

Barclays Bank PLC – UAE Branches

Financial statements
for the year ended 31 December 2019

Barclays Bank PLC - UAE Branches

Financial statements for the year ended 31 December 2019

	Pages
Independent Auditor's report	1 - 3
Statement of financial position	4
Statement of profit or loss and other comprehensive income	5
Statement of movements in Head Office account and reserves	6
Statement of cash flows	7
Notes to the financial statements	8 - 75



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 2019, the statements of profit or loss and other comprehensive income, movements in Head Office account and reserves 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 2019, 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.

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.



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

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.
- 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.



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

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:

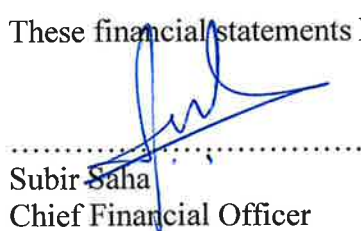
11 MAR 2020

Barclays Bank PLC - UAE Branches

Statement of financial position

		As at 31 December	
	Note	2019 AED'000	2018 AED'000
Assets			
Cash and balances with the UAE Central Bank	4	3,606,225	3,338,154
Due from other banks	5	1,104,496	1,618,434
Due from Head Office and other branches	6	108,417	147,876
Loans and advances	7(a)	1,183,270	479,822
Other assets	8	1,025	2,097
Property and equipment	9	13,347	16,250
Deferred income tax assets	10	3,390	2,893
Total assets		6,020,170	5,605,526
Liabilities, Head Office account and reserves			
Liabilities			
Due to other banks	11	-	531
Due to customers	12	2,512,117	2,339,292
Due to Head Office and other branches	13	566,468	399,963
Other liabilities	14	71,108	109,617
Total liabilities		3,149,693	2,849,403
Head Office account and reserves			
Allocated capital	15	2,540,214	2,540,214
Legal reserve	16(a)	141,956	130,521
General reserve	16(b)	28,130	22,204
Share options		-	-
Retained earnings		160,177	63,184
Total Head Office account and reserves		2,870,477	2,756,123
Total liabilities, Head Office account and reserves		6,020,170	5,605,526

These financial statements have been approved on // March 2020 and signed by:


 Subir Saha
 Chief Financial Officer

The independent auditor's report is set out on pages 1-3.

The notes from 1 to 28 form an integral part of these financial statements.

Barclays Bank PLC - UAE Branches

Statement of profit or loss and other comprehensive income

	Note	Year ended 31 December	
		2019 AED'000	2018 AED'000
Interest income	19	167,115	138,083
Interest expense	20	(41,626)	(24,717)
Net interest income		125,489	113,366
Fee and commission income	21	27,781	31,392
Net foreign exchange income		5,179	4,760
Operating income		158,449	149,518
Operating expenses	22	(83,427)	(81,506)
Release of restructuring costs	23	784	6,653
Impairment release / (charge) on financial instruments	3.2.3	52,414	(12,556)
Profit before taxation		128,220	62,109
Income tax expense	24	(13,866)	(6,907)
Profit for the year		114,354	55,202
Other comprehensive income		-	-
Total comprehensive income for the year		114,354	55,202

The independent auditor's report is set out on pages 1-3.

The notes from 1 to 28 form an integral part of these financial statements.

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 2018		2,540,214	125,001	24,884	14,579	10,822	2,715,500
Total comprehensive income for the year							
Profit for the year and total comprehensive income		-	-	-	-	55,202	55,202
Transfer to Head Office		-	-	-	(14,579)	-	(14,579)
Other equity movement							
Transfer to legal reserve	16(a)	-	5,520	-	-	(5,520)	-
Transfer from general reserve	16(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
Total comprehensive income for the year							
Profit for the year and total comprehensive income		-	-	-	-	114,354	114,354
Transfer to Head Office		-	-	-	-	-	-
Other equity movement							
Transfer to legal reserve	16(a)	-	11,435	-	-	(11,435)	-
Transfer to general reserve	16(b)	-	-	5,926	-	(5,926)	-
Total movement		-	11,435	5,926	-	96,993	114,354
At 31 December 2019		2,540,214	141,956	28,130	-	160,177	2,870,477

The independent auditor's report is set out on pages 1-3.
The notes from 1 to 28 form an integral part of these financial statements.

Barclays Bank PLC - UAE Branches

Statement of cash flows

	Note	Year ended 31 December	
		2019 AED'000	2018 AED'000
Operating activities			
Profit for the year before taxation		128,220	62,109
Adjustments for:			
Depreciation	9	3,104	3,139
Write off of property and equipment	9	1,797	-
End of service benefits charge for the year	14(a)	212	282
Net impairment (release) / charge on financial instruments		(52,306)	1,915
Operating cash flows before end of service benefits and tax paid and changes in assets and liabilities		81,027	67,445
End of service benefits paid	14(a)	(270)	(2,326)
Income tax paid during the year		(9,018)	-
Changes in operating assets and liabilities:			
Balances with the UAE Central Bank excluding amounts considered as cash and cash equivalents	4,26	(213,317)	179,448
Due from other banks excluding amounts considered as cash and cash equivalents	5,26	499,201	(664,330)
Due from Head Office and other branches excluding amounts considered as cash and cash equivalents	6,26	(33,569)	17,101
Loans and advances	7	(652,237)	149,178
Other assets	8	1,072	2,313
Due to other banks	11	(531)	(1,309)
Due to customers	12	172,825	1,197,389
Due to Head Office and other branches	13	166,505	(458,048)
Other liabilities	14	(45,794)	(50,557)
Net cash (used in) / from operating activities		(34,106)	436,304
Investing activities			
Payment for purchase of property and equipment	9	-	(3,377)
Net cash used in investing activities		-	(3,377)
Net (decrease) / increase in cash and cash equivalents		(34,106)	432,927
Cash and cash equivalents, beginning of year	26	723,079	290,152
Cash and cash equivalents, end of year	26	688,973	723,079

The independent auditor's report is set out on pages 1-3.
The notes from 1 to 28 form an integral part of these financial statements.

Barclays Bank PLC - UAE Branches

Notes to the 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 it 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 was Office No.02, 7th Floor, East Tower, Trade Centre Towers, 2nd Street, Abu Dhabi, UAE.

Barclays Bank PLC in the United Arab Emirates resolved to discontinue the Abu Dhabi Branch operations by virtue of the notification to the UAE Central Bank dated 19 February 2019, which confirmed that all branch banking services will transfer from the Abu Dhabi Branch to Dubai Branch following close of business on 28 March 2019. As a result, all the assets, liabilities and Head Office account and reserves of the Abu Dhabi Branch were transferred to Dubai Branch.

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 16 (note A) from 1 January 2019.

A. IFRS 16 Leases

The Bank applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 2 (o). On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

The financial impact of adopting the standard is not material.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

A. IFRS 16 Leases (continued)

ii. As a lessee

As a lessee, the Bank leases some branch and office premises. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

Further, the Bank has not entered into any new leases during the year ended 31 December 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019 (note 25).

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

iii. As a lessor

The Bank does not lease out any property and equipment.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

A. IFRS 16 Leases (continued)

iv. Impact on financial statements

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. The impact on transition as at 1 January 2019 is summarised below.

	AED'000
Right-of-use assets presented in property and equipment (note 9)	1,998
Lease liabilities (note 25)	1,888

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 3.57%.

The following table shows a reconciliation between the operating lease commitments as at 31 December 2018 and the lease liability recorded as at 1 January 2019.

	AED'000
Operating lease commitments as at 31 December 2018 as disclosed under IAS 17 in the Bank's consolidated financial statements	2,766
Non lease components	(401)
Impact of discounting using the Bank's incremental borrowing rate	(296)
Recognition exemption for short term leases	(181)
Lease liability recognised as at 1 January 2019 (note 25)	1,888

(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).

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 Fair Value through the Statement of Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive Income (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 gives 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 gives 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 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:

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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;
- 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;
- 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

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 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.

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Classification (continued)

Derecognition (continued)

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

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.

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

Accounting for the impairment of financial assets (continued)

i) Quantitative test (continued)

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
- 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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

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.

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(d) Impairment of financial assets (continued)

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

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

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 forbore 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.

(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.

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
Right-of-use assets	The period of the lease

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 disposal 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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(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) Due to banks, customers and Head Office & other branches

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.

(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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(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.

(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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(m) Interest income and expense

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.

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(m) Interest income and expense (continued)

Calculation of interest income and expense (continued)

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, refer note 2(d).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and Other Comprehensive Income (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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(o) Lease

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

2 Significant accounting policies (continued)

(o) Lease (continued)

Policy applicable from 1 January 2019 (continued)

- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'Other liabilities' in the statement of financial position.

Short-term leases and leases of low value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Bank does not have any lease arrangements in which it acts as a lessor.

Policy applicable before 1 January 2019

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).

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 interest 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 and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Bank's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- IFRS 17 Insurance Contracts

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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.

Impairment charge on financial assets

Impairment losses are evaluated as described in accounting policy 2 (d).

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

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, 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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk management (continued)

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.

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:

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

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 AED'000	Loss allowance AED'000	Exposure AED'000	Loss allowance AED'000	Exposure AED'000	Loss allowance AED'000	Exposure AED'000	Loss allowance AED'000
Balance as at 1 January 2019	5,515,645	(3,767)	40,536	(1,767)	214,416	(203,871)	5,770,597	(209,405)
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
New financial assets originated or purchased	723,936	(1,109)	-	-	-	-	723,936	(1,109)
Net drawdowns/repayments/ risk parameter changes and other movements	(254,073)	915	(40,536)	1,767	(63,169)	50,734	(357,778)	53,416
Asset derecognised due to write-offs	-	-	-	-	(41,684)	41,684	(41,684)	41,684
Loss allowance as at 31 December 2019	5,985,508	(3,961)	-	-	109,563	(111,453)	6,095,071	(115,414)
Reconciliation of ECL movement to impairment (charge)/release for the period								
ECL movement excluding assets derecognised due to disposals and write-off	-	(195)	-	1,767	-	50,734	-	52,306
Net recoveries post write-offs	-	-	-	-	-	108	-	108
Income statement release / (charge) for the year	-	(195)	-	1,767	-	50,842	-	52,414

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Amounts arising from Expected Credit Loss (continued)

Movement in gross exposure and expected credit loss (continued)

	STAGE 1		STAGE 2		STAGE 3		Total	
	Exposure AED'000	Loss allowance AED'000	Exposure AED'000	Loss allowance AED'000	Exposure AED'000	Loss allowance AED'000	Exposure AED'000	Loss allowance AED'000
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)
Net recoveries post write-offs	-	-	-	-	-	-	-	-
Income statement release / (charge) for the year	-	(590)	-	17,937	-	(29,903)	-	(12,556)

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Amounts arising from Expected Credit Loss (continued)

Movement in gross exposure and expected credit loss (continued)

Contingencies and commitments

	Loss allowance
	AED'000
Balance as at 1 January 2019	10,612
New letters of credit, guarantees & acceptances and undrawn commitments	1,205
Loss allowance as at 31 December 2019	11,817
Balance as at 1 January 2018	8,808
New letters of credit, guarantees & acceptances and undrawn commitments	1,804
Loss allowance as at 31 December 2018	10,612

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 2019 and 2018 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	
	2019	2018
	AED'000	AED'000
On balance sheet:		
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,583,518	3,315,076
Due from other banks	1,105,715	1,620,784
Due from Head Office and other branches	108,432	147,883
Loans and advances:		
- Loans to individual customers	6,077	6,077
- Loans to corporate customers	1,291,329	680,777
Other assets	114	1,301
Off balance sheet:		
Letters of credit	1,397,755	993,903
Guarantees and acceptances	1,664,693	1,643,272
Undrawn credit commitments	2,686,245	2,929,639
At 31 December	11,843,878	11,338,712

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 (continued)

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:

- 83% (2018: 80%) 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% (2018: 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 reports and the patterns that emerge from these reports.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 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 2019			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross exposure				
Cash and balances with the UAE				
Central Bank (excluding cash in hand)	3,583,518	-	-	3,583,518
Due from other banks	1,105,715	-	-	1,105,715
Due from Head Office and other branches	108,432	-	-	108,432
Mortgages	-	-	6,077	6,077
Corporate loans	1,187,843	-	103,486	1,291,329
Total	5,985,508	-	109,563	6,095,071
Expected Credit Loss				
Cash and balances with the UAE				
Central Bank (excluding cash in hand)	(44)	-	-	(44)
Due from other banks	(1,219)	-	-	(1,219)
Due from Head Office and other branches	(15)	-	-	(15)
Mortgages	-	-	(6,077)	(6,077)
Corporate loans	(2,683)	-	(105,376)	(108,059)
Total	(3,961)	-	(111,453)	(115,414)
Net exposure				
Cash and balances with the UAE				
Central Bank (excluding cash in hand)	3,583,474	-	-	3,583,474
Due from other banks	1,104,496	-	-	1,104,496
Due from Head Office and other branches	108,417	-	-	108,417
Mortgages	-	-	-	-
Corporate loans	1,185,160	-	(1,890)	1,183,270
Total	5,981,547	-	(1,890)	5,979,657
Coverage ratio				
Cash and balances with the UAE				
Central Bank (excluding cash in hand)	0.00%	-	-	0.00%
Due from other banks	0.11%	-	-	0.11%
Due from Head Office and other branches	0.01%	-	-	0.01%
Mortgages	-	-	100.00%	100.00%
Corporate loans	0.23%	-	101.83%	8.37%

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Financial instruments at amortised cost by product (continued)

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Gross exposure				
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
Mortgages	-	-	6,077	6,077
Corporate loans	431,902	40,536	208,339	680,777
Total	5,515,645	40,536	214,416	5,770,597
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)
Due from Head Office and other branches	(7)	-	-	(7)
Mortgages	-	-	(6,077)	(6,077)
Corporate loans	(1,394)	(1,767)	(197,794)	(200,955)
Total	(3,767)	(1,767)	(203,871)	(209,405)
Net exposure				
Cash and balances with the UAE				
Central Bank (excluding cash in hand)	3,315,060	-	-	3,315,060
Due from other banks	1,618,434	-	-	1,618,434
Due from Head Office and other branches	147,876	-	-	147,876
Mortgages	-	-	-	-
Corporate loans	430,508	38,769	10,545	479,822
Total	5,511,878	38,769	10,545	5,561,192
Coverage ratio				
Cash and balances with the UAE				
Central Bank (excluding cash in hand)	0.00%	-	-	0.00%
Due from other banks	0.14%	-	-	0.14%
Due from Head Office and other branches	0.00%	-	-	0.00%
Mortgages	-	-	100.00%	100.00%
Corporate loans	0.32%	4.36%	94.94%	29.52%

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's financial assets and off balance sheet items categorised by industry as at 31 December 2019 and 31 December 2018.

31 December 2019	Financial institutions AED'000	Construction & real estate AED'000	Wholesale and retail trade AED'000	Other industries AED'000	Individuals AED'000	Total AED'000
On balance sheet items						
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,583,518	-	-	-	-	3,583,518
Due from other banks	1,105,715	-	-	-	-	1,105,715
Due from Head Office and other branches	108,432	-	-	-	-	108,432
Loans and advances to customers:						
Loans to individuals - Mortgages	-	-	-	-	6,077	6,077
Loans to corporate entities	-	31,027	305,089	955,213	-	1,291,329
Other assets	-	-	-	114	-	114
Total	4,797,665	31,027	305,089	955,327	6,077	6,095,185
Off balance sheet items						
Letters of credit	1,379,090	-	1,120	17,545	-	1,397,755
Guarantees and acceptances	661,375	-	301,633	701,685	-	1,664,693
Undrawn credit commitments	858,844	-	912,621	914,780	-	2,686,245
Total	2,899,309	-	1,215,374	1,634,010	-	5,748,693

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

31 December 2018	Financial institutions AED'000	Construction & real estate AED'000	Wholesale and retail trade AED'000	Other industries AED'000	Individuals AED'000	Total 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 – 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

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 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 at 31 December 2019 and 31 December 2018.

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

	UAE	OECD	Asia	Others	Total
31 December 2019	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,583,518	-	-	-	3,583,518
Due from other banks	20,269	70,487	1,012,609	2,350	1,105,715
Due from Head Office and other branches	52,180	45,592	8	10,652	108,432
Loans and advances					
- Corporate loans	1,152,844	125,627	-	12,858	1,291,329
- Retail loans	6,077	-	-	-	6,077
Other assets	114	-	-	-	114
Total	4,815,002	241,706	1,012,617	25,860	6,095,185

31 December 2018

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

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 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 2019 and 31 December 2018.

	On balance sheet items					Total
	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) AED'000	Total funded AED'000	Off balance sheet items AED'000	
31 December 2019						
Crude oil , gas, mining & quarrying	-	-	-	-	458,758	458,758
Manufacturing	1,166	-	-	1,166	465,960	467,126
Construction	31,027	-	-	31,027	-	31,027
Trade	305,089	-	-	305,089	1,432,278	1,737,367
Transport, storage & communication	12,856	-	-	12,856	83,460	96,316
Financial institutions	-	1,214,147	3,583,518	4,797,665	2,899,309	7,696,974
Services	941,191	-	-	941,191	408,928	1,350,119
Retail and consumer banking	6,077	-	-	6,077	-	6,077
Total exposures	1,297,406	1,214,147	3,583,518	6,095,071	5,748,693	11,843,764

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Concentration of credit risk by industry (continued)

	On balance sheet items				Off balance sheet items AED'000	Total AED'000
	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) AED'000	Total funded 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 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

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 maturity as at 31 December 2019 and 31 December 2018.

Concentration of credit risk by contractual maturity

	On balance sheet items				Total unfunded AED'000
	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) AED'000	Total funded AED'000	
31 December 2019					
Less than 3 months	393,228	877,595	3,074,307	4,345,130	1,161,030
3 months to 1 year	97,026	336,552	509,211	942,789	3,742,033
One to five years	807,152	-	-	807,152	836,071
Over five years	-	-	-	-	9,559
Total exposures	1,297,406	1,214,147	3,583,518	6,095,071	5,748,693
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

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 the Bank's 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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Foreign exchange risk (continued)

3.4.1 Foreign exchange risk

31 December 2019

Assets	AED AED'000	USD AED'000	EUR AED'000	GBP AED'000	Other AED'000	Total AED'000
Cash and balances with the UAE Central Bank	3,527,290	78,979	-	-	-	3,606,269
Due from other banks	651	1,019,233	72,883	-	12,948	1,105,715
Due from Head Office and other branches	29,211	42,722	10,103	26,396	-	108,432
Loans and advances	274,222	1,023,184	-	-	-	1,297,406
Other assets	114	-	-	-	-	114
Total financial assets	3,831,488	2,164,118	82,986	26,396	12,948	6,117,936
Liabilities						
Due to other banks	-	-	-	-	-	-
Due to customers	261,466	2,138,160	82,729	29,024	738	2,512,117
Due to Head Office and other branches	458,882	95,503	-	-	12,083	566,468
Other liabilities	67,473	-	-	-	-	67,473
Total financial liabilities	787,821	2,233,663	82,729	29,024	12,821	3,146,058
Net on-balance sheet financial position	3,043,667	(69,545)	257	(2,628)	127	2,971,878

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Foreign exchange risk (continued)

3.4.1 Foreign exchange risk (continued)

31 December 2018

Assets	AED AED'000	USD AED'000	EUR AED'000	GBP AED'000	Other AED'000	Total AED'000
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	1,301	-	-	-	-	1,301
Total financial assets	3,671,029	2,023,202	42,062	13,384	45,315	5,794,992
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	75,295	28,269	639	333	-	104,536
Total financial liabilities	781,891	1,978,462	41,933	13,337	28,699	2,844,322
Net on-balance sheet financial position	2,889,138	44,740	129	47	16,616	2,950,670

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Foreign exchange risk (continued)

3.4.2 Sensitivity of currency risk

31 December 2019	EUR AED'000	GBP AED'000	Others AED'000	Total AED'000
Total assets	82,986	26,396	431	109,813
Total liabilities	(82,729)	(29,024)	(346)	(112,099)
Net assets / (liabilities)	257	(2,628)	85	(2,286)
FX Forward Purchases / (Sales)	-	2,670	(1)	2,669
Net exposure	257	42	84	383
5% sensitivity	12.85	2.10	4.20	19.15
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 / (liabilities)	129	47	111	287
FX Forward Purchases / (Sales)	44	-	1	45
Net exposure	173	47	112	332
5% sensitivity	8.65	2.35	5.60	16.60

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

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 2019	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	2,350,000	-	500,000	-	-	756,269	3,606,269
Due from other banks	80,760	708,573	224,557	91,825	-	-	1,105,715
Due from Head Office and other branches	54,173	11,619	11,366	-	-	31,274	108,432
Loans and advances	270,363	802,339	224,704	-	-	-	1,297,406
Other assets	-	-	-	-	-	114	114
Total financial assets	2,755,296	1,522,531	960,627	91,825	-	787,657	6,117,936
Liabilities							
Due to other banks	-	-	-	-	-	-	-
Due to customers	497,120	92,877	1,145,976	-	-	776,144	2,512,117
Due to Head Office and other branches	95,497	-	-	-	-	470,971	566,468
Other liabilities	-	-	-	-	-	67,473	67,473
Total financial liabilities	592,617	92,877	1,145,976	-	-	1,314,588	3,146,058
Interest sensitivity gap	2,162,679	1,429,654	(185,349)	91,825	-	(526,931)	2,971,878

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.5 Interest rate risk (continued)

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

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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
	%	%	%
31 December 2019			
Assets			
Deposits with Central Bank	1.94	-	-
Bills discounted	2.64	3.08	0.66
Due from Head Office and other branches	-	-	-
Loans and advances	5.84	4.46	-
Liabilities			
Due to Head Office and other branches	-	1.75	-
Due to customers	1.09	2.11	-
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	-

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 AED'000	Interest expense AED'000
31 December 2019		
Fluctuation in yield by 25 bps	2,725	3,989
31 December 2018		
Fluctuation in yield by 25 bps	2,667	2,764

The above sensitivity is calculated based on Interest Rate sensitivity per basis point metric and assumes instantaneous parallel change to forward interest rate curves. The model does not apply floors to shocked market rates and does not recognize the interest rate floors where relevant and balances are adjusted for assumed behavioral profiles (e.g. Structural Interest rate hedges balances). It 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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.6 Liquidity risk (continued)

The table below presents the cash flows payable by the Bank 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 AED'000	Gross nominal outflows AED'000	Up to 3 Months AED'000	3 - 12 months AED'000	1 - 5 years AED'000
Liabilities					
31 December 2019					
Due to other banks	-	-	-	-	-
Due to customers	2,512,117	2,522,269	1,363,504	1,158,765	-
Due to Head Office and other branches	566,468	566,473	566,473	-	-
Other liabilities	71,108	71,108	69,499	363	1,246
	<u>3,149,693</u>	<u>3,159,850</u>	<u>1,999,476</u>	<u>1,159,128</u>	<u>1,246</u>
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	-	-
	<u>2,849,403</u>	<u>2,862,971</u>	<u>2,335,284</u>	<u>527,687</u>	<u>-</u>

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 AED'000	1-3 months AED'000	3-12 months AED'000	1-5 years AED'000	Total AED'000
31 December 2019					
Foreign exchange contracts					
– Outflow	122,794	-	-	-	122,794
– Inflow	122,826	-	-	-	122,826
31 December 2018					
Foreign exchange contracts					
– Outflow	16,293	-	-	-	16,293
– Inflow	16,293	-	-	-	16,293

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 2019			
Letter of credit, guarantees and acceptances	2,216,819	845,629	3,062,448
Undrawn credit commitments	2,686,245	-	2,686,245
Total	4,903,064	845,629	5,748,693
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

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.7 Fair value of financial assets and liabilities (continued)

(a) Definition (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. The fair values are not materially different from their carrying amounts.

At 31 December 2019	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	3,606,225	-	-	3,606,225
Due from other banks	-	12,512	1,091,984	1,104,496
Due from Head Office and other branches	-	78,435	29,982	108,417
Loans and advances	-	-	1,183,270	1,183,270
Other assets	-	114	-	114
Total	<u>3,606,225</u>	<u>91,061</u>	<u>2,305,236</u>	<u>6,002,522</u>
Financial liabilities				
Due to other banks	-	-	-	-
Due to customers	-	-	2,512,117	2,512,117
Due to Head Office and other branches	-	566,468	-	566,468
Other liabilities	-	67,473	-	67,473
Total	<u>-</u>	<u>633,941</u>	<u>2,512,117</u>	<u>3,146,058</u>

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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 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	<u>3,338,154</u>	<u>150,300</u>	<u>2,097,133</u>	<u>5,585,587</u>
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	<u>-</u>	<u>505,030</u>	<u>2,339,292</u>	<u>2,844,322</u>

(c) Financial instruments measured at fair value

The assets measured at fair value as per the hierarchy as at 31 December 2019 are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2019				
Financial assets				
Foreign currency forwards	-	14	-	14
Financial liabilities:				
Foreign currency forwards	-	-	-	-

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

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

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:

	2019 AED'000	2018 AED'000
Tier 1 capital		
Allocated capital	2,540,214	2,540,214
Legal reserve	141,956	130,521
Accumulated profit	160,177	63,184
Eligible Tier 1 capital	<u>2,842,347</u>	<u>2,733,919</u>
Deductions:		
Deferred tax assets	<u>(3,390)</u>	<u>(2,893)</u>
Total deductions	<u>(3,390)</u>	<u>(2,893)</u>
Tier 1 capital	<u>2,838,957</u>	<u>2,731,026</u>
Tier 2 capital		
General provision	<u>36,021</u>	<u>27,222</u>
Total regulatory capital	<u>2,874,978</u>	<u>2,758,248</u>
Risk Weighted Assets		
Credit risk	2,881,651	2,177,742
Market risk	371	331
Operational risk	<u>262,548</u>	<u>274,246</u>
Total risk weighted assets	<u>3,144,570</u>	<u>2,452,319</u>
Tier 1 capital ratio	<u>90.28%</u>	<u>111.37%</u>
Capital adequacy ratio	<u>91.43%</u>	<u>112.48%</u>

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.8 Capital management (continued)

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

	On and Off balance sheet gross outstanding AED'000	Credit Risk Mitigation (CRM)			Risk weighted Assets AED'000
		Exposure before CRM AED'000	CRM AED'000	After CCF AED'000	
31 December 2019					
Claims on sovereigns	3,583,518	3,583,518	-	3,583,518	-
Claims on banks	4,113,456	4,113,456	-	2,533,622	1,126,943
Claims on corporates & GRE	4,033,088	4,033,088	13,733	1,748,417	1,734,684
Past due loans	136,603	(1,891)	-	(1,891)	(1,891)
Other assets	44,666	44,666	-	44,666	21,915
Total claims	11,911,331	11,772,837	13,733	7,908,332	2,881,651
Of which:					
Rated exposure	7,600,247				
Unrated exposure	4,311,084				
Total exposure	11,911,331				

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.8 Capital management (continued)

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

	On and Off balance sheet gross outstanding AED'000	Credit Risk Mitigation (CRM)			Risk weighted Assets AED'000
		Exposure before CRM AED'000	CRM AED'000	After CCF 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 & GRE	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				

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.8 Capital management (continued)

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

	Risk weighted assets		Capital charge	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Market risk				
Foreign exchange risk	371	331	39	35

Capital charge for year ended 31 December 2019 has been calculated at 10.5% (2018: 10.5%).

3.8.3 Gross exposures and credit risk mitigation

	Exposures		Risk weighted assets	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Gross exposure prior to credit risk mitigation	11,772,837	11,188,094	2,881,651	2,177,742
Less: Exposures covered by eligible financial collateral	(13,733)	(36,125)	-	-
Net exposures after credit risk mitigation	11,759,104	11,151,969	2,881,651	2,177,742

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

4 Cash and balances with the UAE Central Bank

	2019 AED'000	2018 AED'000
Cash in hand (note 26)	22,751	23,094
With UAE Central Bank in:		
Current account (note 26)	606,124	550,999
Statutory deposit	100,606	84,418
Certificate of deposits	2,876,788	2,679,659
	<u>3,606,269</u>	<u>3,338,170</u>
Expected credit loss	<u>(44)</u>	<u>(16)</u>
	<u>3,606,225</u>	<u>3,338,154</u>

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.

5 Due from other banks

	2019 AED'000	2018 AED'000
Current accounts (note 26)	12,939	28,807
Bills discounted	<u>1,092,776</u>	<u>1,591,977</u>
	1,105,715	1,620,784
Expected credit loss	<u>(1,219)</u>	<u>(2,350)</u>
	<u>1,104,496</u>	<u>1,618,434</u>

6 Due from Head Office and other branches

	2019 AED'000	2018 AED'000
Current accounts (note 26)	47,159	68,757
Term deposits (note 26)	-	51,422
Other receivables	31,276	13
Bills discounted	<u>29,997</u>	<u>27,691</u>
	108,432	147,883
Expected credit loss	<u>(15)</u>	<u>(7)</u>
	<u>108,417</u>	<u>147,876</u>

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

7 Loans and advances

7(a) Loans and advances

	2019 AED'000	2018 AED'000
Corporate loans	1,291,329	680,777
Retail loans	6,077	6,077
Total loans and advances (note 7(b))	1,297,406	686,854
Expected credit loss	(114,136)	(207,032)
Net loans and advances	1,183,270	479,822

7(b) Analysis of loans and advances

	2019 AED'000	2018 AED'000
Loan to individual retail customers		
Mortgages	6,077	6,077
Loan to corporate entities	1,291,329	680,777
Total loans and advances	1,297,406	686,854

8 Other assets

	2019 AED'000	2018 AED'000
Prepayments	911	796
Other receivables	114	1,301
	1,025	2,097

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

9 Property and equipment

	Leasehold improvements	Other assets	Assets under construction	Right-of -use assets	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
At 1 January 2018	1,484	16,730	-	-	18,214
Write off	-	-	-	-	-
Transfer	-	-	-	-	-
Additions	-	-	3,377	-	3,377
At 31 December 2018	<u>1,484</u>	<u>16,730</u>	<u>3,377</u>	<u>-</u>	<u>21,591</u>
Accumulated depreciation					
At 1 January 2018	(11)	(2,191)	-	-	(2,202)
Charge for the year	(135)	(3,004)	-	-	(3,139)
At 31 December 2018	<u>(146)</u>	<u>(5,195)</u>	<u>-</u>	<u>-</u>	<u>(5,341)</u>
Net book amount					
At 31 December 2018	<u>1,338</u>	<u>11,535</u>	<u>3,377</u>	<u>-</u>	<u>16,250</u>
Cost					
At 1 January 2019	1,484	16,730	3,377	-	21,591
Recognition of right-of- use assets on initial application of IFRS 16	-	-	-	1,998	1,998
Adjusted balance as at 1 January 2019	1,484	16,730	3,377	1,998	23,589
Write off	(1,484)	(2,842)	-	-	(4,326)
Transfer	-	3,377	(3,377)	-	-
At 31 December 2019	<u>-</u>	<u>17,265</u>	<u>-</u>	<u>1,998</u>	<u>19,263</u>
Accumulated depreciation					
At 1 January 2019	(146)	(5,195)	-	-	(5,341)
Charge for the year	(45)	(2,638)	-	(421)	(3,104)
Write off	191	2,338	-	-	2,529
At 31 December 2019	<u>-</u>	<u>(5,495)</u>	<u>-</u>	<u>(421)</u>	<u>(5,916)</u>
Net book amount					
At 31 December 2019	<u>-</u>	<u>11,770</u>	<u>-</u>	<u>1,577</u>	<u>13,347</u>

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

10 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:

	2019 AED'000	2018 AED'000
At 1 January	2,893	782
Additions during the year	2,681	2,111
Utilisation during the year	(141)	-
Written off during the year	(2,043)	-
At 31 December	<u>3,390</u>	<u>2,893</u>

Deferred income tax assets are attributable to the following items:

	2019 AED'000	2018 AED'000
Provision for corporate loan impairment	777	489
Provision for suspended interest	<u>2,613</u>	<u>2,404</u>
	<u>3,390</u>	<u>2,893</u>

Deferred tax assets:

Deferred tax asset to be recovered	<u>3,390</u>	<u>2,893</u>
------------------------------------	--------------	--------------

Deferred income tax assets are recognised only to the extent that realisation of the related tax benefit is probable.

11 Due to other banks

	2019 AED'000	2018 AED'000
Current accounts	<u>-</u>	<u>531</u>
	<u>-</u>	<u>531</u>

12 Due to customers

	2019 AED'000	2018 AED'000
Current accounts	510,582	518,745
Call deposits	455,099	509,184
Term deposits	<u>1,546,436</u>	<u>1,311,363</u>
	<u>2,512,117</u>	<u>2,339,292</u>

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

12 Due to customers (continued)

At 31 December 2019, term deposits amounting to AED 6.35 million (2018: AED 63.22 million) were held as cash collateral for loans and advances granted to and commitments made on behalf of customers.

13 Due to Head Office and other branches

	2019 AED'000	2018 AED'000
Term deposits	95,503	-
Current accounts	426,786	338,646
Call accounts	23,909	23,352
Others	20,270	37,965
	<u>566,468</u>	<u>399,963</u>

14 Other liabilities

	2019 AED'000	2018 AED'000
Bills payable	27,023	61,397
Deferred income	2,404	3,792
Provision for End of service benefits (note 14(a))	1,231	1,289
Expected credit loss on unfunded exposures	11,817	10,612
Restructuring provision (note 23)	-	784
Income tax payable	14,363	9,018
Others	14,270	22,725
	<u>71,108</u>	<u>109,617</u>

Others include a provision of AED 8.10 million (2018: AED 14.43 million) representing management's estimate of a claim related to the exit of the retail banking business.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

14 Other liabilities (continued)

(a) Provision for end of service benefits

	2019 AED'000	2018 AED'000
Balance brought forward	1,289	3,333
Add: Charge during the year	212	282
Less: Payments during the year	(270)	(2,326)
Balance carried forward	<u>1,231</u>	<u>1,289</u>

(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 2019, 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 3.81% in 2019 (2018: 3.30 %). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 1.86% (2018: 2.84 %).

15 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.

16 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 28.13 million was required as at 31 December 2019 (2018: AED 22.20 million) and thus an amount of AED 5.93 million was transferred to general reserve under statement of movements in Head Office account and reserves during the year ended 31 December 2019 (2018: a release of AED 2.68 million was recorded in general reserve).

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

16 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:

	2019 AED'000
Allowances for impairment losses: General	
General provisions under Circular 28/2010 of CBUAE	43,908
Less: Stage 1 and Stage 2 provisions under IFRS 9	<u>15,778</u>
General provision transferred to the impairment reserve*	<u>28,130</u>
Allowances for impairment losses: Specific	
Specific provisions under Circular 28/2010 of CBUAE	111,453
Less: Stage 3 provisions under IFRS 9	<u>111,453</u>
Specific provision transferred to the impairment reserve*	<u>-</u>
Total provision transferred to the impairment reserve	<u>28,130</u>

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

17 Contingencies and commitments

	2019 AED'000	2018 AED'000
Letters of credit	1,397,755	993,903
Guarantees and acceptances	1,664,693	1,643,272
Undrawn credit commitments	<u>2,686,245</u>	<u>2,929,639</u>
	<u>5,748,693</u>	<u>5,566,814</u>

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.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

18 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 2019	<u>122,826</u>	<u>14</u>	<u>-</u>
31 December 2018	<u>16,293</u>	<u>-</u>	<u>-</u>

19 Interest income

	2019 AED'000	2018 AED'000
Loans and advances	47,670	38,341
Bills discounted	42,590	51,695
Certificate of deposits	71,166	47,598
Deposits with Head Office (note 27)	<u>5,689</u>	<u>449</u>
	<u>167,115</u>	<u>138,083</u>

20 Interest expense

	2019 AED'000	2018 AED'000
Deposits from Head Office (note 27)	901	8,885
Due to customers	<u>40,725</u>	<u>15,832</u>
	<u>41,626</u>	<u>24,717</u>

21 Fee and commission income

	2019 AED'000	2018 AED'000
Documentary credits and guarantees	12,437	14,118
Loan fees	3,673	3,282
Other commission	<u>11,671</u>	<u>13,992</u>
	<u>27,781</u>	<u>31,392</u>

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

22 Operating expenses

	2019 AED'000	2018 AED'000
Staff costs (note 22 (a))	4,613	4,858
Travelling	231	494
Rent	1,183	1,608
Postage and communication	2,683	3,796
Marketing and advertising	188	283
Depreciation (note 9)	3,104	3,139
Expenses incurred by related parties on behalf of Branches (note 27)	59,411	62,312
Expenses incurred by Branches on behalf of related parties (note 27)	(3,859)	(3,866)
Salaries paid to outsourced staff	5,277	3,444
Other	10,596	5,438
	<u>83,427</u>	<u>81,506</u>

22(a) Staff costs

	2019 AED'000	2018 AED'000
Salaries and allowances	2,700	2,882
Other staff costs	1,913	1,976
	<u>4,613</u>	<u>4,858</u>

23 Restructuring costs

The movement of restructuring provision is summarised below :

	2019 AED'000	2018 AED'000
Balance brought forward	784	13,214
Release during the year	(784)	(6,653)
Utilization during the year	-	(5,777)
Balance carried forward	<u>-</u>	<u>784</u>

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

23 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 requirements of IAS 37 and the remaining provisions were fully released in 2018.

	2019 AED'000	2018 AED'000
Balance brought forward	-	150
Release during the year	-	(150)
Balance carried forward	-	-

(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 requirements of IAS 37 and the remaining provisions were fully released in 2019. The provision for the year ended 31 December 2019 is nil. (2018: AED 0.78 million).

The movement of such restructuring provision is summarised below :

	2019 AED'000	2018 AED'000
Balance brought forward	784	13,064
Release during the year	(784)	(6,503)
Utilization during the year	-	(5,777)
Balance carried forward	-	784

24 Income tax

	2019 AED'000	2018 AED'000
Current taxes on income during the reporting period	14,363	9,018
Adjustment in respect of prior year	-	-
Total current tax	14,363	9,018
Deferred tax	(497)	(2,111)
Income tax expense	13,866	6,907

The income tax rate applicable to the Bank's 2019 income is 20% (2018: 20%). The income tax returns are separately filed for Dubai and Abu Dhabi branches as required by the respective tax laws.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

24 Income tax (continued)

Further information about deferred income tax is presented in note 10. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Bank as follows:

	2019 AED'000	2018 AED'000
Profit before taxation	128,220	62,109
Tax calculated at the base tax rate of the Bank	25,644	12,422
Effect of:		
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)
Release of Corporate general provision disallowed in prior years for which no deferred tax was recognised	(910)	(760)
Release of Corporate specific provision disallowed in prior years for which no deferred tax was recognised	(1)	(2,346)
Info fort provision disallowed in prior years for which no deferred tax was recognised	(1,266)	(2,891)
Restructuring expenses disallowed in prior years for which no deferred tax was recognised	(157)	(2,486)
Provision disallowed in prior year for which no deferred tax was recognised	(3)	-
Abu Dhabi Branch unused tax losses for which no deferred tax is recognised	120	4,565
Abu Dhabi Branch deferred tax assets written off during the year	2,043	-
Brought forward loss from previous year	(11,605)	(981)
Other temporary differences	1	(1)
Income tax expense	13,866	6,907
Effective tax rate	11%	11%

25 Leases

The Bank leases branch premises for a period of 5 years, with an option to renew the lease after that date. Payments are renegotiated every five years to reflect market rentals.

The Bank also leases IT equipment with contract terms of one to three years. The leases are short-term and/or leases of low-value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

Previously, these leases were classified as operating leases under IAS 17.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

25 Leases (continued)

Information about leases for which the Bank is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment (note 9)

	2019 AED'000
Balance at 1 January	1,998
Depreciation charge for the year	(421)
Balance at 31 December	<u>1,577</u>

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows.

Maturity analysis – Contractual undiscounted cash flows	2018 AED'000
Not later than 1 year	518
Later than 1 year and not later than 5 years	2,248
Total undiscounted lease liabilities at 31 December	<u>2,766</u>

ii. Lease liability

	2019 AED'000
As at 31 December 2018	-
Effects of changes in accounting policy	1,888
As at 1 January 2019	<u>1,888</u>
Interest expense	63
Cash payments	(219)
As at 31 December 2019	<u>1,732</u>

The lease liability is included in Other liabilities as at 31 December 2019. Refer note 3.6 for maturity analysis of Other liabilities as at 31 December 2019.

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

25 Leases (continued)

iii. Amounts recognised in profit or loss

Leases under IFRS 16	2019 AED'000
Interest on lease liabilities	63
Expenses relating to short term leases	181
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	30

Operating leases under IAS 17	2018 AED'000
Lease expense	394

iv. Amounts recognised in statement of cash flows

	2019 AED'000
Total cash outflow for leases	219

26 Cash and cash equivalents for statement of cash flow

	2019 AED'000	2018 AED'000
Cash and balances with the UAE Central Bank (note 4)		
Cash in hand	22,751	23,094
Current account with UAE Central bank	606,124	550,999
Due from other banks (note 5)		
Current accounts	12,939	28,807
Due from Head Office and other branches (note 6)		
Current accounts	47,159	68,757
Term deposits	-	51,422
	<u>688,973</u>	<u>723,079</u>

Barclays Bank PLC - UAE Branches

Notes to the financial statements (continued)

27 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.

	2019 AED'000	2018 AED'000
Transactions during the year:		
Interest income (note 19)	5,689	449
Interest expense (note 20)	901	8,885
Operating expenses include:		
Expenses incurred by related parties on behalf of Branches (note 22)	59,411	62,312
Expenses incurred by Branches on behalf of related parties (note 22)	3,859	3,866
Due from Head Office and other branches (note 6)	108,417	147,876
Due to Head Office and other branches (note 13)	566,468	399,963

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.

In 2018, 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.

28 Subsequent events

As a result of events that have occurred post balance sheet date, which led to significant downgrading of one individual large exposure, the Bank increased expected credit loss to that party by AED 54 million.