Abu Dhabi Securities Exchange) and exchanges traded derivatives like futures (for example: Nasdaq, S&P 500).

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

3 Financial risk management (continued)

3.7 Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

• Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

(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.

At 31 December 2018	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets				
Cash and balances with the UAE Central Bank	-	3,338,154	-	3,338,154
Due from other banks	-	28,807	1,589,627	1,618,434
Due from Head Office and other branches	-	120,192	27,684	147,876
Loans and advances	-	-	479,822	479,822
Other assets	-	1,301	-	1,301
Total	-	3,488,454	2,097,133	5,585,587
Financial liabilities				
Due to other banks	-	531	-	531
Due to customers	-	-	2,339,292	2,339,292
Due to Head Office and other branches	-	399,963	-	399,963
Other liabilities	-	104,536	-	104,536
Total	-	505,030	2,339,292	2,844,322

3 Financial risk management (continued)

3.7 Fair value of financial assets and liabilities (continued)

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

At 31 December 2017	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial assets				
Cash and balances with the UAE Central Bank	-	3,140,658	-	3,140,658
Due from other banks	-	52,092	927,761	979,853
Due from Head Office and other branches	-	42,656	43,076	85,732
Loans and advances	-	-	642,287	642,287
Other assets	-	1,182	-	1,182
Total	-	3,236,588	1,613,124	4,849,712
Financial liabilities				
Due to other banks	-	1,840	-	1,840
Due to customers	-	-	1,141,903	1,141,903
Due to Head Office and other branches	-	843,432	-	843,432
Other liabilities	-	142,511	-	142,511
Total	-	987,783	1,141,903	2,129,686

(c) Financial instruments measured at fair value

There were no material financial assets measured at fair value as at 31 December 2018.

The assets measured at fair value as per the hierarchy as at 31 December 2017 are disclosed in the table below:

	Level 1 AED’000	**Level 2** AED’000	**Level 3** AED’000	**Total** AED’000
31 December 2017				
Financial assets				
Foreign currency forwards	-	502	-	502
Financial liabilities:				
Foreign currency forwards	-	7	-	7

3 Financial risk management (continued)

3.8 Capital management

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 summarizes the composition of regulatory capital and the ratios of the Group as per BASEL III guidelines and has complied with all of the externally imposed capital requirements which it is subject to:

	2018	2017
	AED'000	AED'000
Tier 1 capital		
Allocated capital	2,540,214	2,540,214
Legal reserve	130,521	125,001
Accumulated profit	63,184	24,417
Eligible Tier 1 capital	2,733,919	2,689,632
Deductions:		
Deferred tax assets	(2,893)	(782)
Total deductions	(2,893)	(782)
Tier 1 capital	2,731,026	2,688,850
Tier 2 Capital		
General provision	27,222	29,870
Total regulatory capital	2,758,248	2,718,720
Risk Weighted Assets		
Credit risk	2,177,742	2,389,608
Market risk	331	1,646
Operation risk	274,246	1,018,947
Total risk weighted assets	2,452,319	3,410,201
Tier 1 capital ratio	111.37%	78.85%
Capital adequacy ratio	112.48%	79.72%

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

3 Financial risk management (continued)

3.8 Capital management (continued)

3.8.2 Analysis of branches' exposure based on Basel III standardised approach

	On and Off balance sheet gross outstanding AED'000	Credit Risk Mitigation (CRM) Exposure before CRM AED'000	CRM AED'000	After CCF AED'000	Risk weighted Assets AED'000
31 December 2018					
Claims on sovereigns	3,315,076	3,315,076	-	3,315,076	-
Claims on banks	4,461,898	4,461,898	-	2,651,394	1,120,849
Claims on corporates	3,363,141	3,363,141	36,125	1,116,282	1,032,008
Past due loans	229,862	-	-	-	-
Other assets	47,979	47,979	-	47,979	24,885
Total claims	11,417,956	11,188,094	36,125	7,130,731	2,177,742
Of which:					
Rated exposure	7,940,989				
Unrated exposure	3,476,967				
Total exposure	11,417,956				

3 Financial risk management (continued)

3.8 Capital management (continued)

3.8.2 Analysis of branches exposure based on Basel III standardised approach (continued)

		Credit Risk Mitigation (CRM)			
	On and Off balance sheet gross outstanding AED'000	**Exposure before CRM** AED'000	**CRM** AED'000	**After CCF** AED'000	**Risk weighted Assets** AED'000
31 December 2017					
Claims on sovereigns	3,093,843	3,093,843	-	3,093,843	-
Claims on banks	3,605,986	3,605,986	-	2,074,727	1,052,037
Claims on corporates	3,806,825	3,747,734	44,835	1,355,837	1,311,002
Past due loans	164,474	31	-	31	31
Other assets	73,354	73,354	-	73,354	26,538
Total claims	10,744,482	10,520,948	44,835	6,597,792	2,389,608
Of which:					
Rated exposure	6,690,168				
Unrated exposure	4,054,314				
Total exposure	10,744,482				

3 Financial risk management (continued)

3.8 Capital management (continued)

3.8.3 Capital requirement for market risk under standardised approach as at 31 December

	Risk weighted assets		Capital charge	
	2018	2017	2018	2017
	AED'000	AED'000	AED'000	AED'000
Market risk				
Foreign exchange risk	331	1,646	35	198

Capital charge for year ended 31 December 2018 has been calculated at 11% (2017: 12%).

3.8.4 Gross exposures and credit risk mitigation

	Exposures		Risk weighted assets	
	2018	2017	2018	2017
	AED'000	AED'000	AED'000	AED'000
Gross exposure prior to credit risk mitigation	11,188,094	10,520,948	2,177,742	2,389,608
Less: Exposures covered by eligible financial collateral	(36,125)	(44,835)	-	-
Net exposures after credit risk mitigation	11,151,969	10,476,113	2,177,742	2,389,608

4 Transitional impact analysis

The following tables reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Original classification as per IAS 39	**New classification as per IFRS 9**	**IAS 39 carrying amount** AED'000	**Impact of ECL** AED'000	**IFRS 9 carrying amount** AED'000
Financial assets					
Cash and balances with the UAE Central Bank	Amortised cost	Amortised cost	3,140,658	-	3,140,658
Due from other banks	Amortised cost	Amortised cost	979,853	(114)	979,739
Due from Head Office and other branches	Amortised cost	Amortised cost	85,732	-	85,732
Loans and advances	Loans and receivables	Amortised cost	642,287	(13,745)	628,542
Other assets	Amortised cost	Amortised cost	4,410	-	4,410
Total financial assets			4,852,940	(13,859)	4,839,081
Financial liabilities					
Due to other banks	Amortised cost	Amortised cost	(1,840)	-	(1,840)
Due to customers	Amortised cost	Amortised cost	(1,141,903)	-	(1,141,903)
Due to Head Office and other branches	Amortised cost	Amortised cost	(843,432)	-	(843,432)
Other liabilities	Amortised cost	Amortised cost	(153,464)	264	(153,200)
Total financial liabilities			(2,140,639)	264	(2,140,375)

4 Transitional impact analysis (continued)

The impact from the adoption of IFRS 9 as at 1 January 2018 on the retained earnings is as follows:

	Retained earnings AED'000
Balance as at 31 December 2017 under IAS 39	24,417
Impact on recognition of Expected Credit Losses	
On financial assets and unfunded exposures (net of tax)	(13,595)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	10,822

5 Cash and balances with the UAE Central Bank

	2018 AED'000	2017 AED'000
Cash in hand (note 27)	23,094	46,815
With UAE Central Bank in:		
Current account (note 27)	550,999	150,318
Statutory deposit	84,418	80,383
Certificate of deposits	2,679,659	2,863,142
	3,338,170	3,140,658
Expected credit loss	(16)	-
	3,338,154	3,140,658

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the Bank. Cash in hand, current account and statutory deposit with the UAE Central Bank are non-interest bearing balances.

6 Due from other banks

	2018 AED'000	2017* AED'000
Current accounts (note 27)	28,807	52,092
Bills discounted	1,591,977	927,761
	1,620,784	979,853
Expected credit loss	(2,350)	-
	1,618,434	979,853

* Comparative figures of 2017 for Bills discounted have been reclassified from "Loans and advances – Corporate loans" (note 8), to conform with changes in the current period's presentation. Refer note 30 for details.

7 Due from Head Office and other branches

	2018 AED'000	2017* AED'000
Current accounts (note 27)	68,757	40,927
Term deposits (note 27)	51,422	-
Other receivables	13	1,729
Bills discounted	27,691	43,076
	147,883	85,732
Expected credit loss	(7)	-
	147,876	85,732

* Comparative figures of 2017 for Bills discounted have been reclassified from "Loans and advances – Corporate loans" (note 8), to conform with changes in the current period's presentation. Refer note 30 for details.

8 Loans and advances

8(a) Loans and advances

	2018 AED'000	2017* AED'000
Corporate loans	680,777	841,506
Retail loans	6,077	8,271
Total loans and advances (note 8(b))	686,854	849,777
Expected credit loss	(207,032)	(207,490)
Net loans and advances	479,822	642,287

* Comparative figures of 2017 for "Corporate loans" have been represented to give effect to the reclassification of "Bills discounted" from "Corporate loans" to "Due from other banks" (note 6) and "Due from Head Office and other branches" (note 7) to conform with changes in the current period's presentation. Refer note 30 for details

8(b) Analysis of loans and advances

	2018 AED'000	2017 AED'000
Loan to individual retail customers:		
- Overdrafts	-	34
- Mortgages	6,077	8,237
Loan to corporate entities	680,777	841,506
Total loans and advances	686,854	849,777

9 Other assets

	2018 AED'000	2017 AED'000
Prepayments	796	3,228
Other receivables	1,301	1,182
	2,097	4,410

10 Property and equipment

	Leasehold improvements AED'000	**Other assets** AED'000	**Assets under construction** AED'000	**Total** AED'000
Cost				
At 1 January 2017	1,415	8,834	13,889	24,138
Write off	(1,415)	(6,378)	-	(7,793)
Transfer	-	13,889	(13,889)	-
Additions	1,484	385	-	1,869
At 31 December 2017	**1,484**	**16,730**	**-**	**18,214**
Accumulated depreciation				
At 1 January 2017	(803)	(4,843)	-	(5,646)
Write off	902	5,145	-	6,047
Charge for the year	(110)	(2,493)	-	(2,603)
At 31 December 2017	**(11)**	**(2,191)**	**-**	**(2,202)**
Net book amount				
At 31 December 2017	**1,473**	**14,539**	**-**	**16,012**
Cost				
At 1 January 2018	1,484	16,730	-	18,214
Write off	-	-	-	-
Transfer	-	-	-	-
Additions	-	-	3,377	3,377
At 31 December 2018	**1,484**	**16,730**	**3,377**	**21,591**
Accumulated depreciation				
At 1 January 2018	(11)	(2,191)	-	(2,202)
Charge for the year	(135)	(3,004)	-	(3,139)
At 31 December 2018	**(146)**	**(5,195)**	**-**	**(5,341)**
Net book amount				
At 31 December 2018	**1,338**	**11,535**	**3,377**	**16,250**

11 Deferred income tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20%.

The movement on the deferred income tax account is as follows:

	2018 AED'000	2017 AED'000
At 1 January	782	443
Additions during the year	2,111	742
Utilisation during the year	-	(403)
At 31 December	2,893	782

Deferred income tax assets are attributable to the following items:

	2018 AED'000	2017 AED'000
Provision for corporate loan impairment	489	-
Provision for suspended interest	2,404	782
	2,893	782
Deferred tax assets:		
Deferred tax asset to be recovered	2,893	782

Deferred income tax assets are recognised only to the extent that realisation of the related tax benefit is probable. The bank has not recognised a deferred tax asset on losses relating to the Dubai branch amounting to AED 8.52 million in 2017.

12 Due to other banks

	2018 AED'000	2017 AED'000
Current accounts	531	1,840
	531	1,840

13 Due to customers

	2018 AED'000	2017 AED'000
Current accounts	518,745	598,645
Call deposits	509,184	50,654
Term deposits	1,311,363	492,604
	2,339,292	1,141,903

At 31 December 2018, term deposits amounting to AED 63 million (2017: AED 93 million) were held as cash collateral for loans and advances granted to and commitments made on behalf of customers.

14 Due to Head Office and other branches

	2018 AED'000	2017 AED'000
Term deposits	-	551,041
Current account	338,646	229,136
Call account	23,352	32,695
Others	37,965	30,560
	399,963	843,432

15 Other liabilities

	2018 AED'000	2017 AED'000
Bills payable	61,397	80,561
Deferred income	3,792	7,620
Provision for End of service benefits (note 15(a))	1,289	3,333
Expected credit loss on unfunded exposures	10,612	-
Provision for Off Balance sheet	-	8,808
Restructuring provision (note 24)	784	13,214
Others	31,743	39,928
	109,617	153,464

Others include a provision of AED 14.43 million (2017: AED 28.88 million) representing management's estimate of a claim related to the exit of the retail banking business.

15 Other liabilities (continued)

(a) Provision for end of service benefits

	2018 AED'000	2017 AED'000
Balance brought forward	3,333	9,040
Add: Charge during the year	282	634
Less: Payments during the year	(2,326)	(6,341)
Balance carried forward	1,289	3,333

(b) Provision for employees' end of service benefits

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2018, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Under this method, an assessment has been made of an employees' expected service life with the Bank and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs to be 3.30% in 2018 (2017: 2.17 %). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 2.84% (2017: 2.80 %).

16 Allocated capital

In accordance with the UAE Union Law Number (10) of 1980, as amended, allocated capital represents the amount of an interest free deposit provided by the Head Office.

17 Reserves

(a) Legal reserve

In accordance with Article 82 of the UAE Union Law Number (10) of 1980, as amended, 10% of the profit for the year is required to be transferred to a legal reserve which is non-distributable. Allocations to this reserve are required to be made until such time as the balance in this reserve equals 50% of the allocated capital. This reserve is not available for distribution.

(b) General reserve

The Bank has created a special reserve titled as 'General reserve' in lieu of the general provision required to be created in accordance with the "Circular No 28/2010'' issued by the UAE Central Bank. The Bank assesses the general provision requirement annually at each balance sheet date. Based on this assessment, general reserve of AED 22.20 million was required as at 31 December 2018 (2017: AED 24.88 million) and thus an amount of AED 2.68 million was released from general reserve under statement of movements in Head Office account and reserves during the year ended 31 December 2018 (2017: a release of AED 7.72 million was recorded in general reserve).

17 Reserves (continued)

(b) General reserve (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 ("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
Allowances for impairment losses: General	AED'000
General provisions under Circular 28/2010 of CBUAE	38,350
Less: Stage 1 and Stage 2 provisions under IFRS 9	16,146
General provision transferred to the impairment reserve*	22,204
Allowances for impairment losses: Specific	
Specific provisions under Circular 28/2010 of CBUAE	164,447
Less: Stage 3 provisions under IFRS 9	203,871
Specific provision transferred to the impairment reserve*	-
Total provision transferred to the impairment reserve	**22,204**

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

18 Contingencies and commitments

	2018 AED’000	2017 AED’000
Letters of credit	993,903	500,043
Guarantees and acceptances	1,643,272	2,584,566
Undrawn credit commitments	2,929,639	2,554,304
	5,566,814	5,638,913

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as loans and advances. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer’s authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

19 Forward foreign exchange contracts

Forward foreign exchange contracts (FECs) comprise commitments to purchase and sell foreign and domestic currencies on behalf of customers and in respect of the Bank's proprietary activities and undelivered spot transactions. The Bank has entered into the following forward exchange transactions which have been marked to market:

	Contractual/ notional amount AED'000	**Assets** AED'000	**Liabilities** AED'000
31 December 2018	16,293	-	-
31 December 2017	112,682	502	7

20 Interest income

	2018 AED'000	2017 AED'000
Loans and advances	38,341	29,666
Bills discounted	51,695	23,054
Certificate of deposits	47,598	26,705
Deposits with Head Office (note 28)	449	101
	138,083	79,526

21 Interest expense

	2018 AED'000	2017 AED'000
Deposits from Head Office (note 28)	8,885	2,254
Due to customers	15,832	5,517
Due to other banks	-	46
	24,717	7,817

22 Fee and commission income

	2018 AED'000	2017 AED'000
Documentary credits and guarantees	14,118	18,170
Loan fees	3,282	2,912
Other commission	13,992	14,325
	31,392	35,407

23 Operating expenses

	2018 AED'000	2017 AED'000
Staff costs (note 23 (a))	4,858	11,513
Travelling	494	841
Rent	1,608	3,406
Postage and communication	3,796	3,547
Marketing and advertising	283	258
Depreciation (note 10)	3,139	2,603
Expenses incurred by related parties on behalf of Branches (note 28)	62,312	74,507
Expenses incurred by Branches on behalf of related parties (note 28)	(3,866)	(34,265)
Salaries paid to outsourced staff	3,444	2,749
Other	5,438	35,955
	81,506	101,114

23(a) Staff costs

	2018 AED'000	2017 AED'000
Salaries and allowances	2,882	2,633
Other staff costs	1,976	8,880
	4,858	11,513

24 Restructuring costs

The movement of restructuring provision is summarised below :

	2018 AED'000	2017 AED'000
Balance brought forward	13,214	30,885
Release during the year	(6,653)	-
Utilization during the year	(5,777)	(17,671)
Balance carried forward	784	13,214

24 Restructuring costs (continued)

(a) During 2013, the Bank recognised certain restructuring expenses arising as a result of the decision to exit the retail banking business.These provisions were recognized in accordance with the requirments of IAS 37 and the remaining provisions have been fully released in 2018. The provision for the year ended 31 December 2018 is NIL (2017: AED 0.15 million).

	2018 AED'000	2017 AED'000
Balance brought forward	150	2,110
Release during the year	(150)	-
Utilization during the year	-	(1,960)
Balance carried forward	-	150

(b) During 2016, the Bank recognised certain restructuring expenses arising as a result of the decision to change the operating model of the UAE branches. These provisions were recognized in accordance with the requirments of IAS 37 and are expected to be fully utilized by 2019. The provision for the year ended 31 December 2018 amounted to AED 0.78 million (2017: AED 13.06 million).

The movement of such restructuring provision is summarised below :

	2018 AED'000	2017 AED'000
Balance brought forward	13,064	28,775
Release during the year	(6,503)	-
Utilization during the year	(5,777)	(15,711)
Balance carried forward	784	13,064

25 Income tax

	2018 AED'000	2017 AED'000
Current taxes on income during the reporting period	9,018	-
Adjustment in respect of prior year	-	(443)
Total current tax	9,018	(443)
Deferred tax	(2,111)	(339)
Income tax expense / (credit)	6,907	(782)

The income tax rate applicable to the Bank's 2018 income is 20% (2017: 20%). The income tax returns are separately filed for Dubai and Abu Dhabi branches as required by the respective tax laws.

25 Income tax (continued)

Further information about deferred income tax is presented in note 11. The tax on the Bank's profit / loss before tax differs from the theoretical amount that would arise using the basic tax rate of the Bank as follows:

	2018 AED'000	2017 AED'000
Profit / (loss) before taxation	62,109	(41,235)
Tax calculated at the base tax rate of the Bank	12,422	(8,247)
Effect of:		
Retail specific provision of current year disallowed	-	43
Corporate specific provision of current year disallowed	-	2,707
Interest in suspense of current year disallowed	-	1,717
Release of Interest in suspense disallowed in prior years for which no deferred tax was recognised	(183)	-
Release of Retail specific provision disallowed in prior years for which no deferred tax was recognised	(432)	(16)
Release of Corporate general provision disallowed in prior years for which no deferred tax was recognised	(760)	(79)
Release of Corporate specific provision disallowed in prior years for which no deferred tax was recognised	(2,346)	(400)
Info fort provision disallowed in prior years for which no deferred tax was recognised	(2,891)	(1,572)
Restructuring expenses disallowed in prior years for which no deferred tax was recognised	(2,486)	(3,534)
Unused tax losses for which no deferred tax is recognised	4,565	8,639
Utilisation of deferred tax assets of prior years	-	403
Prior year adjustments	-	(443)
Brought forward loss from previous year	(981)	-
Other temporary differences	(1)	-
Income tax expense / (credit)	6,907	(782)

26 Operating lease commitments

Operating lease commitments are in respect of Bank's premises in Dubai and Abu Dhabi. The future minimum lease payments payable under cancellable operating leases are as follows:

	2018 AED'000	2017 AED'000
Not later than 1 year	518	394
Later than 1 year and not later than 5 years	2,248	181
	2,766	575

27 Cash and cash equivalents for statement of cash flow

	2018 AED'000	2017 AED'000
Cash and balances with the UAE Central Bank (note 5)		
Cash in hand	23,094	46,815
Current account with UAE Central bank	550,999	150,318
Due from other banks (note 6)	28,807	52,092
Due from Head Office and other branches (note 7)		
Current accounts	68,757	40,927
Term deposits	51,422	-
	723,079	290,152

28 Related party transactions

Related parties comprise the Head Office, subsidiaries and branches of the Head Office and key management personnel.

During the year, the Branches entered into transactions with related parties in the ordinary course of business at mutually agreed terms and conditions. In addition to the balances noted in the assets and liabilities of the Bank at the year end, the following transactions were carried out on normal commercial terms and conditions.

	2018 AED'000	2017 AED'000
Transactions during the year:		
Interest income (note 20)	449	101
Interest expense (note 21)	8,885	2,254
Operating expenses include:		
Expenses incurred by related parties on behalf of Branches (note 23)	62,312	74,507
Expenses incurred by Branches on behalf of related parties (note 23)	3,866	34,265
Due from Head Office and other branches (note 7)	147,876	85,732
Due to Head Office and other branches (note 14)	399,963	843,432

Key management personnel include employees of other entities within the Barclays Group with management responsibilities for the branches. Remuneration of such employees are booked in the respective employing entity of the Barclays Group.

The share based compensation held in the UAE books under statement of movements in Head Office account and reserves, were transferred to inter-company liabilities payable to the Head office, as settlements to the employees are processed from the Head Office.

29 Subsequent events

On 19 February 2019, the Bank submitted a notification to the Central Bank of the UAE to close down the Abu Dhabi Branch and that the Bank will submit a request to voluntarily withdraw the license for the Branch. Barclays Abu Dhabi Branch has communication plans in place to transfer the banking services to Barclays Dubai Branch. The withdrawal of the license is subject to the approval of the Central Bank of the UAE. At the date of these financial statements, the Branch had not yet received an approval from the Central Bank of the UAE.

30 Comparative figures

The Bank has made reclassifications of bills discounted in the comparative figures of 2017 from loans and advances to due from banks and due from Head Office and other branches. The reason for the reclassification is that it is more representative of the nature of the underlying balance. The reclassification does not have an impact on the total assets.

Financial Position as at 31 Dec 2017	As previously Reported AED '000	Reclassification AED '000	As Reclassified AED '000
Due from other banks	52,092	927,761	979,853
Due from Head Office and other branches	42,656	43,076	85,732
Loans and advances	1,613,124	-970,837	642,287
Total Assets	**1,707,872**	**-**	**1,707,872**

In relation to the adoption of IFRS 9, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and appropriate components of other reserves as at 1 January 2018.