البنك العربي المتحد
UNITED ARAB BANK

# ANNUAL REPORT

# 2021

**His Highness**
**Sheikh Khalifa bin Zayed Al Nahyan**

President of the United Arab Emirates
and Ruler of Abu Dhabi

**His Highness**
**Sheikh Mohammed bin Rashid Al Maktoum**

Vice-President of the United Arab Emirates
and Ruler of Dubai

**His Highness**
**Sheikh Mohammed bin Zayed Al Nahyan**

Crown Prince of Abu Dhabi and Deputy Supreme
Commander of the UAE Armed Forces

**His Highness**
**Dr. Sheikh Sultan bin Mohammed Al Qasimi**

Supreme Council Member and Ruler of Sharjah

**HEAD OFFICE**
**UAB Tower**

Al Majaz Street
Buhaira Corniche
P.O. Box 25022
Telephone: +971 6 507 5222
Fax: +971 6 507 5950

**ABU DHABI**

KHALIFA STREET BRANCH
Sheikh Faisal bin Sultan Al Qassimi Building GIBCA,
Khalifa Street
P.O. Box 3562
Tel No. +971 2 613 0209 & +971 2 613 0267
Fax No. +971 2 626 2649

**AL AIN BRANCH**

Sheikh Faisal bin Sultan
Al Qassimi Building
Sheikh Zayed 1st Street
P.O. Box 16077
Tel No. +971 3 705 2111
Fax No. +971 3 766 5168

**DUBAI AREA**

DEIRA BRANCH
Al Salemiyah Tower
Baniyas Street, Deira
P.O. Box 4579
Tel No. +971 4 272 2852
Fax No. +971 4 227 2852

**AL QUOZ BRANCH**

Reem Building, Ground floor
Al Quoz First Area,
Sheikh Zayed Road
P.O. Box 392066
Tel No. +971 4 309 2602
Fax No. +971 4 380 8970

**RAK NAKHEEL BRANCH**

Health Building
Al Muntasir Street
Al Nakheel
P.O. Box 615
Tel No. +971 7 205 9222
Fax No. +971 7 235 9875

# Content

# Vision

United Arab Bank will be the trusted partner and the UAE bank of choice for our customers, shareholders, and employees, leading the way to greater financial prosperity while remaining committed to the highest integrity standards.

# Mission

United Arab Bank is committed to build sustainable long-term partnerships with our key stakeholders, offering a superior customer experience, creating shareholder value, and adopting an innovative banking approach while remaining loyal to our nation's heritage and contributing to the overall development of the UAE.

- **Our Customers:** Committed to consistently deliver a superior customer experience and adopt an innovative banking approach, sharing in the success of our customers.
- **Our People:** Committed to help our people grow within a high performance culture that attracts, develops, and rewards talent and contribution.
- **Our Community:** Committed to contribute to our community and to make a difference.
- **Our Shareholders:** Committed to create consistent long-term shareholder value and ensure sustainable growth.
- **Our Regulators:** Committed to apply the highest standards of corporate governance and work ethics.

# Values

- **Integrity:** in conducting our business and managing stakeholder relationships.
- **Customer Focus:** in orienting our activities to achieve optimum customer satisfaction.
- **Competence:** to deliver enhanced levels of performance.
- **Consistency:** in maintaining the commitments and standards that we set.
- **Courteousness:** as the primary benchmark for our behavior and conduct.

# Message from the Chairman

**Dear Shareholders,**

On behalf of the Board of Directors, it is my pleasure to present to you the annual report and audited financial statements and declarations of the United Arab Bank for the fiscal year ending on December 31, 2021.

The United Arab Bank has achieved in 2021 solid performance and worthy results, with the return of the durable national economy to achieve growth and bank success in implementing its transformation strategy, an important platform for the return of the bank to profitability, with a net profit of AED 70 million compared to losses of AED 667 million in 2020, which represents an increase of 111%. The growth in net profit is a result of improved operating performance and lower expected credit provisions, as well as cost management and a prudent risk management approach, where the successful implementation of the restructuring strategy led to set the stage for the return of profitability.

The bank has succeeded in achieving significant and remarkable progress in the core business, as it recorded a growth of 12% in its operating income in 2021 compared to 2020. The decline losses considerably decreased by 83% in 2021 in total value compared to 2020. It will be further supported by new subscriptions in the portfolio in terms of asset quality. The bank was able to maintain adequate levels of capital with a capital adequacy ratio of 13.8% and CET1 of 12.6%, which is still much higher than the regulatory requirements currently in force. The percentage of delinquent loans correspondingly improved from 15.7% in 2020 to 12.6% in 2021. These financial results confirm the correct strategic direction of the bank and the ability of its executive management to activate that strategy through all channels, starting with the branches, digital platforms up to the various departments of the bank.

The Board of Directors and the Executive Management team continued to focus on developing the bank's core business and its revenues through transaction and banking services for companies, institutions, individuals, and financial markets, while moving towards a more flexible operating model integrating digital solutions and capabilities to become a preferred partner amongst major corporate customers.

During 2021, we have continued to support our customers strongly and support growth in the UAE's economy, with great recovery and gradual return to the pre-pandemic era. As we are witnessing today a significant improvement, both in the business sector and in the level of daily life, with our strong focus on placing serving our customers at the center of our attention, and we will work to increase the focus on supporting and assisting them in developing their businesses and achieving their ambitions.

The year 2021 witnessed the UAE's celebration of the 50$^{th}$ anniversary of its founding, the unique humanitarian journey of the first fifty years of the UAE's history, and preparations for an effective and sustainable transformation for the next fifty years, to ensure the quality of life for current and future generations. The UAE has been a pioneer in the serious pursuit of diversifying the economic system and preparing for the post-oil phase, by launching the largest comprehensive strategy aimed at preparing for the upcoming fifty-year planning stages through a plan aimed at preparing all its vital sectors for the post-oil phase.

The year witnessed as well the launching of the activities of the "Expo 2020 Dubai" exhibition, where the UAE dazzled the world's governments and peoples with its ability to organize the best tournament in the history of the international event, in addition to its great stature and merit to host major events, the most important of which are at levels that exceed international standards. With the participation of 192 countries, "Expo 2020 Dubai" succeeded in boosting positive energies in the entire world, to meet the challenges imposed by the largest and

The year 2021 witnessed the UAE's celebration of the $50^{th}$ anniversary of its founding, the unique humanitarian journey of the first fifty years of the UAE's history, and preparations for an effective and sustainable transformation for the next fifty years, to ensure the quality of life for current and future generations.

strongest health pandemic and unite countries towards them.

The economic activity in the UAE continued its recovery last year, as a result of improving domestic and global demand, while the state continued its leadership in containing the spread of Corona virus and maintained its leadership in terms of the number of tests made and the distribution of vaccines for each individual.

The banking sector in the UAE continued to support the economic development process in an effective manner by mobilizing the necessary financial resources and providing the necessary funding for them to advance the national economy and create the required investments. According to the UAE Central Bank, the country's GDP is expected to grow at a rate of 4.2% this year, with a growth of 3.9% for non-oil GDP. The Central Bank also expected that the GDP growth for the year 2021 will reach 2.1%, and it is likely that the growth of non-oil GDP will be at 3.8%.

Throughout 2021, we have been keen to benefit from the advantages of our digital transformation, and we have continued to launch a range of advanced banking products, initiatives and solutions. Thanks to the continued focus on improving customer service and the development of a high-quality banking experience, we have succeeded in increasing our market share in individuals, corporate and treasury products and our continued progress towards our goals and strategic objectives, and we helped to move forward with full confidence on sustainable growth.

I am confident that through the efforts and cooperation among the Board committees, management team and employees, we will continue to achieve our goals and take the Bank to higher levels in the coming years.

In conclusion, we would like to express our sincere appreciation to His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the United Arab Emirates for his leadership, vision and support. We would like as well to express our sincere appreciations to His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President of the United Arab Emirates, Prime Minister and His Highness Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of the emirate of Abu Dhabi, Deputy Commander-in-Chief/ Chief of Staff of the Armed Forces, and His Highness Sheikh Dr. Sultan Bin Mohammed Al Qassimi, the Ruler of Sharjah, for their support and guidance.

I would further like to express my sincere appreciation and gratitude to our shareholders and valued customers for their valuable confidence and to the Bank's management team and employees for their continuous dedication and diligent commitment.

May God grant us success.

**H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi**
Chairman of the Board of Directors

# Management Report

**Dear Shareholders,**

It is our pleasure to share an outstanding performance report of the United Arab Bank (UAB) for 2021 as we closed the year with a positive momentum despite the Covid-19 pandemic challenge, which continued to impact upon every facet and aspect of our daily life.

The performance in 2021 reflects continued positive traction against the Bank's transformation strategy. Aided by a substantial reduction in Provisions for Credit Losses, stable Non-Interest Income and material cost savings from its streamlined operating model, UAB recorded a Net Profit of Dh70 million for the year 2021 compared to a net loss of Dh667 million in 2020, representing an increase of 111 per cent.

The successful execution of bank's transformation strategy has paved the way for a return to sustainable profitability and the growth in net profit is a result of improved operating performance and lower expected credit losses, coupled with disciplined cost control and a prudent approach to risk management.

Over the past 12 months, we have significantly strengthened the Balance Sheet, concentrated on our core activities, de-risked the business and captured bank-wide cost savings through the successful execution of our strategy, all of which have enabled the Bank to report a 46% uplift in Profit before impairment losses, whilst simultaneously enhancing our key funding, capital and liquidity metrics.

For UAB, our low risk and efficient UAE focused business model, together with the simplification and transformation of the Bank, positions us well to continue doing the right thing for our customers and deliver sustainable returns for our shareholders.

The Bank continues to focus on growing its core businesses and revenues across its wholesale banking, retail banking and financial markets while moving towards a more agile operating model incorporating digital solutions and capabilities thereby positioning itself as the partner of choice among major corporate clients.

The Bank's Wholesale Banking (WB) continues to be the largest contributor to its financial figures in terms of assets, liabilities and positive bottom line. In line with UAB's ambitious vision, WB continues to target designated business segments with a holistic approach focusing on maximizing clients' share of wallet.

Moreover, our retail banking group was also proactively focused on reducing risk and creating a substantial business model through a segmented approach with prudent lending, company profiling, multiple layer approval process, vintage performance monitoring and preemptive delinquency tracking. Retail banking remained focused on acquiring quality assets focusing on personal loans products like salary transfer loans and credit cards based with special emphasis on healthy yield asset products to ensure high profitability within the retail banking group.

In continuation with the Bank's strategy to support traditional segments, we also made significant progress in 2021 to embrace the latest technology trends to comply with regulatory controls and set up a Digitally Enabled Platform. As the IT Strategy Implementation Initiatives continue to evolve, our operating model is constantly improving to ensure a superior customer experience by adopting the latest trends in banking, optimizing IT Infrastructure, enhancing the application stack and strengthening security data.

The Bank's robust liquidity profile is also demonstrated by an advances to stable resources ratio of 81 per cent and an eligible liquid asset ratio of 19 per cent, both comfortably above regulatory thresholds.

UAB's financial performance was aided by a significant progress within the 'core' businesses recording a 12 per cent growth in its total operating income in 2021 as compared to 2020. Year-on-year provision charges have significantly reduced by 83 per cent in 2021 and are expected to improve further with new portfolio underwritings in high-quality assets.

We are pleased with our overall financial results for the year 2021 as the Bank continues to progress well against its strategy and move forward on the path to becoming a more efficient, lower risk and sustainable lender. These positive results demonstrate the success of the Bank's digital transformation strategy and are a testament to the efforts made by every member of our team and the exceptional work carried out in dealing with the challenges imposed by the Covid-19 pandemic.

The investment that the Bank started in developing and modernising the technological infrastructure and hence moving forward towards the digital world and the successful execution of the turnaround strategy paved the way for a return to profitability.

## UAB recorded a Net Profit of Dh70 million for the year 2021 compared to a net loss of Dh667 million in 2020, representing an increase of 111 per cent.

Our focus continues to be supporting the economic recovery and positioning the Bank for sustainable growth. We collaborated with various stakeholders to help our clients navigate the financial implications of the pandemic. At the same time, we introduced new digital capabilities in the context of remote banking and working.

In addition, UAB has participated in a first-of-its-kind nationwide Fintech Megathon, SCA Fintech Megathon 2021, launched by Emirates Securities & Commodities Authority (SCA) and the Ministry of Economy to promote further development of the fintech industry in the UAE. The initiative will help innovators, financial institutions, regulators, and other ecosystem partners in the UAE collaborate, crowdsource and prototype fintech solutions.

It is worth noting that the UAB was awarded the Best Robotic Process Automation (RPA) Program, at The Middle East & Africa Retail Banking Innovation Awards 2021. The Bank also received the international commendation for digitizing customer interactions and processes, improving efficiency and decreasing processing costs. This recognition reiterates our efforts and commitment to understanding our customers' needs and delivering innovative digital solutions and marks a great achievement for UAB's Intelligent Robotic Automation practice and testifies the efforts made by each of our team members.

Moving ahead, the Bank remains committed to realize the full potential of our core business, supported by prudent risk management and implementation of lean operating model, whilst continuing to manage the fundamental pillars of capital, funding and liquidity.

We are confidently looking forward to the future and continuously developing and improving our business model and activities in line with our customer base and sustainable growth strategy.

Additionally, it would be hard to imagine this year's success to be possible without the efforts and dedication of the Bank's current Board of Directors and its management team and employees. Their ability to rapidly adapt to sudden changes and their resolve to excel at their duties played a quintessential role in the positive outcomes in 2021.

# Board of Directors

### H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi

CHAIRMAN OF UAB

Re-Elected to the Board in 2021 for a term of 3 years

Founder of United Arab Bank, H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi has served as the Chairman of the Board of Directors since the Bank's inception in 1975 and has since then remained the largest single individual shareholder of the Bank.

Beyond his instrumental role at UAB, H.E. Sheikh Faisal is currently the Chairman of the Board of Directors of a number of private companies. He also formerly served as the Chairman of the Board of Arab Organization of Industries and Establishment.

H.E. Served in the UAE Armed Forces in different capacities prior to retiring at the rank of Major General including Under Secretary of the Ministry of Defense, Chief of Staff, and Chairman of the Court of Crown Prince at the time – H.H. Sheikh Khalifa bin Zayed Al Nahyan.

H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi graduated from Jordanian Officer Cadet School and Mons Officer Cadet School in UK.

**External Board Appointments:**

- Chairman – GIBCA Group of Companies
- Chairman – Faisal Holding LLC
- Chairman – Grand Stores
- Chairman – Hospitality Management Holdings LLC

## Mr. Omar Hussain Alfardan

VICE CHAIRMAN OF UAB

Chairman – Board Governance and Remuneration Committee

Re-Elected to the Board in 2021 for a term of 3 years

Mr. Omar Hussain Alfardan holds a Bachelor's Degree in Business Administration and a Master's Degree in Finance from Webster University in Geneva, Switzerland.

**External Board Appointments:**

- Chairman of the Board of Directors at Alternatif Bank in Turkey
- Managing Director – The Commercial Bank (P.S.Q.C.) President and CEO – Alfardan Group and its subsidiaries (Automotive, Properties & Hospitality),
- Board Member of Alfardan Subsidiaries including Jewellery, Investment and Marine Services
- Board Member – Qatar Red Crescent
- Advisory Board Member - Qatar Financial Centre Authority
- Member of the Board of Governors at Sidra Medicine

## Sheikh Abdulla bin Ali bin Jabor Al Thani

DIRECTOR

Chairman - Board Risk Committee

Re-Elected to the Board in 2021 for a term of 3 years

Sheikh Abdullah has served on the Board of Directors of United Arab Bank since February 2008 and holds a BA in Social Science from Qatar University.

**External Board Appointments:**

- Chairman – The Commercial Bank (P.S.Q.C.)
- Deputy Chairman – National Bank of Oman

**External Board Appointments:**

- Owner – Vista Trading Company
- Partner – Integrated Intelligence Services
- Owner – Abdulla bin Ali & Partners for Real Estate and Commerce
- Owner – Shaza Hotel, Doha

## H.E. Sheikh Mohammed bin Faisal Al Qassimi

DIRECTOR

Chairman – Board Credit Committee
Chairman – Board Governance and Remuneration Committee

Re-Elected to the Board in 2021 for a term of 3 years

H.E. Sheikh Mohammed bin Faisal Al Qassimi is the founder and chairman of MANAFA LLC, which he established in 2003. MANAFA LLC is a holdings company and an investment house with a significant presence in the Middle East. Since its inception, the group has made a rapid expansion in the markets where it operates.

Sheikh Mohammed bin Faisal bin Sultan Al Qassimi is a graduate from the Webster University in Business Administration and Accounting and a member of the CMA and the Society of Technical Analysts of the United Kingdom.

Sheikh Mohammed also holds key directorship and senior positions at various business groups and associations including:

- Faisal Holding LLC & a number of its Board Committees.
- Grand Stores LLC.
- Italian Chamber of Commerce in the UAE & the GCC.
- Member of Certified Management Accountant - CMA.
- Member of Society of Technical Analysts of the United Kingdom.

## Mr. Ahmed Mohamad Bakheet Khalfan

DIRECTOR

Member – Board Credit Committee
Member – Board Governance and Remuneration Committee
Member – Board Risk Committee

Re-Elected to the Board in 2021 for a term of 3 years

Mr. Ahmed Mohamad Bakheet Khalfan previously served as the Deputy General Manager of Emirates Industrial Bank and was Chairman of the Board of Directors of Emirates Modern Poultry Company and Vice Chairman of Emirates Rawabi. He also served as Board Member for various companies in the UAE including ALICO, Gulf Glass, and Takaful Re.

Mr. Khalfan graduated with a Bachelor of Science in Economics with honor from the North Eastern University, Boston.

## Ms. Najla Ahmed Al Midfa

DIRECTOR

Chairperson - Board Audit Committee

Elected to the Board in 2021 for a term of 3 years

Ms. Najla Ahmed Al Midfa is Chief Executive Officer of the Sharjah Entrepreneurship Center (Sheraa), a government-supported entity with a mandate to build the entrepreneurial ecosystem in Sharjah, by supporting entrepreneurs as they build and grow innovative startups that contribute positively to socio-economic growth. Najla is also the founder of Khayarat, a platform that empowers young, high-potential Emiratis to make informed career choices, and enables them to succeed in the private sector.

Ms. Al Midfa has an MBA from Stanford University, and is a fellow of the Aspen Institute's Middle East Leadership Initiative. In 2019, she was selected to be an Eisenhower Global Fellow.

Ms. Al Midfa holds other key Senior advisory and board member positions at leading institutions such as:

- Board member of the United Arab Bank (part of the Board Audit Committee)
- Vice Chairman of Young Arab Leaders
- Board member of Endeavor UAE

## Mr. Fahad AbdulRahman Badar

DIRECTOR

Member – Board Credit Committee
Member – Board Risk Committee

Re-Elected to the Board in 2021 for a term of 3 years

Mr. Fahad AbdulRahman Badar is a member of the Bank's Board of Directors and joined in July 2016.

Mr. Badar's career at The Commercial Bank (P.S.Q.C.) spans over 19 years. Prior to his current role as Executive General Manager, International Banking, Mr. Badar held a number of key roles in the International Banking, the Government and Public Sector Relations and the Wholesale Banking Divisions.

Mr. Badar holds an MBA from Durham University, United Kingdom and a Bachelors of Arts degree in Banking & Finance from the University of Wales.

**Other External Appointments:**

- Executive General Manager, International Banking – The Commercial Bank (P.S.Q.C.)
- Board Member – National Bank of Oman (NBO), Oman

## Mr. Joseph Abraham

DIRECTOR

Member – Board Governance and Remuneration Committee
Member – Board Audit Committee
Member – Board Credit Committee

Re-Elected to the Board in 2021 for a term of 3 years

Mr. Abraham has extensive banking experience across both developed and emerging markets. Before joining Commercial Bank in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016.

Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles with a successful track record covering general management, corporate banking, strategy, product management as well as acquisitions and integrations.

**Other External Appointments:**

- Group Chief Executive Officer of The Commercial Bank (P.S.Q.C)
- Vice Chairman of the Board of Alternatif Bank, Turkey
- Director, National Bank of Oman

## Mr. Abdul Wahab Al-Halabi

DIRECTOR

Member – Board Audit Committee
Member – Board Risk Committee

Elected to the Board in 2021 for a term of 3 years and resigned on 3rd March 2022

Mr. Abdul Wahab Al-Halabi is a Board Member at Global SWF, Union Properties and a Senior Advisor and Member of the Board, Middle East at Houlihan Lokey as well as a Partner at Decker & Halabi. He is a Chairman and Independent Director at DXB Entertainments and Chief Investment Officer of Equitativa Group, a diversified financial services group that is involved in asset management, wealth management and private equity.

Mr. Al-Halabi holds a Bachelor of Science in Economics from London School of Economics and an Executive MBA from École des Ponts ParisTech. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of Chartered Institute for Securities & Investments (CISI) and Entrepreneurs Organization UAE.

**Other Board and Director Appointments:**

- Chairman and Independent Director – DXB Entertainment
- Board Member - Global SWF
- Senior Advisor & Member of the Board, Middle East - Houlihan Lokey
- Board Member - Union Properties
- Director – AbFab Limited
- Director – TPL Properties Limited

# Shari’ah Committee Report

## Islamic Banking - United Arab Bank Internal Shari’ah Supervision Committee

In The Name of Allah, The Most Beneficent, The Most Merciful.

To the Shareholders of United Arab Bank,
peace and blessings upon all of you

Pursuant to the requirements stipulated in the relevant laws, regulations and standards (“Regulatory Requirements”), the Internal Shari’ah Supervision Committee of UAB (“ISSC”) presents to you the ISSC’s Annual Report regarding Shari’ah compliant businesses and operations of the UAB) for the financial year ending on 31 December 2021:

**1. Responsibility of ISSC**

In accordance with the Regulatory Requirements and the ISSC’s charter, the ISSC’s responsibility is stipulated as to:

a. undertake Shari’ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution’s policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders (“Institution’s Activities”) and issue Shari’ah resolutions in this regard, and

b. to determine Shari’ah parameters necessary for the Institution’s Activities, and the Institution compliance with Islamic Shari’ah within the framework of the rules, principles, and standards set by the Higher Shari’ah Authority (“HSA”) to ascertain compliance of the Institution with Islamic Shari’ah.

**2. Shari’ah Standards**

In accordance with the HSA’s resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari’ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari’ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution’s Activities without exception.

**3. Works Undertaken by the ISSC During the Financial Year**

The ISSC undertook Shari’ah supervision of the Institution’s Activities through review of those Activities, and monitoring through division or internal section of internal Shari’ah control, internal Shari’ah audit and (if applicable) external Shari’ah audit, in accordance with the ISSC’s authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. Works of the ISSC included the following:

a. Convening three meetings during the year.

b. Providing fatwas, opinions and resolutions on matters presented to the ISSC.

c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.

d. Supervision Islamic Banking Department and external Shari’ah Audit, of the Institution’s Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.

e. Providing direction to relevant parties of the Institution to rectify (where possible) findings cited in the reports submitted by division of section of the internal Shari'ah control, internal Shari'ah audit, and/or external Shari'ah audit.

f. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.

g. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning compliance of the Institution with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Institution is compliant with Islamic Shari'ah.

ISSC approved DAR Al Sharia to carry out the external Shari'ah Audit and provide the annual Shari'ah Audit report for the FY 2021.

**4. Independence of ISSC**

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Institution. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

**5. The ISSC's Opinion on the Shari'ah Compliance Status of the Institution**

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that most of the Institution's Islamic Activities are in compliance with Islamic Shari'ah. The ISSC formed its opinion, based on the external external Shari'ah Audit annual report.

1. The bank was executing and using the approved forms and agreements in most of its transactions except some transactions as mentioned in the annual Shari'ah Audit report.

2. Most of operational activities are in line with ISSC approval; except some of operational activities that were not as per the external Shari'ah Audit report.

3. All of the Bank's Islamic Investments are approved by ISSC.

4. Mudarabah profit distribution was approved by ISSC.

5. No Zakat obligations on the Islamic Banking Department since their Liabilities are exceeding their assets

We ask God, the Most High, the Almighty, to achieve righteousness for all.

**Dr. Moosa Tarek Khoory**
Executive Member of the Fatwa Authority

**Dr. Aziz bin Farhan Al-Anzi**
Member of the Fatwa Committee

**Dr. Ahmed bin Abdulaziz Al Haddad**
Chairman of the Fatwa Authority

# Corporate Governance

Sound Corporate Governance plays a fundamental role in the culture and business practices of UAB. The Bank's Corporate Governance framework relates to the way the business and activities of the Bank are directed and managed taking into account all stakeholders and the role of the Bank in the community.

## UAB's Corporate Governance Framework

The Governance framework ensures adequate Board oversight over the risks inherent to our business. It focuses on the separation of the Board of Directors, the Executive Management's duties and responsibilities, the effectiveness of the Board and Management Committees, role of the external and internal auditors and the transparency accuracy and timely disclosure of information. In addition, it aids cooperation with supervisory and regulatory authorities to ensure full compliance with applicable regulations and best practices.

UAB complies with each of the Central Bank, Securities and Commodities Authority and Abu Dhabi Securities Exchange regulatory requirements continuously looking to adopt industry best practices.

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws and are available on the Investor Relations section on our website (www.uab.ae).

## Transparency and Disclosure

As part of our efforts to continuously enhance disclosures and transparency, the delivery of accurate and timely information to our stakeholders represents a key priority of the Bank. Information is distributed through a number of channels including media, press releases and other various avenues.

In addition, a dedicated Investor Relations section is available on the Bank's website (www.uab.ae) through which financial and non-financial reports are cascaded.

Financial reports include published annual reports and financial results in both English and Arabic. Other important documents to shareholders such as the Memorandum and Articles of Association, shareholder structure, share price performance and analysts' reports are also available on the website.

# Board of Directors

## Role of the Board of Directors

The Board of Directors is empowered, under the Bank's Articles of Association, with the widest powers necessary to carry out the activities and functions required to fulfill the objectives of the Bank.

The Board responsibilities include establishing the Bank's strategy and ensuring that the Bank manages risk effectively through approving and monitoring the Bank's risk appetite. Adopting the Bank's Corporate Governance framework falls within the responsibilities of the Board to help ensure the implementation of solid internal controls and disclosures, the establishment of adequate policies and procedures necessary for the Bank's sound operations and compliance with applicable regulatory and statutory requirements at all times in addition, the Board has agreed  on the Terms of Reference of the Board of Directors and all Board Committees, which set out their respective process, duties and responsibilities.

## Role of the Chairman

The Chairman is elected by the Board in accordance with the Bank's Articles of Association. The position of Chairman of the Board and Bank's Chief Executive Officer is not held by the same individual.

The Chairman provides leadership for all aspects of the Board's activities and ensures that the Board meets its commitments to comply with applicable laws and regulations and that all resolutions adopted by the Board are effectively implemented.

**The Chairman's responsibilities include:**

- Providing leadership to the Board, setting its agenda, chairing its meetings and ensuring the effective implementation of Board's decisions;
- Ensuring the Board has within its membership the relevant knowledge of the banking industry as well as with financial and accounting expertise;
- Facilitating the effective contribution of Directors and the building of constructive relations between Directors;
- Promoting the highest standards of Corporate Governance and ensuring the Board discharges its duties and complies with relevant laws and regulatory requirements;
- Ensuring effective communications with shareholders;
- Arranging regular evaluations of the performance of the Board; and
- Building an effective Board and planning succession to all Board appointments.

**Directors Obligations and Duties**

Board Members commit to the following obligations in carrying out their duties as Directors of the Board, in accordance with the highest Corporate Governance standards:

- Having the necessary skills, qualifications and knowledge of the Bank's affairs and business;
- Acting honestly and in good faith with a view to protecting the best commercial interests of the Bank;
- Observing confidentiality, conflict of interest and transparency requirements when assuming their responsibilities as Directors;
- Acting in accordance with the obligations stipulated under the Articles of Association and all applicable laws and regulations;
- Not being convicted of any crime or felony or a crime involving moral turpitude;
- Disclosing any direct or indirect interests that they may have in connection with the Bank and which could conflict with the proper performance of their duties; and
- Attending regularly and participating effectively in Board meetings and general meetings of the shareholders.

**Board Composition and Nomination**

The Board is composed of 9 non-executive board members. The members were re-elected at the Annual General Assembly in April 2021. Members are eligible for re-election.

4 members represent The Commercial Bank, being the major shareholder,1 member represent the founders of the Bank with the remaining representing the private sector and minority shareholders.

The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities.

All Board members are in regular attendance of the meetings.

# Board Activities in 2021

The Board of Directors met 6 times in 2021 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

## 2021 Board Meetings Calendar:

| | |
|---|---|
| 08th February 2021 | Board of Directors meeting to approve Q4 2020 financial results conducted and to agree on General Assembly agenda on 29th April 2021 , in addition to other items on the agenda. |
| 29th April 2021 | Board meeting to discuss and approve other items on the agenda. |
| 16th June 2021 | Board meeting to discuss and approve other items on the agenda. |
| 10th August 2021 | Board meeting to approve Q2 2021 financial results in addition to other items on the agenda. |
| 08th November 2021 | Board meeting to approve Q3 2021 financial results in addition to other items on the agenda. |
| 12th December 2021 | Board of Directors meeting to discuss and approve other items on the agenda, along with Board Training. |

| BOARD MEMBER | BOD | GRC | BAC | BCC | BRC |
|---|---|---|---|---|---|
| Sheikh Faisal Bin Sultan Bin Salem Al Qassimi | C | | | | |
| Mr. Omar Hussain Alfardan | VC | C | | | |
| Sheikh Abdullah Bin Ali Bin Jabor Al Thani | M | | | | C |
| Sheikh Mohammed Bin Faisal Al Qassimi | M | M | | C | |
| Mr. Ahmed Mohamad Bakheet Khalfan | M | M | | M | M |
| Ms. Najla Ahmed Al Midfa | M | M | C | | |
| Mr. Fahad AbdulRahman Badar | M | | | M | M |
| Mr. Abdul Wahab Al-Halabi | M | | M | | M |
| Mr. Joseph Abraham | M | M | M | | |
| Number of Meetings in 2021 | 6 | 7 | 7 | 9 | 5 |

C: Chairman
VC: Vice Chairman
M: Member
BOD: Board of Directors
GRC: Board Governance & Remuneration Committee
BAC: Board Audit Committee
BCC: Board Credit Committee
BRC: Board Risk Committee

# Board Committees

The Board of Directors established Board Committees to assist the Board in carrying out its duties and obligations and offer a more detailed review of important areas of business and control.

## Board Governance & Remuneration Committee (GRC)

The GRC acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles.

The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements. GRC shall provide recommendations to the Board for new Board and Senior Management members. GRC will also provide support and directions to the Board in terms of strategic and budgetary initiatives, plans and decisions.

GRC meets at least Four times a year. the committee held Seven meetings in 2021.

## Board Audit Committee (BAC)

BAC is responsible for managing the financial reporting, compliance and internal audit reviews of the Bank and, in doing so, may exercise all the powers delegated by the Board, subject to any relevant laws and regulations.

The internal audit function has a direct reporting line to the BAC.

BAC meets at least Four times a year. In 2018, the committee held Seven meetings in 2021.

## Board Credit Committee (BCC)

The BCC is responsible for evaluating and granting client credit facilities and approving the Bank's investment activities within authorized limits and, in doing so, exercise all the powers delegated by the Board, subject to any relevant laws and regulations.

The BCC provides leadership for the Bank within a framework of prudent and effective credit management.

BCC meets on an ad hoc basis. The committee held Eleven meetings in 2021.

## Board Risk Committee (BRC)

The BRC monitors and manages all aspects of enterprise risk management including, but not restricted to, credit risk; market risk; operational risk; legal risk; regulatory risk; liquidity risk; financial risk. Moreover, the BRC reviews and approves the policies on all risk issues and maintains oversight of all Bank risks through reports received from the General Management Risk Committee.

BRC meets at least Four times a year. The committee held Five meetings in 2021.

## Performance Evaluation of Board and Board Committees

GRC reviews, on an annual basis, the performance of the Board against its Terms of Reference and reports accordingly to the Board of Directors.

## Management Committees

The Board approved the Terms of Reference of all Management Committees. The Bank has 7 Management Committees that report regularly to the Board, or the relevant Board committee, on their activities.

### Management Committee (MANCOM)

The Executive Management Committee is responsible for recommending the Bank's strategy and monitoring its performance. It will exercise general control over UAB and manage the Bank's business to ensure compliance with regulatory and legal requirements, and internal policies.

MANCOM meets weekly.

### Risk Committee (RC)

The General Management Risk Committee is the highest approving authority at the management level on all aspects of enterprise risk management including, but not restricted to: credit risk management; market risk; operational risk; legal risk; regulatory risk; liquidity risk; financial risks; corporate governance; and audit matters of the Bank (and any subsidiaries and affiliates in which it has strategic investments).

The RC provides recommendations on all risks and investment policies and portfolio issues to the BRC, and to other Board Committees as appropriate.
RC meets monthly.

### Credit Committee (CC)

CC is the highest management level authority on all client credit risk exposures, credit related matters and underwriting exposures on syndications and securities transactions.

CC meets weekly or as and when required.

### Business Technology Investment Committee (BTIC)

The BTIC is a committee established by the CEO to align technology initiatives with the Bank's business strategy. It aims at setting UAB strategic technology direction and monitor progress for the efficient and effective operations of the Bank's systems, aligned to business needs. The Committee ensures all IT related projects track against project plans, and deliver benefits and continuously improve services and solutions delivered to the business with consideration to any Group and industry best practice.

BTIC meets at least 4 times a year.

### Asset and Liability Committee (ALCO)

ALICO is the decision-making body related to balance sheet structure, funding, pricing, hedging, investment, and setting limits related to the overall ALM function of the Bank; and the has the mandate for recommending for approval or itself approving various functions/ transactions mention under the responsibilities.

ALCO meets at least monthly.

## Special Assets Committee (SAC)

The Special Assets Committee is the highest management level authority on both Retail, Corporate and SME provisions. The authority of the SAC is derived from the Board.

SAC meets on a monthly basis.

## Digital Transformation Steering Committee (DT SteerCo)

The objective of this committee is to oversee and govern the implementation of all initiatives / projects under the scope of UAB Re-branding and Digital Transformation programs, make key decisions, resolve showstoppers and issues, etc. The Committee is headed by the CEO and comprises of a sub-set of Mancoms who are key stakeholders of these 2 strategic programs.
The DT SteerCo meets on a fortnightly basis.

## Performance Evaluation of Management Committees

The Corporate Governance reviews on an annual basis the performance of all Management Committees against their terms of reference and reports accordingly to the Board.

# Shareholders Profile

## Meeting of the Shareholders

UAB Shareholders meet at least once a year during the Annual General Assembly ("AGA"), the supreme governance body of the Bank. The Articles of Association provides the statutory framework for the calling and the conduct of the AGA.

The AGA is held during the first four months of the year, to:

**I. Items approved by an ordinary resolution** (passed by 50% of the shares represented at the General Meeting - as per the Commercial Companies Law No. 2 of 2015):

1. Consider and approve the Report of the Board of Directors on the Bank's activities and financial position for the year ended 31 December 2020.
2. Consider and approve the Auditor's Report on the Bank's financial position for the year ended 31 December 2020.
3. Consider and approve the Bank's Balance Sheet and Profit and Loss Account for the year ended 31 December 2020.
4. Consider and approve the Board of Director's recommendation to not distribute dividends, whether in cash or bonus shares, for the year 2020.
5. Consider and approve the Board of Director's recommendation to not distribute any remuneration to the Board of Directors for 2020.
6. Discharge the members of the Board of Directors for the year ended 31 December 2020 or to dismiss them and file a liability lawsuit against them, as the case may be.
7. Discharge the Bank's auditors for the year ended 31 December 2020 or dismiss them and file a liability lawsuit against them, as the case may be.
8. Appoint the Bank's auditors for the year ending 31 December 2021 and determine their fees.
9. Elect the Bank's Board of Directors members for the coming term of three (3) years.
10. Authorize the Bank's elected Board members to participate in business in competition with the Bank as per Article (152) of the Commercial Companies Law No. 2 of 2015.
11. Consider and approve the Annual Report of the Internal Sharia Supervisory Board.
12. Reviewing and approving the appointment of Dr. Shk Mousa Tariq Ahmad Khoory as a new member in the Internal Sharia Supervision Committee of the Arab Bank and the renewal of the membership of the current members (Dr. Ahmad Al-Haddad and Dr. Abdulaziz Al-Anzi).
13. Discussing the appointment of representatives on behalf of the shareholders to attend the General Assembly meetings and renewing their fees in accordance with the requirements of the Authority.

**II. Items approved by an extraordinary resolution** (passed by 75% of the shares represented at the General Meeting - as per the Commercial Companies Law No. 2 of 2015):

1. To consider and approve any issuance of bonds or other non-convertible debt instruments in a private placement through secured arrangements, whether in the form of loans or bonds with a maximum amount of $ 100,000,000 or equivalent in other currencies, in compliance with all applicable laws and the requirements of the Securities and Commodities Authority and the Central Bank of the United Arab Emirates; And authorizing the Board of Directors to take what is necessary for its issuance, not exceeding one year from the date of the General Assembly, and taking into account the legal controls regulated.

The AGA took place once in 2021 on 29th April 2021.

## Major Shareholders

List of major Shareholders who owned 5% and above of the share capital as at December 31, 2021:

| | |
|---|---|
| The Commercial Bank (P.S.Q.C.) | **40.00%** |
| Sheikh Faisal bin Sultan Al Qassimi | **11.13%** |
| Al Majed Investment Company (WLL) | **5.47%** |
| Jumaa Al Majed Abdullah Muhairi | **5.31%** |
| Sheikh Sultan Saqer Sultan Salem Al Qassimi | **5.20%** |

Shareholders by Nationality as at December 31, 2021:

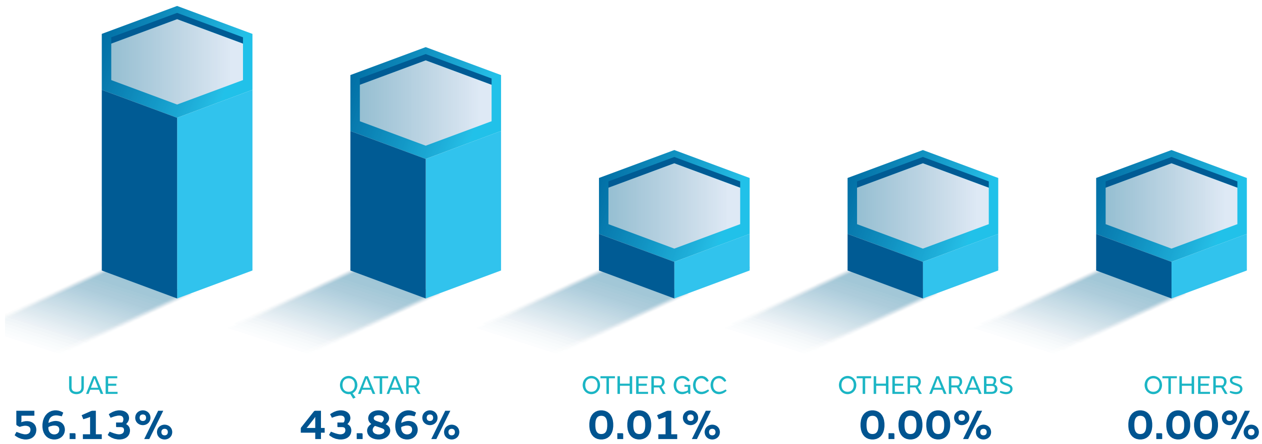
| | |
|---|---|
| UAE | **56.13%** |
| QATAR | **43.86%** |
| OTHER GCC | **0.01%** |
| OTHER ARABS | **0.00%** |
| OTHERS | **0.00%** |

Shareholders by Investor Type as at December 31, 2021:

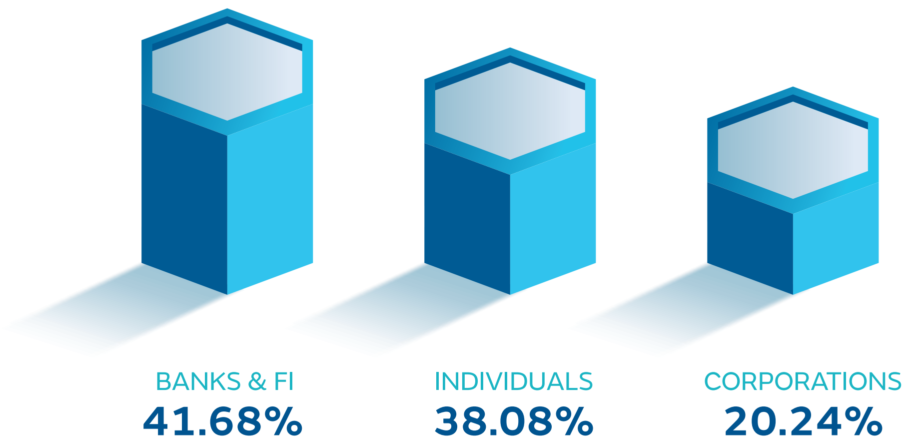
| | |
|---|---|
| BANKS & FI | **41.68%** |
| INDIVIDUALS | **38.08%** |
| CORPORATIONS | **20.24%** |

*Total might not equal 100% due to rounding

## Shareholders Breakdown by Nationalities
as at December 31, 2021




## Shareholders Breakdown by Economical Entities
as at December 31, 2021



# Risk Management

UAB regards effective risk management as a key element to its sustainable performance; success, transformation strategy and value creation.

The role of risk management is to ensure that the Bank's risk-related decisions are consistent with the Bank's strategy, and are in line with its Risk Appetite framework, Best Practice and International standards set by regulators.

Effective risk management is fundamental to the success of the Bank and is recognized as a key element in UAB's overall approach to achieving its strategic goals.

The risk management framework is predicated on the Three Lines of Defense model. Within this model, Business units (first line) originate and manage risks, while the risk management and other control functions (second line) provide independent oversight and objective challenges to the first line of defense, as well as monitoring and controlling of risk. The Internal audit department (the third line) provides assurance that policies, procedures and controls are achieved by the other defenses.

The Bank has an established Risk governance framework with an active and engaged Board of Directors, supported by an experienced senior management team and risk management that is independent of the business lines. Decision-making is exercised through a number of Board and Executive Management Committees as per approved delegation of authority (DOA) matrix.

The Board of Directors approves key risk policies, limits and risk appetite statement, and ensures, either directly or through the committees, that decision-making is aligned with the Bank's strategic goals. Moreover, detailed reports are submitted to the Board periodically on the Bank's risk profile and emerging risk along with current state of the risk culture, utilisation against the established risk appetite, and limits, limit breaches (if any) and mitigation plans.

The Chief Risk Officer (CRO) is responsible for risk management under the oversight of the Board Risk Committee. The CRO heads the risk management function and also has direct access to the Board.

The risk management consists of specialized teams for managing credit, market/liquidity and operational risks. Risk management also includes the control and reporting functions of risk analytics, portfolio management, information security, internal control and credit administration and monitoring.

The Bank continuously strengthens its risk management practices, policies and procedures and other tools to upgrade its overall capabilities, which are fundamental to achieving its business strategy. In order to achieve the aforesaid mission, UAB embark upon development of Comprehensive Risk Road Initiatives. Multi-year program using which we intend to transform and uplift risk setup within UAB, expecting significant value creation and cost optimization.

UAB has a well-defined and independent Credit Administration Department (CAD) that manages credit risk arising from its existing and future corporate credit exposures through obtaining Legal documentation & Limit management functions reporting to the Chief Risk Officer.

CAD functions are broadly managed by two units, namely Credit Documentation and Credit Control Units to attend to core responsibilities of borrowing documentation, Custody of borrowing & related security documents and limit management in adherence to UABs Credit policy. Highlighting exceptions and tracking them until resolution is also part of the daily activities.

## Operational Risk

- Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

- The Bank makes use of six operational risk management processes, which consist of key risk indicators, change risk assessment, risk self-assessment, scenario analysis, issue & action management and risk event management.

- Furthermore, several types of risk mitigation measures are used and comprise control enhancement, model risk management, business continuity management and other mitigation measures (risk avoidance, risk reduction and risk transfer).

- To pro-actively address risks related to potential business disruptions, business impact analyses, crisis management teams and business continuity plans have been established for the Bank as well as for all branches.

## Enterprise Risk Management Department

United Arab Bank continued its drive to focus on strengthening the risk management culture and ensuring the same is institutionalized at an enterprise wide basis. With this objective set forth, the management decided to set up enterprise risk management department to ensure that the bank adopt best in class risk management practices supported by necessary risk infrastructures.

Enterprise risk department housed under risk management is an independent Risk function and report directly to Chief risk officer (CRO). This department is responsible for managing

- Market,
- Liquidity Risk,
- Risk Analytics and
- Risk Reporting

The priority has been to strengthen the Enterprise Risk Management function with core emphasis on the following:

Implementation of sound risk framework including policies and procedures.

Ensure continuous compliance with Regulatory standards and best practices.

Develop, institutionalized, assessed and monitor Risk Appetite framework

The bank measures and manages Market & liquidity Risk by using different risk parameters with combinations of various limits.

Refining and strengthening the Stress Testing framework in line with Central Bank of UAE and Basel guidelines
Ensuring that the Bank remains complaint with IFRS9 Credit related guidelines including continuous and rigorous validation of bank internal models
Setting up of information security function in line with the bank mission and strategy and continued the efforts to strengthen and protect information, process and systems
Setting up of internal control unit responsible for implementing the internal control frame work in line with CBUAE guidelines.

## Compliance

The Covid -19 pandemic continues to be a major challenge, as Banks are at the front-line of the economic disruption, brought about by the pandemic. Central banks, large global & small to medium-sized regional banks, are all facing unprecedented challenges and risks. They are also taking multiple measures to support their employees and customers, and help bolster the financial system. Compliance function of a bank, must extend its focus beyond the bank, its policies and its employees. This function also bears the responsibility, for ensuring that the bank's clients act within the law and don't use the bank as a conduit for illegal & illicit activities, such as money laundering, evading taxes, terrorism & proliferation financing.

We, at the United Arab Bank are fully cognizant of the regulatory risk implications associated with non-adherence to the local & global laws & regulations, which may result in sanctions, fines/censures and losses associated with damage to the Bank's reputation as a result of its failure to comply with the applicable laws & regulations or prescribed practices. The Compliance function at United Arab Bank provides assurance to the Senior Management and the Board that the expectations of the regulator, i.e. the Central Bank of the UAE, are fully met (along with relevant international regulations) and that the risk of the Bank being used to facilitate financial crime is effectively mitigated.

The Compliance & Financial Crime Risk Function at UAB, is an independent and second line of defense, helps protect the bank by establishing a control environment that mitigates key risks. Specifically, Compliance provides regulatory guidance and operates a risk-based program designed to prevent, detect, and address violations of applicable laws, rules, regulations, policies, and procedures. One of the key responsibilities of the Compliance function is to provide consultative support and oversight to the Senior Management towards effectively mitigating and managing the compliance risks faced by the Bank. Administrative independence of the Compliance function is ensured at all times, along with unrestricted access to all necessary data, information and systems across the Bank. Compliance also maintains an efficient reporting structure that enables prompt escalation and resolution of issues.

Following on from the publication of the 2020 Financial Action Task Force (FATF) Mutual Evaluation Report (MER), the Financial Institutions in the U.A.E., are under enhanced level of Regulatory focus, especially in relation to Financial Crime Compliance domain, which includes publication/ issuances of a number of regulations, notices and guidance documents. Accordingly, United Arab Bank (UAB), has undertaken, initiatives towards overall improvement in the Regulatory & Financial Crime function.

With significant continuing regulatory changes, the criticality of the Compliance function and the need for an effective Compliance framework within a financial institution is unprecedented. The vulnerability of financial institutions has increased manifold with extra-territorial enforcement of overseas regulatory agencies creating a more complex arena. Consequently, the need for senior management of banks to fully understand and effectively mitigate evolving Compliance risks is of paramount importance. United Arab Bank (UAB) remains fully cognizant as well as vigilant towards such local and international risks vis-à-vis our banking activities/ services. Furthermore, the Bank fully acknowledges the importance of adherence to all CBUAE regulations without exception.

The Board and the Senior Management continuously promote and uphold a strong Compliance culture across the Bank while setting the desired "Tone from the Top". As a result, we continue to endeavor to maintain an environment that is conducive towards employee empowerment and transparency in relation to effective risk management across the bank.

# Legal

The Legal team provides legal support to the Bank's departments and senior management, with its key objective is to give advice and guidance on various legal issues. The Legal team acts as the Bank's legal counsel and has the following priorities:

- Advise the Bank's stakeholders on effective solutions for current and anticipated material concerning legal and regulatory issues.
- Ensure major corporate actions, transactions and projects are managed in an efficient manner and are in line with applicable laws and regulations, in order to minimize the Bank's legal and regulatory risks.
- Draft, review and update the standard documentation, templates and relevant general terms and conditions of Bank's products.

  Initiate new legal cases and follow up on the cases filed by or against the bank before competent courts.
- Review all contracts and agreements in which the Bank is or will become party to.

# Internal Audit

Internal Audit Department (IAD) in an independent function in the Bank and represents Third Line of Defense whose primary objective is to assist the Board of Directors and Executive Management to protect the assets, reputation and sustainability of the Bank.

To ensure independence, the Chief Audit Executive reports to the Chairman of the Board Audit Committee and is accountable for setting and reinforcing IAD's strategic direction, while ensuring that IAD has the necessary independence and authority, to exercise judgement, express opinions and make recommendations.

Therefore, IAD continues to be free from interference by the Bank's management, including in matters of audit selection, scope, procedures, frequency, timing or report content.

Internal Audit activities are governed by Board approved Internal Audit Charter that sets out the mandate, approach, authority and responsibility of IAD within the Bank. The Charter is compiled by taking into consideration the Internal Audit Guidelines and Standards issued by the Institute of Internal Auditors ("IIA"), the Information, Systems Audit and Control Association ("ISACA"), and the Central Bank of the United Arab Emirates ("CB-UAE").

The scope of IAD activities covers, but is not restricted to, inspections of evidence to provide independent assessments on the adequacy and effectiveness of risk management, control and governance processes within the Bank. In order to achieve this, a risk assessment of the Bank and its activities (including outsourced activities) is conducted at least once every year and reviewed on a periodic basis to formulate an agile Audit Plan. Audits are executed in accordance with the Plan to form an opinion on the overall control environment.

There is no aspect of the organisation which IAD is restricted from looking at as it delivers on its mandate.

# Business

## Retail Banking & Wealth Management - Review of Performance

In response to continuous economic challenges this year, retail banking group proactively focused on the below key areas:

UAB continued its journey to reduce risk and create a substantial business modelthrough a segmented approach with prudent lending, company profiling, multiple layer approval process, vintage performance monitoring and preemptive delinquency tracking.

Retail banking focused on acquiring quality assets focusing on personal loans products like salary transfer loans and credit Cards based with special emphasis on healthy yield asset products to ensure high profitability within the Retail banking group. UAB has moved exclusively to MasterCard for issuing credit and debit cards.

UAB remains committed to a customer-centric approach by ensuring the bank understands its customer demands and propose innovative solutions to fulfill their financial needs. Going forward, Retail banking will focus on creating a risk adverse environment while introducing innovative solutions and offerings to meet the evolving needs of our customers. We will utilize the bank's digital capabilities to improve customer experience and ultimately build stronger relationships.

## Wholesale Banking (WB)

UAB's Wholesale Banking (WB) continues to be the largest contributor to its financial figures in terms of Assets, liabilities and positive bottom line. In line with UAB's ambitious vision, WB continues to target designated business segments with a holistic approach focusing on maximizing clients' share of wallet.
By emphasizing the breadth & depth of customer relationships, enhancing overall CX, & diversified product offerings to customers, WB managed to penetrate selective market segments & emphasize UAB's corporate identity in the market. In line with UAB's aspirations, WB is a driving force to its digital transformation journey with multiple grand projects spearheaded by WB aiming to digitize internal processes as well as Corporate CX. Putting transaction banking in the forefront to diversify and maximize fee-based income, WB promoted a new product (structured LCs/cash secured), introduced credit insurance backed discounting, launched trade online portal & revamped supply chain finance.

Capitalizing on a UAB's deep roots and in line with our strategy to remain UAE centric, WB managed to diversify its portfolio and grow its assets book selectively with a special focus on supporting the UAE economy. WB's deal of the year 2021, a term loan granted to a sovereign body is one of several successful large deals concluded within all active WB segments, be it Manufacturing, Family Conglomerates, Trade & Services or the contracting sector. The collaboration & synergy between WB and all UAB Business Partner Units (BPUs) resulted in a maximized share of wallet, especially as a result of the sync with FI & Retail.

In line with UAB's core values, the most valuable assets are its employees; hence WB gives special emphasis to promote positive productive environment among its members, promotes a culture of empowerment and strengthens Ethical Lending standards to become business partners & advisors to our customers.

# Director’s Report

On behalf of the Board of Directors of United Arab Bank (UAB), I am pleased to present to the shareholders of the Bank our Annual Report for the year ended 31 December 2021.

UAB posted a Net Profit of AED 70 million for the year 2021, compared to a net loss of AED 667 million in 2020 representing an increase of 111%. The growth in net profit is a result of improved operating performance and lower expected credit losses, coupled with disciplined cost control and a prudent approach to risk management. The successful execution of the Bank’s Transformation Strategy paved the way for a return to sustainable profitability.

UAB’s financial performance was aided by a significant progress within the ‘core’ businesses recording a 12% growth in its total operating income in FY 2021 as compared to FY 2020. Provision charges have significantly reduced by 83% in 2021 as compared to 2020 and are expected to improve with new portfolio underwritings in high-quality assets. The Bank maintained adequate levels of capital with a capital adequacy ratio of 13.8% and a CET1 ratio of 12.6%, both of which remain well above the regulatory requirements currently applicable. The Bank’s NPL ratio improved from 15.7% in FY 2020 to 12.6% in FY 2021.

The Board and the Management Team continues to focus on growing the Bank’s core businesses and revenues across its Wholesale Banking, Retail Banking and Financial Markets whilst moving towards a more agile operating model incorporating digital solutions and capabilities thereby positioning itself as the partner of choice among major corporate clientele segments.

The Board of Directors recommend the following appropriations for the year ended 31 December 2021:

| | 2020<br>AED’000 | 2021<br>AED’000 |
|---|---|---|
| **Opening balance in Accumulated Losses at 1 January** | **(897,863)** | **(667,257)** |
| Profit / (Loss) for the year | (667,295) | 70,191 |
| Accumulated losses offset against reserves (note) | 897,863 | 0 |
| Transfers from revaluation reserve | 38 | 517 |
| Balance available for appropriation | **(667,257)** | **(596,549)** |
| Transfer to Special Reserve | 0 | (7,019) |
| Transfer to Statutory Reserve | 0 | (7,019) |
| Director’s remuneration | 0 | 0 |
| **Closing balance in Accumulated Losses at 31 December** | **(667,257)** | **(610,587)** |

*Note: Following the receipt of the Bank’s Annual General Assembly approval dated 13 April 2020 as well as regulatory consents received subsequently, the Bank’s accumulated losses as at 1 January 2020 of AED 897,863 thousand have been fully set off against the Special reserve of AED 422,116 thousand and Statutory reserve of AED 475,747 thousand.*

Subject to the General Assembly’s approval, total Shareholders’ funds will increase to AED 1,512m at 31 December 2021 compared to AED 1,455m at 31 December 2020. The Directors’ propose no dividend distribution for the year 2021.

To the best of our knowledge, the financial information included in the report fairly presents in all material respects the financial condition, results of operation and cash flows of the Bank as of, and for, the periods presented in the accompanied financial statements for the year ended 31 December 2021.

On behalf of the Board of Directors whose unwavering commitment and guidance remain invaluable, my sincere appreciation goes to our valued customers and shareholders for their patronage, the top management and the employees for their commitment and dedication, and to the Central Bank of UAE for regulating and supporting the UAE banking sector.

In conclusion, we wish to express our appreciation to the President of the United Arab Emirates, His Highness Sheikh Khalifa Bin Zayed Al Nahyan for his leadership, vision and support. We also wish to thank His Highness Sheikh Mohammed Bin Rashid Al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai, His Highness Sheikh General Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces and His Highness Sheikh Dr. Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah for their support and guidance.

**Faisal bin Sultan bin Salem Al Qassimi**
Chairman
2 March 2022

# Pages

# Independent Auditor's Report

## Report on the Audit of the Financial Statements

***Opinion***

We have audited the financial statements of United Arab Bank PJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of income, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

***Basis of opinion***

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards ("IESBA Code") together with 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.

***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements.  The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

# Independent Auditor's Report

## Report on the Audit of the Financial Statements (continued)

***Key Audit Matters (continued)***

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| **(a) Expected credit losses ("ECL") for Loans and Advances and Islamic financing receivables**<br><br>*Refer note 7 of the financial statements.*<br><br>Loss allowances on loans and advances and Islamic financing receivables represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9").<br><br>Management first assesses whether the credit risk of Loans and advances and Islamic financing receivables to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL. | We obtained an understanding of management's assessment of impairment of loans and advances and Islamic financing receivables, the Bank's internal rating model, the Bank's credit impairment provision policy and the ECL modelling methodology, including its<br><br>- Review and approval of classification of loans and advances and Islamic financing receivables facilities.<br><br>- Management's monitoring of:<br>i) Staging and ECL for loans and advances and Islamic financing receivables.<br>ii) Identification of loans displaying indicators of impairment (including days past due) under stage 3.<br>iii) Macroeconomic variables and forecast<br>iv) Performance of ECL models<br><br>- The review and approval of management overlays and the governance process around such overlays.<br><br>- The independent model validation function. |

## Report on the Audit of the Financial Statements (continued)

***Key Audit Matters (continued)***

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| **(a) Expected credit losses ("ECL") for Loans and advances and Islamic financing receivables (continued)**<br><br>*Refer note 7 of the financial statements. (continued)*<br><br>Management has also applied significant level of judgement in areas noted above in determining the impact of COVID-19 on the allowances for credit losses by considering the following:<br><br>Management has also applied significant level of judgement in areas noted above in determining the impact of COVID-19 on the allowances for credit losses by considering the following:<br><br>1. Forward looking information, including variables used in macroeconomic scenarios and their associated weightings,<br><br>2. Stress in specific sectors and industries, and<br><br>3. Impact of Government support measures.<br><br>We considered ECL for Loans and advances and Islamic financing receivables as a key audit matter as the determination of ECL involves significant management judgement such as categorisation of Loans and advances and Islamic financing receivables into stages 1, 2 or 3; assumptions used in the ECL model such as expected future cash flows, macro-economic factors etc., and overlays to reflect current or future external factors. These judgments have a material impact on the financial statements of the Bank. | We performed the following audit procedures:<br><br>- We tested the compliance of the Bank's ECL methodologies and assumptions with the requirements of IFRS 9.<br><br>- For a sample of exposures, including those in industries severely impacted by COVID -19, we performed procedures to assess whether significant increases in credit risk (SICR) has been correctly identified. Our procedures also included evaluating the effect of COVID 19 related government support measures and deferral programs on the SICR assessment and staging of exposures<br><br>- We tested and assessed reasonableness of management's selection of forward looking macro-economic variables, scenarios and weights assigned to these scenarios, including an evaluation of changes made to these variables, scenarios and weights.<br><br>- We assessed appropriateness of the modelling methodologies applied in the ECL model of the Bank.<br><br>- For a sample of exposures, we examined key data inputs into the ECL models.<br><br>- We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy.<br><br>- We assessed appropriateness of disclosures in the financial statements against the requirements of IFRS. |

# Independent Auditor's Report

## Report on the Audit of the Financial Statements (continued)

***Key Audit Matters (continued)***

***Other Information***

Management is responsible for the other information. Other information consists of the information included in the Bank's 2021 Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

***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 IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

# Independent Auditor’s Report

## Report on the Audit of the Financial Statements (continued)

***Auditor’s responsibilities for the audit of the financial statements (continued)***

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 Bank’s internal control.

***Auditor’s responsibilities for the audit of the financial statements***

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

# Independent Auditor's Report

## Report on other legal and regulatory requirements

Further, as required by UAE Federal Law No. (2) of 2015 (amended), we report that for the year ended 31 December 2021:

- the Bank has maintained proper books of account;
- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015 (amended);
- the financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- investments in shares and stocks during the year ended 31 December 2021 are disclosed in note 8 to the financial statements;
- note 24 reflects material related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2021, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (amended) or of its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2021; and
- note 32 reflects the social contributions made during the year.

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

For Ernst & Young

**Thodla Hari Gopal**
Partner
Registration Number: 689
22 March 2022
Sharjah, United Arab Emirates

## Statement of Financial Position

**As at 31 December**

| | Notes | 2021 AED'000 | 2020 AED'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with UAE Central Bank | 5 | **2,009,565** | 1,406,322 |
| Due from other banks | 6 | **378,735** | 296,525 |
| Loans and advances and Islamic financing receivables | 7 | **8,213,350** | 9,013,639 |
| Investments and Islamic instruments | 8 | **3,530,217** | 3,281,726 |
| Property, equipment and capital work-in-progress | 9 | **303,271** | 327,790 |
| Other assets | 10 | **744,904** | 523,147 |
| **Total assets** | | **15,180,042** | 14,849,149 |
| **Liabilities and shareholders' equity** | | | |
| **Liabilities** | | | |
| Due to banks | 11 | **2,410,988** | 1,233,470 |
| Customers' deposits and Islamic customer deposits | 12 | **10,406,425** | 11,246,835 |
| Other liabilities | 14 | **850,737** | 914,301 |
| **Total liabilities** | | **13,668,150** | 13,394,606 |
| **Shareholders' equity** | | | |
| Share capital | 15 | **2,062,550** | 2,062,550 |
| Special reserve | 15 | **7,019** | - |
| Statutory reserve | 15 | **35,943** | 28,924 |
| General reserve | 15 | **9,311** | 9,311 |
| Revaluation reserve | 15 | **-** | 517 |
| Cumulative changes in fair values | | **7,656** | 20,498 |
| Accumulated losses | | **(610,587)** | (667,257) |
| **Net shareholders' equity** | | **1,511,892** | 1,454,543 |
| **Total liabilities and shareholders' equity** | | **15,180,042** | 14,849,149 |

The financial statements were approved by the Board of Directors on 2 March 2022 and signed on its behalf by:

**Sheikh Faisal bin Sultan bin Salem Al Qassimi**
Chairman

**Alexander Thomas**
Interim Chief Executive Officer

## Statement of Income

**Year ended 31 December**

| | Notes | 2021 AED'000 | 2020 AED'000 |
|---|---|---|---|
| Interest income and profit from Islamic instruments | | **451,384** | 608,290 |
| Income from Islamic financing receivables | | **26,731** | 33,639 |
| **Total interest income and income from Islamic financing products** | 16 | **478,115** | 641,929 |
| Interest expense | | **(152,456)** | (274,090) |
| Distribution to depositors – Islamic products | | **(47,849)** | (74,430) |
| **Total interest expense and distribution to depositors** | 17 | **(200,305)** | (348,520) |
| **Net interest income and income from Islamic products net of distribution to depositors** | | **277,810** | 293,409 |
| Net fees and commission income | 18 | **47,063** | 42,309 |
| Foreign exchange income | 19 | **18,822** | 16,949 |
| Other operating income | 20 | **105,938** | 50,196 |
| **Total operating income** | | **449,633** | 402,863 |
| Employee benefit expenses | | **(140,552)** | (150,093) |
| Depreciation | | **(24,901)** | (27,943) |
| Other operating expenses | 21 | **(78,262)** | (83,999) |
| **Total operating expenses** | | **(243,715)** | (262,035) |
| **Profit before impairment losses** | | **205,918** | 140,828 |
| Net impairment losses | 22 | **(135,727)** | (808,123) |
| **Net Profit / (Loss) for the year** | | **70,191** | (667,295) |
| **Earnings / (Loss) per share (basic and diluted in AED)** | 23 | **0.03** | (0.32) |

## Statement of Comprehensive Income

**Year ended 31 December**

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| **Net Profit / (Loss) for the year** | **70,191** | (667,295) |
| **Other comprehensive income** | | |
| *Items that are or may be reclassified subsequently to the statement of income* | | |
| **Fair value through other comprehensive income (FVOCI):** | | |
| Net change in fair value during the year | **(79,500)** | 83,275 |
| Net change in allowance for expected credit losses | **3,485** | (2,098) |
| Reclassified to the income statement | **63,173** | (119,653) |
| Other comprehensive (loss) / income for the year | **(12,842)** | (38,476) |
| **Total comprehensive income / (loss) for the year** | **57,349** | (705,771) |

## Statement of Cash Flows

As at 31 December

| | Notes | 2021 AED'000 | 2020 AED'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Net Profit / (Loss) for the year | | **70,191** | (667,295) |
| Adjustments for: | | | |
| Depreciation | | **24,901** | 27,943 |
| Loss on write off of property, equipment and capital work-in-progress | 9 | **2,589** | 2,720 |
| Gain on sale of property and equipment and insurance proceeds | | **(21,845)** | (90) |
| Gain on sale of assets acquired in settlement of debt | 10 | **(5,945)** | (2,100) |
| Impairment on properties | 9 | **-** | 104,455 |
| Impairment on assets acquired in settlement of debt | 10 | **10,191** | 39,366 |
| Net credit impairment losses | 22 | **125,536** | 664,302 |
| Amortisation of premium paid on investments | | **14,011** | 21,421 |
| Net fair value gain on disposal of investments and Islamic instruments | | **(39,906)** | (5,021) |
| Operating profit before changes in operating assets and liabilities | | **179,723** | 185,701 |
| Changes in operating assets and liabilities: | | | |
| Loans and advances | | **655,608** | 1,900,976 |
| Balances with UAE Central bank maturing after three months | | **18,878** | 530,137 |
| Cash margin held by counterparty banks against borrowings and derivative transactions | 6 | **101,409** | (91,041) |
| Other assets | 10 | **(245,007)** | 108,896 |
| Due to banks maturing after three months | | **1,305,962** | (215,747) |
| Customers' deposits | 12 | **(840,410)** | (1,438,733) |
| Other liabilities | 14 | **64,382** | (120,359) |
| **Net cash from operating activities** | | **1,240,545** | 859,830 |
| **Investing activities** | | | |
| Purchase of property, equipment and capital work-in-progress | 9 | **(12,671)** | (27,816) |
| Proceeds from insurance claims and disposal of property and equipment | | **26,441** | 90 |
| Purchase of investments | | **(1,336,944)** | (146,944) |
| Proceeds from redemption / sale of investments | | **992,706** | 418,412 |
| Proceeds from sale of assets acquired in settlement of debt | | **14,107** | 30,400 |
| Other movement for transfer from fixed assets WIP | | **10,000** | - |
| **Net cash (used in) / generated from investing activities** | | **(306,361)** | 274,142 |
| **Financing activities** | | | |
| Repayment of medium term borrowings | 13 | **-** | (1,487,363) |
| **Net cash used in financing activities** | | **-** | (1,487,363) |
| **Net change in cash and cash equivalents** | | **934,184** | (353,391) |
| **Cash and cash equivalents at 1 January** | | **746,707** | 1,100,098 |
| Cash and cash equivalents at 31 December | | **1,680,891** | 746,707 |

Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:

| | | |
|---|---|---|
| Cash and balances with the UAE Central Bank | **1,742,722** | 1,120,601 |
| Due from other banks | **258,957** | 75,338 |
| Due to banks | **(320,788)** | (449,232) |
| | **1,680,891** | 746,707 |

## Statement of Changes in Equity

**Year ended 31 December**

| | Share capital AED'000 | Special reserve AED'000 | Statutory reserve AED'000 | General reserve AED'000 | Revaluation reserve AED'000 | Cumulative changes in fair values AED'000 | Accumulated losses AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | **2,062,550** | **422,116** | **504,671** | **9,311** | **555** | **58,974** | **(897,863)** | **2,160,314** |
| Loss for the year | - | - | - | - | - | - | (667,295) | (667,295) |
| Comprehensive loss for the year | - | - | - | - | - | (38,476) | - | (38,476) |
| Total comprehensive loss for the year | - | - | - | - | - | (38,476) | (667,295) | (705,771) |
| Accumulated losses offset against reserves (Note 15) | - | (422,116) | (475,747) | - | - | - | 897,863 | - |
| Depreciation transfer for land and buildings | - | - | - | - | (38) | - | 38 | - |
| **At 31 December 2020** | **2,062,550** | **-** | **28,924** | **9,311** | **517** | **20,498** | **(667,257)** | **1,454,543** |
| Profit for the year | - | - | - | - | - | - | 70,191 | 70,191 |
| Comprehensive loss for the year | - | - | - | - | - | (12,842 | - | (12,842) |
| Total comprehensive income/ (loss) for the year | - | - | - | - | - | (12,842) | 70,191 | 57,349 |
| Loss on sale of fixed asset transferred to retained earnings | - | - | - | - | (511) | - | 511 | - |
| Depreciation transfer for land and buildings | - | - | - | - | (6) | - | 6 | - |
| Transfer to Special reserve (Note 15) | - | 7,019 | - | - | - | - | (7,019) | - |
| Transfer to Statutory reserve (Note 15) | - | - | 7,019 | - | - | - | (7,019) | - |
| **At 31 December 2021** | **2,062,550** | **7,019** | **35,943** | **9,311** | **-** | **7,656** | **(610,587)** | **1,511,892** |

## 1. Incorporation and activities

United Arab Bank P.J.S.C. (the "Bank") was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a Public Joint Stock Company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

## 2. Basis of preparation

Statement of compliance

The financial statements of the Bank have been prepared in accordance 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 applicable requirements of laws of the United Arab Emirates. Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Bank is in the process of reviewing the new provisions and will ensure compliance with the applicable amendments. Along with these financial statements, the Bank has presented Basel III Pillar 3 disclosures in accordance with the guidelines issued by the UAE Central Bank. The adoption of Basel III Pillar 3 guidelines has impacted the type and amount of disclosures made in these financial statements, but has no impact on the reported profits or financial position of the Bank. In accordance with the requirements of Basel III, the Bank has provided full comparative information.

The COVID-19 pandemic has resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE have announced measures to provide both financial and non-financial assistance to the affected entities. The pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities with details covered in Note 4 of these financial statements.

## 3. Significant accounting policies

### 3.1 New and revised International Financial Reporting Standards

### 3.1.1 Standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2021

**i. Interbank offered rates ("IBORs) reform disclosure – Phase 2**

The financial statements of the Bank have been prepared in accordance 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 applicable requirements of laws of the United Arab Emirates. Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Bank is in the process of reviewing the new provisions and will ensure compliance with the applicable amendments. Along with these financial statements, the Bank has presented Basel III Pillar 3 disclosures in accordance with the guidelines issued by the UAE Central Bank. The adoption of Basel III Pillar 3 guidelines has impacted the type and amount of disclosures made in these financial statements, but has no impact on the reported profits or financial position of the Bank. In accordance with the requirements of Basel III, the Bank has provided full comparative information.

The COVID-19 pandemic has resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE have announced measures to provide both financial and non-financial assistance to the affected entities. The pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities with details covered in Note 4 of these financial statements.

## 3. Significant accounting policies (continued)

### 3.1 New and revised International Financial Reporting Standards (continued)

#### 3.1.1 Standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2021 (continued)

IBORs, such as the London Interbank Offered Rate ("LIBOR"), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years led regulators, central banks and market participants to work towards a transition to RFRs and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

The majority of LIBOR and other IBORs are to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Bank.

Details of IBOR reforms and related disclosures are covered in Note 27 of these financial statements.

There are no other applicable new standards and amendments to the published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 01 January 2021 that would be expected to have a material impact on the Bank's financial statements.

### 3.2 Basis of measurement

The Bank's financial statements are prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value; and
- financial assets at FVTPL and FVOCI are measured at fair value;

### 3.3 Functional and presentation currency

The Bank's financial statements have been presented in Arab Emirates Dirhams (AED), which is the presentation currency of the Bank and also the functional currency of the Bank and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

### 3.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity. All assets and liabilities in the statement of financial position are financial instruments except property and equipment, assets acquired in settlement of debts, capital work-in-progress, prepayments, provision for employee service benefits and shareholders' equity.

#### 3.4.1 Classification

On initial recognition a financial asset is classified as measured at:

- Amortised cost;
- Fair value through comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL)

The classification requirements for debt and equity instruments are described below.

# 3. Significant accounting policies (continued)

## 3.4 Financial instruments (continued)

### 3.4.1 Classification (continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

The classification depends on the Bank's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Based on these factors, the Bank classifies its debt instruments into one of three measurement categories:

- Amortised Cost - Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as explained in Note 3.4.14. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through comprehensive income (FVOCI) – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest Income' using the effective interest rate method.
- Fair value through profit or loss (FVTPL) – Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement in the period in which it arises.

The business model reflects how the Bank manages its assets in order to generate cash flows that is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI' test). In making this assessment, the Bank considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangements, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Equity instruments at FVOCI are not subject to an impairment assessment.

All other financial assets are classified and measured at FVTPL.

# 3. Significant accounting policies (continued)

### 3.4 Financial instruments (continued)

### 3.4.2 Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities are initially 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 profit or loss, transaction costs that are directly attributable to its acquisition or issue.

### 3.4.3 Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

### 3.4.4 Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles below.

All other assets are measured at amortised cost using the effective interest method less impairment losses, if any.

### 3.4.5 Gains and losses on subsequent measurement

*(b) Debt Investments*

Gains and losses arising from changes in the fair value of FVOCI investments are recognised directly in equity through comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. Changes in the fair value of FVTPL investments are subsequently recognised in the profit or loss.

*(b) Equity Investments*

Gains and losses arising from changes in the fair value on equity investments are recognized in comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the right to receive payments is established.

### 3.4.6 De-recognition

Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire or where the Bank has transferred substantially all the risks and rewards of ownership.

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

A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

## 3. Significant accounting policies (continued)

### 3.4 Financial instruments (continued)

### 3.4.7 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction 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.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an offer price, the Bank measures its assets, liabilities, long and short positions at mid-market rate (which is computed as an average of the bid and offer price).

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

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

### 3.4.8 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances arise when cash is advanced to a debtor with no intention of trading the receivable. Loans and advances are carried at amortised cost.

### 3.4.9 Investments

The 'investment securities' caption in the statement of financial position includes:

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

Investments in debt instruments are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described in Note 4.2.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for interest revenue using the effective interest method which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

# 3. Significant accounting policies (continued)

### 3.4 Financial instruments (continued)

### 3.4.10 Due from banks

Due from banks and financial institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

### 3.4.11 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with the Central Bank, deposits with the Central Bank with an original maturity of three months or less, and amounts due from (to) banks on demand or with an original maturity of three months or less.

### 3.4.12 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, with premium received included in 'Other liabilities'. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Provision for credit losses'. The premium received is recognised in the statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

### 3.4.13 Derivatives and hedges

The Bank enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in foreign exchange, interest rate and capital markets. In the normal course of business, the fair value of a derivative on initial recognition is the transaction price included in other income/expenses. Subsequent to their initial recognition, derivative financial instruments are stated at fair values where they are designated as part of a hedging relationship and classified as a hedging instrument. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position. Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the statement of income.

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

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is / are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk are included in other operating income / (expenses) along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance, in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the statement of income over the remaining term to maturity.

Certain derivative transactions, while providing effective economic hedges under the Bank's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

## 3. Significant accounting policies (continued)

### 3.4 Financial instruments (continued)

### 3.4.14 Impairment of financial assets

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

i) Stage 1: 12-months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

ii) Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

iii) Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. This uses the same criteria as under IAS 139, the Bank's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

The Bank measures loss allowances at an amount equal to 12-month Expected credit loss (ECL) for the following financial instruments which are considered to have low credit risk:

- balances with Central Bank and other banks
- debt investment securities; and
- other financial assets, mainly comprising of sundry receivables

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

**Measurement of ECL**

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost and FVOCI: as a deduction from the gross carrying amount of the assets and adjustments to OCI respectively; and
- loan commitments and financial guarantee contracts: as a provision in other liabilities

## 3. Significant accounting policies (continued)

### 3.4.14 Impairment of financial assets (continued)

### 3.5 Renegotiated loans

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

### 3.6 Write-off

The Bank writes off its loans and advances, Islamic financing receivable balances or other financial asset (and any other related allowances for impairment losses) when the Bank's credit determines that such financial assets are uncollectible in whole or in part. This is determined after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Assets are written-off against provisions up to the extent of amount considered un-collectible.

However, the Bank retains its full legal claim on, and may continue with its recovery effort including litigation, on written-off accounts.

Subsequent recoveries of amounts previously written off are recognised in the statement of income.

### 3.7 Assets acquired in settlement of debts

In certain cases, the Bank may close out transactions by acquiring assets in settlement of debts. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment losses) at the date of exchange. These assets are recorded in "Other assets". It is the Bank's policy to dispose of such repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. Assets acquired in settlement of debts are held as inventory and are valued at lower of cost and net realisable value.

### 3.8 Revenue recognition

For all financial instruments measured at amortised cost and debt financial instruments classified as FVOCI and Islamic financial instruments, interest income / profit or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. The interest income / expense accrual on the assets / liabilities linked to Risk Free Rate (RFR) indexes will follow the standard market conventions relating to respective RFRs.

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.

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income on letter of credits, guarantees and others, custody and other management advisory fees.

Foreign exchange income includes income from trading in foreign currencies as well as revaluation gains and losses.

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

## 3. Significant accounting policies (continued)

### 3.9 Collateral pending sale

Real estate and other collaterals may be acquired as the result of settlement of certain loans and advances and are recorded in “Other assets”. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of these assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the statement of profit or loss. The Bank’s collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Bank operates.

### 3.10 Property and equipment

Property and equipment are stated at cost excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

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

| | |
|---|---|
| Buildings | Over 25 years |
| Motor vehicles | Over 5 years |
| Furniture and equipment | Over 3 to 8 years |
| Fixtures and leasehold improvements | Over 12 years |

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in ‘Other operating income’ in the statement of income in the year the asset is derecognised.

### 3.11 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and can be reliably measured. The expense relating to any provision is presented in the statement of income net of any reimbursement.

### 3.12 Employees’ end of service benefits

Provision is made, in accordance with the provisions of IAS 19, for the end of service benefits due to employees in accordance with the UAE labor law for their period of service up to the financial position date and the provision arising disclosed as ‘provision for employees’ end of service benefits’ in the statement of financial position. The Bank pays its contributions in respect of UAE citizens under the UAE pension and social security law and no further liability exists.

### 3.13 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at mid-market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the statement of income.

### 3.14 Segment reporting

The Bank’s segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Others.

## 3. Significant accounting policies (continued)

### 3.15 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated based on the higher of fair value less costs to sell and value in use. The reduction in carrying amount is recognised in the income statement.

### 3.16 Trade and settlement date accounting

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

### 3.17 Fiduciary assets

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

### 3.18 Offsetting

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

### 3.19 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

### 3.20 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the Bank and is therefore recognised as a financial liability in the statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

### 3.21 Islamic financing and investment products

In addition to conventional banking products, the Bank offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

The various Islamic instruments described below are accounted for, disclosed and presented in accordance with the requirements of the underlying substance of the instruments and IFRS / IAS / IFRIC.

***Murabaha:***

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. Murabaha is a sale transaction in which the seller (Bank) expressly mentions the actual cost of the asset to be sold to the customer and sells it to the customer on a cost-plus mark-up (profit) basis. It is in fact the sale of an asset for a profit, usually on deferred payment basis.

Income on Murabaha financing is recognised on a time apportioned basis over the period of the Murabaha contract, using the effective profit rate method.

## 3. Significant accounting policies (continued)

### 3.21 Islamic financing and investment products (continued)

***Ijara:***

Ijara involves a contract where the Bank buys and then leases an item to a customer for a specified rental over a specific period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Bank acquires the beneficial ownership of the property to lease the usufruct to the customer.

Income on Ijara financing is recognised on a time apportioned basis over the lease term, using the effective profit rate method.

***Qard:***

A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Bank, and it is binding on the Bank to return equal wealth (money) to the customer on demand or as per the agreed terms, which means that the principal is to be repaid on demand. The Islamic current account offered to customers is based on the concept of Qard, a profit free amount received from the customer to the Bank, on which no profit or other form of return is payable.

***Wakala:***

Wakala involves an agreement, based on the concept of Wakala Bil Istithmar, where the Bank becomes the investment agent (Wakil) for its customers (Muwakkil) for deposit of their funds in the Wakala investment account to be invested in Shariah-compliant investment instruments. The funds are used to generate profit for the customer by investing in Islamic financing facilities to the Bank's other customers or investing in other Shariah-compliant investment instruments.

Income generated from the Wakala deposits are paid to the customers and the Bank recognizes a corresponding expense in the statement of income. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the agent; otherwise, they are borne by the principal.

### 3.22 Leases

Right-of-use assets:

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

***Lease liabilities:***

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

# 3. Significant accounting policies (continued)

### 3.22 Leases (continued)

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

The Bank applies the short-term lease recognition exemption to its short-term leases of ATM's (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) together with the exemption of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Bank has the option, under some of its leases to lease the assets for an additional term. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

### 3.23 Repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate.

# 4. Significant management judgements and estimates

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

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

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

### 4.1 Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

### 4.2 Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

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

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the probability of default (PD) occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort (including both qualitative and quantitative information) and also uses its historical experience, internal credit risk grading system, external risk ratings and forward-looking information to assess deterioration in credit quality of a financial asset.

# 4. Significant management judgements and estimates (continued)

## 4.2 Impairment of financial assets (continued)

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

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

| Corporate exposures | Retail exposures | All exposures |
|---|---|---|
| - Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.<br>- Data from credit reference agencies, press articles, changes in external credit ratings<br>- Quoted bond and credit default swap (CDS) prices for the borrower where available<br>- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities | - Internally collected data on customer behaviour<br>- External data from credit reference agencies including industry-standard credit scores | - Payment record – this includes overdue status<br>- Utilisation of the granted limit<br>- Requests for and granting of forbearance<br>- Existing and forecast changes in business, financial and economic conditions |

The Bank uses Moody's credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The table below provides a mapping of the Bank's credit risk grades.

| S.No. | Moody's Rating Grades | Classification | Description |
|---|---|---|---|
| 1 | 1 | High | Strong |
| 2 | 2+ | | Very Good |
| 3 | 2 | | |
| 4 | 2- | | |
| 5 | 3+ | Standard | Good |
| 6 | 3 | | |
| 7 | 3- | | |
| 8 | 4+ | | Satisfactory |
| 9 | 4 | | |
| 10 | 4- | | |
| 11 | 5+ | | Acceptable |
| 12 | 5 | | |
| 13 | 5- | | |
| 14 | 6+ | | Marginal |
| 15 | 6 | | |
| 16 | 6- | | Watch list |
| 17 | 7+ | Watch list | Watch list |
| 18 | 7 | | OLEM |
| 19 | 7- | | |
| 20 | 8 | Default | Sub Standard |
| 21 | 9 | | Doubtful |
| 22 | 10 | | Loss |

# 4. Significant management judgements and estimates (continued)

## 4.2 Impairment of financial assets (continued)

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

Generating the term structure of PD:

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. Information purchased from external credit reference agencies is also used.

The Bank uses statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Market Risk Committee and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 to 7 years.

***Importance of staging criteria***

Staging is an important input in determining the IFRS 9 ECL, as it dictates loans would be classified as stage 1 (attracting 12 months ECL) and in stage 2 (attracting life time ECL). Staging under IFRS 9 is based on the assessment of relative movement in the credit quality of the loans from the time of initial recognition. Loans classified in stage 3 have objective evidence of impairment and in respect of which specific provisions have been established.

***Determining the stage for impairment***

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria:

*Corporate and Institutional Banking portfolio:*

Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at the reporting date. In addition, the following parameters are also considered:

- 30 days past due
- Restructuring flag
- Downgrade by 3 notches on a 22 scale as per internal rating guidelines

*Retail portfolio:*

Thresholds have been set for each portfolio based on historical default rates. Facilities exceeding the threshold are considered for significant increase in credit risk. In addition, the following parameters are also considered:

- 30 days past due
- Restructuring flag
- Abandoned segment

## 4. Significant management judgements and estimates (continued)

### 4.2 Impairment of financial assets (continued)

***Determining the stage for impairment (continued)***

*Investment portfolio and Due from banks:*

External rating agency credit grades are used to assess the significant increase in credit risk. These external published grades are continuously monitored and updated. The Bank's rating method comprises 19 rating levels for instruments not in default (1 to 19) and 3 default classes (20 to 22). The Bank's internal rating scale is mapped with external ratings. The master scale assigns each rating category a specified range of probabilities of default, which is stable over time.

Qualitative criteria:

The Bank also considers in its assessment of significant increase in credit risk various qualitative factors like significant adverse changes in business, actual and expected forbearance or restructuring and early signs of cash flows and liquidity problems.

Curing criteria:

The Bank continues to monitor financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from Stage 2 to Stage 1.

The Bank is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after restructuring, before upgrading from Stage 3 to Stage 2.

Exposures are not upgraded from Stage 3 to Stage 1 directly and are upgraded to Stage 2 initially before upgrading to Stage 1 based on the above-mentioned criteria.

The Bank ensures that the risk rating of the obligor correctly reflects its credit risk. UAB has in place a robust early warning signal mechanism to ensure credit risk deterioration is highlighted before the default takes place. This is via close monitoring of key early warning signals such as excesses, past dues, cheque / payment failures, external market feedback and credit ratings, covenant / condition breaches and weak financials. Where a client shows early signs of financial strain, it is placed on a watch list category and monitored at an internal watch list forum.

***Credit-impaired financial assets***

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Definition of default

The Bank considers a financial asset to be in default in line with the Circular No. 28/2010 and associated regulations issued by the Central Bank of the United Arab Emirates.

# 4. Significant management judgements and estimates (continued)

## 4.2 Impairment of financial assets (continued)

***Measurement of ECL***

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

- PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates Two types of PDs are used for calculating ECL
    - 12 month PDs: This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This is used to calculate 12 month ECL for Stage 1 exposures
    - Lifetime PDs: This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECL for Stage 2 and Stage 3 exposures.
- EAD represents the expected exposure at the time of default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. As described and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.
- LGD is the magnitude of the likely loss if there is a default. LGD is expressed as a loss percentage of the exposure at the time of default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

The measurement of ECL is based on a probability-weighted average credit loss. As a result, the measurement of the loss allowance is the same regardless of whether it is measured on an individual basis or a collective basis. In relation to the assessment of whether there has been a significant increase in credit risk it may be necessary to perform the assessment on a collective basis where the financial instruments are grouped based on product type risk characteristics.

The weighted average ECL is calculated considering base, upside and downside scenarios for recognition of ECL.

These parameters are generally derived from internally developed statistical models, other historical data and forward-looking information.

The Bank considers its historical loss experience and adjusts this for current observable data. In addition, the Bank uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, real annual growth in gross domestic product and oil prices and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

In 2021, the Bank has adjusted the LGD on the unsecured portfolio following regulatory guidelines as well as independent reviews undertaken during the year. The revised LGD of the Bank's unsecured portfolio reflects historical recovery data together with the Bank's forward looking business plans. The impact of this change in estimate has been disclosed in Note 7 (on loans and advances) as well as Note 26 (on commitments and contingencies).

The Bank has incorporated the latest available macroeconomic inputs into the ECL model to reflect the change in the macroeconomic forecast with details covered in Note 27 of these financial statements.

## 4. Significant management judgements and estimates (continued)

### 4.2 Impairment of financial assets (continued)

***Measurement of ECL***

The most significant assumptions used for ECL estimate as at 31 December 2021 and 31 December 2020 are set out below. The scenarios of base case, upside and downside cases were used for all portfolios keeping in view the following principal macroeconomic variables:

| Macroeconomic variables As at 31 December 2021 | Scenario | Assigned probabilities | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Real Private Consumption (USD bn) | Base | 40% | 464.06 | 485.07 | 498.34 | 505.60 |
| | Upside | 20% | 496.17 | 515.93 | 528.75 | 534.18 |
| | Downside | 40% | 405.30 | 435.15 | 457.30 | 470.87 |
| Government Expenditure (USD bn) | Base | 40% | 481.35 | 516.65 | 546.69 | 579.31 |
| | Upside | 20% | 529.66 | 567.80 | 621.64 | 680.12 |
| | Downside | 40% | 421.79 | 448.57 | 480.77 | 526.56 |
| Real Net Exports (USD bn) | Base | 40% | 430.31 | 439.40 | 450.02 | 462.47 |
| | Upside | 20% | 460.08 | 467.36 | 477.49 | 488.61 |
| | Downside | 40% | 375.82 | 394.19 | 412.96 | 430.70 |
| General government debt to GDP (USD bn) | Base | 40% | 54.88 | 57.64 | 61.41 | 66.47 |
| | Upside | 20% | 34.27 | 29.96 | 27.59 | 29.10 |
| | Downside | 40% | 92.00 | 99.72 | 107.51 | 117.24 |
| Economic Composite Indicator (proxy of GDP) | Base | 40% | 3.21 | 3.06 | 2.81 | 2.54 |
| | Upside | 20% | 3.59 | 2.69 | 2.54 | 2.12 |
| | Downside | 40% | 5.46 | 5.78 | 4.89 | 3.96 |
| Employee Compensation (USD bn) | Base | 40% | 481.34 | 555.18 | 624.18 | 667.35 |
| | Upside | 20% | 566.76 | 652.12 | 725.00 | 771.76 |
| | Downside | 40% | 361.30 | 438.39 | 515.65 | 572.89 |
| 1-year EIBOR rates (%) | Base | 40% | 1.76% | 3.21% | 3.75% | 4.08% |
| | Upside | 20% | 1.91% | 3.25% | 3.74% | 4.10% |
| | Downside | 40% | -1.43% | 1.48% | 3.39% | 3.97% |

| Macroeconomic variables As at 31 December 2020 | Scenario | Assigned probabilities | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| Average oil price per barrel (USD) | Base | 40% | 44.01 | 45.66 | 45.87 | 45.87 |
| | Upside | 20% | 79.88 | 81.53 | 81.74 | 81.74 |
| | Downside | 40% | 8.14 | 9.79 | 10.00 | 10.00 |
| Non-oil Economic Composite Index ("ECI") (proxy of GDP) | Base | 40% | 2.20% | 2.10% | 2.20% | 2.27% |
| | Upside | 20% | 5.80% | 5.70% | 5.80% | 5.87% |
| | Downside | 40% | -1.40% | -1.50% | -1.40% | -1.33% |
| Real estate prices of Dubai (index level price in AED) | Base | 40% | 10,918 | 10,941 | 10,989 | 11,042 |
| | Upside | 20% | 13,260 | 13,283 | 13,331 | 13,383 |
| | Downside | 40% | 8,576 | 8,600 | 8,647 | 8,700 |
| ECI (proxy of GDP) | Base | 40% | 1.4% | 2.2% | 2.6% | 2.6% |
| | Upside | 20% | 4.8% | 5.6% | 6.0% | 6.0% |
| | Downside | 40% | -2.1% | -1.2% | -0.9% | -0.8% |
| Inflation | Base | 40% | 1.5% | 2.0% | 2.0% | 2.1% |
| | Upside | 20% | 3.2% | 3.7% | 3.7% | 3.8% |
| | Downside | 40% | -0.2% | 0.3% | 0.3% | 0.4% |

***Sensitivity analysis***

If the macroeconomic variables (listed above) were to change by the base, upside and downside scenarios, the ECL under stage 1 and 2 would change as follows:

| Change in ECL due to change in macroeconomic variables | Base | Upside | Downside |
|---|---|---|---|
| Stage 1 | -4.85% | -12.57% | +8.50% |
| Stage 2 | +0.09% | -10.40% | +5.11% |

## 4. Significant management judgements and estimates (continued)

### 4.3 Going concern

The management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future despite the accumulated losses amounting to AED 610,587 thousand incurred till 31 December 2021. Management believes that it has adequate liquidity and funding in order to meet its cash flow requirements as and when these fall due. In addition, the Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to its stakeholders. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

## 5. Cash and balances with UAE Central Bank

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| Cash on hand | **56,424** | 64,398 |
| Balances with UAE Central Bank: | | |
| - Statutory and other deposits with UAE Central Bank* | **653,141** | 491,924 |
| - Overnight Deposit Facility | **1,300,000** | 850,000 |
| | **2,009,565** | 1,406,322 |

* includes statutory reserve requirement of AED 266,843 thousand (2020: AED 285,721 thousand)

The reserve requirements which are kept with the UAE Central Bank is not available to finance the day to day operations of the Bank. The UAE Central Bank balances are high grade in nature.

## 6. Due from other banks

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| Demand deposits | **228,735** | 296,525 |
| Term deposits | **150,000** | - |
| | **378,735** | 296,525 |

The Bank holds a stage 1 expected credit loss allowance of AED 134 thousand (2020: AED 112 thousand) on its due from other banks.

Due from other banks includes AED 137,268 thousand (2020: AED 127,356 thousand) placed with foreign banks outside the UAE. AED 119,778 thousand (2020: AED 221,187 thousand) is held with other banks as margin for derivative transactions.

| Gross amounts of due from other banks by geographical area | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| Within UAE | **241,467** | 169,170 |
| Within GCCs | **4,488** | 29,012 |
| Other countries | **132,780** | 98,343 |
| | **378,735** | 296,525 |

## 6. Due from other banks (continued)

An analysis of due from other banks based on external credit ratings is as follows:

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| AA- | **16,786** | 30,347 |
| A+ | **3,379** | 6,350 |
| A | **129,514** | 151,150 |
| A- | **31,235** | 50,233 |
| BBB+ | **195,906** | 53,127 |
| BBB | **-** | 3,474 |
| BBB- and below | **1,915** | 1,844 |
| | **378,735** | 296,525 |

Grading of gross balances of due from other banks along with stages

| | **Stage 1 AED'000** | **Stage 2 AED'000** | **Stage 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| High | **180,915** | **-** | **-** | **180,915** |
| Standard | **197,820** | **-** | **-** | **197,820** |
| **As at 31 December 2021** | **378,735** | **-** | **-** | **378,735** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| High | 238,080 | - | - | 238,080 |
| Standard | 58,445 | - | - | 58,445 |
| As at 31 December 2020 | 296,525 | - | - | 296,525 |

## 7. Loans and advances and Islamic financing receivables

The composition of loans and advances and Islamic financing receivables portfolio is as follows:

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| **(a) By type:** | | |
| Overdrafts | **1,089,186** | 1,192,258 |
| Loans (medium and short term)* | **7,176,977** | 8,676,243 |
| Loans against trust receipts | **505,367** | 530,210 |
| Bills discounted | **153,989** | 152,875 |
| Other cash advances | **42,785** | 51,051 |
| Bills drawn under letters of credit | **49,871** | 66,546 |
| Gross amount of loans and advances and Islamic financing receivables | **9,018,175** | 10,669,183 |
| Less: Provision for impairment on loans and advances and Islamic financing receivables | **(804,825)** | (1,655,544) |
| Net loans and advances and Islamic financing receivables | **8,213,350** | 9,013,639 |

* Includes retail loans of AED 1,680,393 thousand (2020: AED 2,372,456 thousand)

## 7. Loans and advances and Islamic financing receivables (continued)

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| **(b) By economic sector:** | | |
| Government and public sector | **607,304** | 300,000 |
| Trade | **1,403,183** | 1,452,605 |
| Personal loans (retail and HNIs) | **3,296,072** | 4,257,569 |
| Manufacturing | **734,563** | 1,141,267 |
| Construction | **448,986** | 541,427 |
| Services | **884,705** | 1,441,332 |
| Financial institutions | **1,422,285** | 1,062,891 |
| Transport and communication | **215,882** | 466,994 |
| Others | **5,195** | 5,098 |
| Gross amount of loans and advances and Islamic financing receivables | **9,018,175** | 10,669,183 |

Islamic financing gross receivables amount to AED 454,646 thousand (2020: AED 581,777 thousand) recognized through the Bank's Shari'a - compliant Islamic window.

At 31 December 2021, the gross amount of loans and advances and Islamic financing receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,138,023 thousand (2020: AED 1,677,199 thousand). The provision and collateral held on these impaired loans is disclosed in Note 27 under credit risk.

**Grading of gross balances of loans and advances and Islamic financing receivables along with stages**

| | **Stage 1 AED'000** | **Stage 2 AED'000** | **Stage 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| High | **13,164** | **-** | **-** | **13,164** |
| Standard | **7,250,111** | **492,037** | **-** | **7,742,148** |
| Watch list | **-** | **124,840** | **-** | **124,840** |
| Default | **-** | **-** | **1,138,023** | **1,138,023** |
| Total gross carrying amount | **7,263,275** | **616,877** | **1,138,023** | **9,018,175** |
| Expected credit loss | **(85,063)** | **(175,053)** | **(544,709)** | **(804,825)** |
| **As at 31 December 2021** | **7,178,212** | **441,824** | **593,314** | **8,213,350** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| High | 14,094 | - | - | 14,094 |
| Standard | 7,453,964 | 1,009,701 | - | 8,463,665 |
| Watch list | - | 514,225 | - | 514,225 |
| Default | - | - | 1,677,199 | 1,677,199 |
| Total gross carrying amount | 7,468,058 | 1,523,926 | 1,677,199 | 10,669,183 |
| Expected credit loss | (87,398) | (294,841) | (1,273,305) | (1,655,544) |
| As at 31 December 2020 | 7,380,660 | 1,229,085 | 403,894 | 9,013,639 |

## 7. Loans and advances and Islamic financing receivables (continued)

### Movement in the gross balances of loans and advances and Islamic financing receivables

| | **Stage 1 AED'000** | **Stage 2 AED'000** | **Stage 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| Gross carrying amount as at 31 December 2020 | **7,468,058** | **1,523,926** | **1,677,199** | **10,669,183** |
| Net of new assets originated and assets repaid | **(193,816)** | **(243,833)** | **(201,500)** | **(639,149)** |
| Write-offs | **-** | **-** | **(1,011,859)** | **(1,011,859)** |
| Transferred from Stage 1 | **(326,591)** | **291,710** | **34,881** | **-** |
| Transferred from Stage 2 | **315,624** | **(954,926)** | **639,302** | **-** |
| Transferred from Stage 3 | **-** | **-** | **-** | **-** |
| As at 31 December 2021 | **7,263,275** | **616,877** | **1,138,023** | **9,018,175** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Gross carrying amount as at 31 December 2020 | 9,513,998 | 2,032,789 | 1,483,820 | 13,030,607 |
| Net of new assets originated and assets repaid | (1,667,863) | (323,992) | 127,182 | (1,864,673) |
| Write-offs | - | - | (496,751) | (496,751) |
| Transferred from Stage 1 | (467,485) | 467,485 | - | - |
| Transferred from Stage 2 | - | (653,632) | 653,632 | - |
| Transferred from Stage 3 | 89,408 | 1,276 | (90,684) | - |
| As at 31 December 2020 | 7,468,058 | 1,523,926 | 1,677,199 | 10,669,183 |

### Movement in the gross balances of loans and advances and Islamic financing receivables

| | **Stage 1 AED'000** | **Stage 2 AED'000** | **Stage 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| Balance as at 31 December 2020 | **87,398** | **294,841** | **1,273,305** | **1,655,544** |
| *Changes due to provisions recognized in the opening balance that have:* | | | | |
| Transferred to 12 month ECL | **2,907** | **(2,907)** | **-** | **-** |
| Transferred to lifetime ECL not credit impaired | **(26,076)** | **26,076** | **-** | **-** |
| Transferred to lifetime ECL credit-impaired | **-** | **(204,477)** | **204,477** | **-** |
| Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities (Note 26) | **-** | **-** | **10,960** | **10,960** |
| **Charge to income statement (Note 22)** | **20,834** | **61,574** | **67,772** | **150,180** |
| Write-offs | **-** | **-** | **(1,011,859)** | **(1,011,857)** |
| **As at 31 December 2021** | **85,063** | **175,107** | **544,655** | **804,825** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Balance as at 31 December 2019 | 83,550 | 238,381 | 1,145,186 | 1,467,117 |
| *Changes due to provisions recognized in the opening balance that have:* | | | | |
| Transferred to 12 month ECL | 1,676 | (1,676) | - | - |
| Transferred to lifetime ECL not credit impaired | (49,656) | 49,656 | - | - |
| Transferred to lifetime ECL credit-impaired | - | (156,664) | 156,664 | - |
| Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities (Note 26) | - | - | 2,588 | 2,588 |
| Charge to income statement (Note 22) | 51,828 | 165,144 | 466,385 | 683,357 |
| Write-offs | - | - | (497,518) | (497,518) |
| As at 31 December 2020 | 87,398 | 294,841 | 1,273,305 | 1,655,544 |

## 7. Loans and advances and Islamic financing receivables (continued)

Sector wise analysis of impaired loans and advances and Islamic financing receivables in the default category and related provisions is as follows:

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Gross exposure AED'000** | **Impairment provision AED'000** | Gross exposure AED'000 | Specific provision AED'000 |
| **By economic sector** | | | | |
| Trade | **325,272** | **136,488** | 175,301 | 121,264 |
| Personal loans (retail and HNIs) | **438,017** | **192,529** | 421,222 | 288,778 |
| Manufacturing | **181,326** | **70,896** | 372,108 | 282,701 |
| Construction | **7,218** | **11,793** | 24,995 | 18,262 |
| Services | **97,744** | **90,224** | 377,169 | 333,797 |
| Financial institutions | **88,446** | **42,779** | 88,129 | 46,846 |
| Transport and communication | **-** | **-** | 218,275 | 181,657 |
| Total | **1,138,023** | **544,709** | 1,677,199 | 1,273,305 |

The fair value of collateral that the Bank holds relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2021 amounts to AED 671,323 thousand (2020: AED 669,343 thousand). The collateral consists of cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory, trade receivables, and guarantees from parent companies for loans to their subsidiaries or other Bank companies.

## 8. Investments and Islamic instruments

| | **31 Dec 2021** | | | 31 Dec 2020 | | |
|---|---|---|---|---|---|---|
| | **Quoted AED'000** | **Unquoted AED'000** | **Total AED'000** | Quoted AED'000 | Unquoted AED'000 | Total AED'000 |
| **Debt:** | | | | | | |
| ***FVOCI*** | | | | | | |
| Local | **2,314,568** | **-** | **2,314,568** | 2,473,714 | - | 2,473,714 |
| Overseas | **1,106,020** | **-** | **1,106,020** | 807,377 | - | 807,377 |
| ***Amortised Cost*** | | | | | | |
| Local | **-** | **-** | **-** | - | - | - |
| Overseas | **111,176** | **-** | **111,176** | - | - | - |
| **Total debt securities** | **3,531,764** | **-** | **3,531,764** | 3,281,091 | - | 3,281,091 |
| **Equity:** | | | | | | |
| ***FVOCI*** | | | | | | |
| Local | **-** | **467** | **467** | - | 467 | 467 |
| Overseas | **152** | **76** | **228** | 92 | 76 | 168 |
| **Total equities** | **152** | **543** | **695** | 92 | 543 | 635 |
| **Total investments** | **3,531,916** | **543** | **3,532,459** | 3,281,183 | 543 | 3,281,726 |
| ECL on investments held at amortised cost | | | **(2,242)** | | | - |
| **Net investments** | | | **3,530,217** | | | 3,281,726 |

## 8. Investments and Islamic instruments (continued)

The Bank holds a stage 1 ECL allowance on its investment securities classified under FVOCI amounting to AED 23,260 thousand as at 31 December 2021 (31 December 2020: AED 19,758 thousand).

Included in the above are investment securities amounting to AED 816,437 thousand (2020: AED 741,667 thousand) secured under repurchase agreement with the lenders. The Banks holds an ECL allowance of AED 3,155 thousand (2020: AED 3,208 thousand) on these investment securities secured under repurchase agreements.

**Grading of gross balances of investment securities (FVOCI and Amortised Cost) along with stages:**

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| High | **1,703,378** | **-** | **-** | **1,703,378** |
| Standard | **1,828,386** | **-** | **-** | **1,828,386** |
| Total gross carrying amount | **3,531,764** | **-** | **-** | **3,531,764** |
| Expected credit loss | **(25,502)** | **-** | **-** | **(25,502)** |
| **As at 31 December 2021** | **3,506,262** | **-** | **-** | **3,506,262** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| High | 1,420,056 | - | - | 1,420,056 |
| Standard | 1,861,035 | - | - | 1,861,035 |
| Total gross carrying amount | 3,281,091 | - | - | 3,281,091 |
| Expected credit loss | (19,758) | - | - | (19,758) |
| As at 31 December 2020 | 3,261,333 | - | - | 3,261,333 |

**Movement in the provision for impairment of investment securities (FVOCI and Amortised Cost):**

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Balance as at 31 December 2020 | **19,758** | **-** | **-** | **19,758** |
| Charge to income statement (Note 22) | **5,744** | **-** | **-** | **5,744** |
| **As at 31 December 2021** | **25,502** | **-** | **-** | **25,502** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Balance as at 31 December 2019 | 21,956 | - | - | 21,956 |
| Charge to income statement (Note 22) | (2,198) | - | - | (2,198) |
| As at 31 December 2020 | 19,758 | - | - | 19,758 |

## 8. Investments and Islamic instruments (continued)

An analysis of the investment based on external credit ratings is as follows:

| As at 31 December 2021 | Debt securities AED'000 | Other investments AED'000 | Total AED'000 |
|---|---|---|---|
| AA | 896,947 | - | 896,947 |
| AA- | 301,764 | - | 301,764 |
| A+ | - | - | - |
| A | 504,668 | - | 504,668 |
| A- | - | 152 | 152 |
| BBB+ | 25,805 | - | 25,805 |
| BBB | 35,308 | - | 35,308 |
| BBB- and below | 1,360,352 | - | 1,360,352 |
| Unrated | 406,920 | 543 | 407,463 |
| Total investments | 3,531,764 | 695 | 3,532,459 |
| Expected credit loss | (2,242) | - | (2,242) |
| **Net investments** | **3,529,522** | **695** | **3,530,217** |

| As at 31 December 2020 | Debt securities AED'000 | Other investments AED'000 | Total AED'000 |
|---|---|---|---|
| AA | 742,603 | - | 742,603 |
| AA- | 370,120 | - | 370,120 |
| A+ | 38,442 | - | 38,442 |
| A | 237,844 | - | 237,844 |
| A- | 31,048 | 92 | 31,140 |
| BBB+ | 91,763 | - | 91,763 |
| BBB | 36,725 | - | 36,725 |
| BBB- and below | 1,276,327 | - | 1,276,327 |
| Unrated | 456,219 | 543 | 456,762 |
| Total investments | 3,281,091 | 635 | 3,281,726 |
| Expected credit loss | - | - | - |
| Net investments | 3,281,091 | 635 | 3,281,726 |

## 9. Property, equipment and capital work-in-progress

| | Freehold land and buildings AED'000 | Motor vehicles, leasehold improvements, and equipment furniture, fixtures and equipment AED'000 | Capital work-in-progress AED'000 | Total AED'000 |
|---|---|---|---|---|
| Cost or valuation: | | | | |
| At 1 January 2021 | 432,362 | 293,616 | 112,383 | 838,361 |
| Additions | - | 29 | 12,642 | 12,671 |
| Transfers | - | 6,376 | (6,376) | - |
| Write-offs | (3,170) | - | - | (3,170) |
| Disposals | (8,531) | - | - | (8,531) |
| Other movements | - | - | (10,000) | (10,000) |
| **At 31 December 2021** | **420,661** | **300,021** | **108,649** | **829,331** |
| Accumulated Depreciation: | | | | |
| At 1 January 2021 | 27,137 | 237,671 | - | 264,808 |
| Charge for the year | 3,433 | 16,572 | - | 20,005 |
| Write-offs | (581) | - | - | (581) |
| Disposals | (3,935) | - | - | (3,935) |
| **At 31 December 2021** | **26,054** | **254,243** | **-** | **280,297** |
| Impairment on properties | (169,234) | - | (76,529) | (245,763) |
| **Net Carrying Value as at 31 December 2021** | **225,373** | **45,778** | **32,120** | **303,271** |

| | Freehold land and buildings AED'000 | Motor vehicles, leasehold improvements, and equipment furniture, fixtures and equipment AED'000 | Capital work-in-progress AED'000 | Total AED'000 |
|---|---|---|---|---|
| Cost or valuation: | | | | |
| At 1 January 2020 | 432,362 | 271,244 | 110,251 | 813,857 |
| Additions | - | 816 | 27,000 | 27,816 |
| Transfers | - | 23,000 | (23,000) | - |
| Write-offs | - | (1,049) | (1,868) | (2,917) |
| Disposals | - | (395) | - | (395) |
| At 31 December 2020 | 432,362 | 293,616 | 112,383 | 838,361 |
| Accumulated Depreciation: | | | | |
| At 1 January 2020 | 23,390 | 218,589 | - | 241,97 |
| Charge for the year | 3,747 | 19,674 | - | 23,421 |
| Write-offs | - | (197) | - | (197) |
| Disposals | - | (395) | - | (395) |
| At 31 December 2020 | 27,137 | 237,671 | - | 264,808 |
| Impairment on properties | (169,234) | - | (76,529) | (245,763) |
| Net Carrying Value as at 31 December 2020 | 235,991 | 55,945 | 35,854 | 327,790 |

## 9. Property, equipment and capital work-in-progress (continued)

The cost of freehold land included above is AED 338,368 thousand (2020: AED 338,368 thousand).

During 2021, additions to capital work in progress relate to expenditure incurred in connection with the purchase of property and equipment amounting to AED 12,642 thousand (2020: AED 27,000 thousand). Upon completion of associated projects, AED 6,376 thousand (2020: AED 23,000 thousand) was transferred to 'motor vehicles, leasehold improvements, furniture, fixtures and equipment' whilst AED Nil was (2020: AED 1,868 thousand) was written-off.

During 2021, the Bank wrote-off computer software with a net carrying value of AED Nil (2020: AED 852 thousand).

Included in Property, equipment and capital work-in-progress are plots of land with gross carrying values of AED 422,400 thousand (2020: AED 422,400 thousand). Management has completed the assessment of the carrying values of these plots of land and has accordingly recognised an impairment of AED Nil during 2021 (2020: AED 104,455 thousand).

Intangible assets relating to computer software are included within equipment with a net carrying value of AED 18,833 thousand (2020: AED 20,767 thousand).

Description of the valuation techniques used and key inputs to valuation of properties is as follows:

| | **Valuation technique** | **Significant unobservable inputs** |
|---|---|---|
| Plot 1 | DCF method (refer below) | Sales rate per sq ft on gross floor area (GFA) amended to incorporate negotiation, size and time adjustment for transactions |
| Plot 2 | Sales Comparison method (refer below) | Negotiation adjustment of 15% has been applied to the current asking price for similar land parcels |

Depreciated Replacement Costs ("DRC") method

The DRC method is based on the market value of the current use of the land in addition to the current gross replacement costs of improvements less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

Sales comparison method

This method involves analysing sales and asking prices of similar plots of land and comparing these to the property owned.

## 10. Other assets

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| Interest receivable | **60,243** | 83,577 |
| Positive fair value of derivatives (Note 25) | **16,054** | 8,055 |
| Acceptances | **390,030** | 240,863 |
| Prepayments and other assets | **116,954** | 63,566 |
| Right-of-use assets (Note 28) | **4,886** | 9,838 |
| Assets repossessed in settlement of debts (refer below) | **156,737** | 117,248 |
| | **744,904** | 523,147 |

## 10. Other assets (continued)

The Bank's portfolio of assets repossessed in settlement of debts amounted to AED 293,854 thousand (2020: AED 254,160 thousand). In 2021, the Bank recognised a gain on sale of AED 5,945 thousand (2020: AED 2,100 thousand) on its properties which had a net carrying value of AED 8,162 thousand (2020: AED 28,300 thousand) at the time of sale. The management completed an assessment of the carrying values of the remaining properties in 2021 and has accordingly recognised an impairment of AED 4,831 thousand (2020: AED 39,366 thousand) for the year.

Grading of credit exposure for financial assets which are part of other assets along with stages is shown below:

| **Other assets** | **Stage 1 AED'000** | **Stage 2 AED'000** | **Stage 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| High | **10,588** | **-** | **-** | **10,588** |
| Standard | **533,167** | **22,184** | **-** | **555,351** |
| Watch list | **-** | **7,801** | **-** | **7,801** |
| **As at 31 December 2021** | **543,755** | **29,985** | **-** | **573,740** |

| Other assets | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| High | 3,451 | - | - | 3,451 |
| Standard | 352,615 | 24,311 | - | 376,926 |
| Watch list | - | - | - | - |
| As at 31 December 2020 | 356,066 | 24,311 | - | 380,377 |

## 11. Due to banks

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| Demand deposits | **5,525** | 27,732 |
| Term deposits | **2,405,46** | 1,205,738 |
| | **2,410,988** | 1,233,470 |

Term deposits include borrowings through repurchase agreements of AED 709,245 thousand (2020: AED 605,938 thousand).

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| **Gross amounts due to banks by geographical area** | | |
| Within U.A.E. | **888,268** | 765,038 |
| Within GCC | **4,516** | 4,609 |
| Other countries | **1,518,204** | 463,823 |
| | **2,410,988** | 1,233,470 |

## 12. Customers' deposits and Islamic customer deposits

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Term deposits | **7,304,064** | 8,359,748 |
| Current accounts | **2,819,597** | 2,563,013 |
| Call and saving accounts | **282,764** | 324,074 |
| | **10,406,425** | 11,246,835 |

Customer' deposits include Islamic customer deposits amounting to AED 2,299,713 thousand (2020: AED 3,390,329 thousand) undertaken through the Bank's Shari'a - compliant Islamic window.

## 13. Medium term borrowings

Movement in medium term borrowings during the year is as follows:

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Balance as at 1 January | **-** | 1,487,363 |
| Issued during the year | **-** | - |
| Repaid during the year | **-** | (1,487,363) |
| Balance as at 31 December | **-** | - |

In order to actively manage its balance sheet and optimize fund usage, the Bank has early repaid all its outstanding medium term borrowings in June 2020.

## 14. Other liabilities

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Acceptances | **390,030** | 240,863 |
| Interest payable | **79,384** | 146,315 |
| Negative fair value of derivatives (Note 25) | **116,664** | 230,587 |
| ECL on off-balance sheet exposures and due from other banks | **100,722** | 112,472 |
| Staff related provisions | **19,223** | 17,414 |
| Accrued expenses | **33,534** | 38,116 |
| Un-presented cheques | **36,435** | 42,297 |
| Lease liability (Note 28) | **6,164** | 9,838 |
| Others | **68,581** | 76,399 |
| | **850,737** | 914,301 |

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| **Staff related provisions** | | |
| The aggregate employee entitlement liability comprises: | | |
| Employees' end of service benefits | **18,805** | 16,394 |
| Other liabilities | **418** | 1,020 |
| | **19,223** | 17,414 |

## 14. Other liabilities (continued)

In accordance with UAE labour law, the Bank provides for end of service benefit for its expatriate employees. Movements in the liability recognised in the statement of financial position in respect of end of service benefits are as follows:

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| Liability as at 1 January | **16,394** | 23,058 |
| Expense recognised in the statement of income | **5,065** | 4,676 |
| End of service benefits paid | **(2,654)** | (11,340) |
| Liability as at 31 December | **18,805** | 16,394 |

## 15. Share capital and reserves

*a) Share capital*

The authorised paid up share capital of the Bank is 2,750,067,532 (2020: 2,750,067,532) shares of AED 1 each. The issued and fully paid up share capital of the Bank comprises 2,062,550,649 (2020: 2,062,550,649) shares of AED 1 each. See Note 23 for details.

*b) Special reserve*

Decretal Federal Law No. (14) of 2018 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital. This reserve has been a balance of AED 7,019 thousand as of 31 December 2021.

c) *Statutory reserve*

UAE Federal Law No.(2) of 2015 and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve has a balance of AED 35,943 thousand as of 31 December 2021.

*d) General reserve*

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors. This reserve has a balance of AED 9,311 thousand as of 31 December 2021.

e) *Revaluation reserve*

The revaluation reserve is used to record increases in the fair value of freehold land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in comprehensive income. In 2008, the Bank changed its accounting policy to the cost basis of accounting for land and buildings. This reserve has a balance of AED Nil as of 31 December 2021.

*f) Dividends*

The directors do not propose any cash dividend for the year ended 31 December 2021 (2020: Nil).

*g) Cumulative changes in fair value*

Cumulative changes in fair value reserve includes the net change in fair value of FVOCI assets and the net effective portion of changes in fair value of cash flow hedges (if any). This reserve has a balance of AED 7,656 thousand as of 31 December 2021.

## 16. Interest income and income from Islamic financing products

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Loans and advances and Islamic financing products | **340,560** | 477,398 |
| Money market and interbank transactions | **10,223** | 31,878 |
| Debt investments securities and profit on Sukuk's | **127,332** | 132,653 |
| | **478,115** | 641,929 |

## 17. Interest expense and distribution to depositors

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Customer deposits | **131,239** | 240,806 |
| Interbank transactions | **69,066** | 107,714 |
| | **200,305** | 348,520 |

## 18. Net fees and commission income

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Fees on letters of credit and acceptances | **12,218** | 12,697 |
| Fees on guarantees | **20,006** | 26,578 |
| Fees on loans and advances | **21,854** | 16,742 |
| Commission expense | **(7,015)** | (13,708) |
| | **47,063** | 42,309 |

## 19. Foreign exchange income

Foreign exchange income comprises mainly of net gains of AED 13,089 thousand (2020: AED 12,693 thousand) arising from trading in foreign currencies.

## 20. Other operating income

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Gain on sale of FVOCI investments | **40,775** | 5,033 |
| Charges recovered from customers | **20,021** | 23,218 |
| Income from collections | **2,459** | 2,540 |
| Others | **42,683** | 19,405 |
| | **105,938** | 50,196 |

## 21. Other operating expenses

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Occupancy and maintenance costs | **36,452** | 47,220 |
| Legal and professional fees | **17,565** | 13,209 |
| Other administrative expenses | **21,656** | 20,850 |
| Write-off of property and equipment (Note 9) | **2,589** | 2,720 |
| | **78,262** | 83,999 |

## 22. Net impairment losses

Provision for credit losses recognised in the statement of income is as follows

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Net impairment of financial assets on: | | |
| Loans and advances and Islamic financing receivables (Note 7) | **150,180** | 683,357 |
| Contingent liabilities (Note 26) | **(870)** | 23,655 |
| Due from other banks (Note 6) | **22** | 26 |
| Investments and Islamic instruments (Note 8) | **5,744** | (2,198) |
| Provision on fair value through other comprehensive income equities | **-** | 220 |
| Principal waivers on loans and advances and Islamic financing receivables | **-** | (68) |
| Net impairment of financial assets on: | | |
| Property, equipment and capital work-in-progress (Note 9) | **-** | 104,455 |
| Other assets (Note 10) | **4,831** | 39,366 |
| Recovery on bad debts written off | **(24,180)** | (40,690) |
| Net impairment losses | **135,727** | 808,123 |

## 23. Earnings / (Loss) per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. The calculations are as follows:

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Net loss for the year | **70,191** | (667,295) |
| Weighted average number of ordinary shares: | | |
| Weighted average number of shares of AED 1 each outstanding for the year | **2,062,550,649** | 2,062,550,649 |
| Basic loss per share | **AED 0.03** | (AED 0.32) |

The diluted earnings / (loss) per share are the same as Basic earnings / (loss) per share as the Bank has not issued any instruments which would have a dilutive impact on earnings per share if or when exercised.

## 24. Related party transactions

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, directors of the Bank, key management personnel of the Bank and companies over which such shareholders and directors exercise control or significant influence either directly or indirectly. The significant balances outstanding at 31 December are as follows:

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| *Shareholders:* | | |
| Due from banks | **94** | 66 |
| Due to other banks | **3,454** | 2,669 |
| Commitments and contingencies | **4,000** | 5,174 |
| *Directors:* | | |
| Loans and advances | **11,045** | 6,511 |
| Customers' deposits | **7,151** | 6,296 |
| Commitments and contingencies | **45** | 45 |
| *Other related entities of shareholders and directors:* | | |
| Loans and advances | **171,989** | 180,167 |
| Investments | **-** | 64,131 |
| Due from banks | **13** | 29 |
| Due to other banks | **273** | 448 |
| Customers' deposits | **235,035** | 243,954 |
| Commitments and contingencies | **76,020** | 97,881 |
| *Key management personnel of the Bank:* | | |
| Loans and advances | **2,132** | 4,136 |
| Customers' deposits | **4,312** | 1,445 |
| *Shareholders, directors and their related entities and key management personnel:* | | |
| Accrued interest income | **221** | 1,595 |
| Accrued interest expense | **899** | 4,204 |
| ECL charge to / (release from) income statement | **1,423** | (5,393) |

## 24. Related party transactions (continued)

The income, expenses, purchase and sale of investments in respect of related parties during the year included in the statement of income are as follows:

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| *Shareholders, directors and their related entities* | | |
| Interest income | **9,681** | 17,746 |
| Interest expense | **783** | 3,776 |
| Professional fees | **3,000** | - |
| Loss from sale of investments | **(4,078)** | - |
| Sale proceeds from investments | **66,105** | - |

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| *Key management personnel* | | |
| Number of key management personnel | **14** | 13 |
| Salaries and other short term benefits | **17,478** | 15,923 |
| Employees' end of service benefits | **1,429** | 2,156 |
| Total compensation to key management personnel | **18,907** | 18,079 |

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| *Key management personnel* | | |
| Interest income | **66** | 111 |
| Interest expense | **-** | 1 |

### Terms and conditions of transactions with related parties

The above mentioned outstanding balances and transactions arose from the ordinary course of business and have been conducted on an arm's length. The interest charged to, and by, related parties is at normal commercial rates.

The related parties exposures have been secured against collateral amounting to AED 135,305 thousand (2020: AED 127,811 thousand).

For the year ended 31 December 2021, the Bank has not recorded any stage 3 impairment on amounts owed by related parties (2020: Nil).

The Bank has leased office space in various premises owned by a related party. The property rentals less associated expenses for the year amounted to AED 1,916 thousand (2020: AED 1,929 thousand). The property rentals are negotiated each year at market rates.

## 24. Related party transactions (continued)

**Movement in the gross balances of all related party loans and advances:**

| Gross carrying amount | **Stage 1 AED'000** | **Stage 2 AED'000** | **Stage 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| As at 31 December 2020 | **167,743** | **23,071** | **-** | **190,814** |
| Net of new assets originated and assets repaid | **(5,265)** | **(383)** | **-** | **(5,648)** |
| Transferred from Stage 1 | **(40,505)** | **40,505** | **-** | **-** |
| Transferred from Stage 2 | **1,838** | **(1,838)** | **-** | **-** |
| Transferred from Stage 3 | **-** | **-** | **-** | **-** |
| **As at 31 December 2021** | **123,811** | **61,355** | **-** | **185,166** |

| Gross carrying amount | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| As at 31 December 2019 | 344,934 | 249,368 | - | 594,302 |
| Restatement of opening balance | 10,497 | - | | 10,497 |
| Net of new assets originated and assets repaid | (186,984) | (7,986) | - | (194,970) |
| Reclassified amounts which are no longer related parties | - | (219,015) | - | (219,015) |
| Write-offs | - | - | - | - |
| Transferred to/ (from) Stage 1 | (704) | 704 | - | - |
| Transferred to/ (from) Stage 2 | - | - | - | - |
| Transferred to/ (from) Stage 3 | - | - | - | - |
| As at 31 December 2020 | 167,743 | 23,071 | - | 190,814 |

**Movement in provision for impairment of related party loans and advances:**

| | **Stage 1 AED'000** | **Stage 2 AED'000** | **Stage 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| Balance as at 31 December 2020 | **2,118** | **1,854** | **-** | **3,972** |
| Changes due to provisions recognized in the opening balance that have: | **120** | **(120)** | **-** | **-** |
| Transferred from 12 months ECL | **(443)** | **1,866** | **-** | **1,423** |
| Charge to income statement | | | | |
| **As at 31 December 2021** | **1,795** | **3,600** | **-** | **5,395** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Balance as at 31 December 2019 | 5,185 | 4,180 | - | 9,365 |
| Changes due to provisions recognized in the opening balance that have: | | | | |
| Transferred to 12 months ECL | (97) | 97 | - | - |
| Charge to income statement | (2,970) | (1,436) | - | (4,406) |
| Reclassified amounts which are no longer related parties | - | (987) | - | (987) |
| As at 31 December 2020 | 2,118 | 1,854 | - | 3,972 |

## 25. Derivatives

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

### 25.1 Derivative product types

a) Forward Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Bank has credit exposure to the counterparties of forward contracts.

b) Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

c) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

### 25.2 Purpose of derivatives

The Bank is a party to derivative instruments in the normal course of meeting the needs of the Bank's customers. In addition, as part of its risk management activity, the Bank uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

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

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

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices actual market transactions and the Bank's best estimate of the most appropriate model inputs (Note 27).

The tables below show the fair values of derivative financial instruments for risk management and hedging purposes, recorded as assets and liabilities, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

## 25. Derivatives (continued)

### 25.2 Purpose of derivatives (continued)

### 25.2.1 Derivatives held for risk management

| **31 December 2021** | **Positive fair value AED'000** | **Negative fair value AED'000** | **Notional amount AED'000** | **Notional amounts by term to maturity** Within 3 months AED'000 | 3-12 months AED'000 | 1-5 years AED'000 | Over 5 years AED'000 |
|---|---|---|---|---|---|---|---|
| **Forward contracts** | **10,600** | **(1,710)** | **2,170,134** | **758,524** | **907,270** | **504,340** | **-** |
| **Interest rate swaps** | **5,454** | **(5,455)** | **1,082,415** | **-** | **-** | **482,415** | **600,000** |
| | **16,054** | **(7,165)** | **3,252,549** | **758,524** | **907,270** | **986,755** | **600,000** |

| 31 December 2020 | Positive fair value AED'000 | Negative fair value AED'000 | Notional amount AED'000 | Notional amounts by term to maturity Within 3 months AED'000 | 3-12 months AED'000 | 1-5 years AED'000 | Over 5 years AED'000 |
|---|---|---|---|---|---|---|---|
| Forward contracts | 3,687 | (33) | 2,299,687 | 1,279,889 | 1,019,798 | - | - |
| Interest rate swaps | 4,368 | (4,368) | 251,651 | - | - | 251,651 | - |
| | 8,055 | (4,401) | 2,551,338 | 1,279,889 | 1,019,798 | 251,651 | - |

*Fair value hedges of interest rate risk*

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a benchmark interest rate. Interest rate swaps are matched to specific purchases of investments.

The Bank hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

When fair value hedge accounting is applied by the Bank, the Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item using regression analysis. The assessment is based on an evaluation of the quantitative measures of the regression results.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

At 31 December 2021, the Bank held the following interest rate swaps as hedging instruments in fair value hedges of interest risk, along with amounts relating to hedged items.

| | **Positive fair value AED'000** | **Negative fair value AED'000** | **Notional amount AED'000** | **Notional amounts by term to maturity** Within 3 months AED'000 | 3-12 months AED'000 | 1-5 years AED'000 | Over 5 years AED'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2021**<br>**Hedge of investments** | **-** | **(109,499)** | **1,989,166** | **-** | **146,900** | **1,180,635** | **661,631** |
| 31 December 2020<br>Hedge of investments | - | (226,186) | 2,114,107 | - | 55,822 | 1,099,375 | 958,910 |

## 25. Derivatives (continued)

### 25.2 Purpose of derivatives (continued)

### 25.2.1 Derivatives held for risk management (continued)

*Fair value hedges of interest rate risk (continued)*

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totalling to AED 2,110,459 thousand (2020: AED 2,311,164 thousand). These hedged items comprise of debt instruments which are held as FVOCI.

The Bank has recognised the following gain relating to hedge ineffectiveness calculated as follows:

| | **2021** | | **2020** | |
|---|---|---|---|---|
| | **Change in value AED'000** | **Effectiveness recognised in profit and loss AED'000** | Change in value AED'000 | Effectiveness recognised in profit and loss AED'000 |
| On hedging instruments | **(106,916)** | **9,625** | (105,225) | 249 |
| On hedged items | **116,541** | **-** | 105,474 | - |

### 25.3 Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 89% (2020: 97%) of the Bank's derivative contracts are entered into with other financial institutions.

## 25. Derivatives (continued)

*Credit related commitments*

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

The loan commitments represent the contractual commitments to make the loan. These commitments are revocable and generally have fixed expiry dates or other termination clauses. Since commitments are revocable, may expire without being drawn down, and also the conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash outflow requirements.

The Bank has the following credit related commitments:

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| *Contingent liabilities* | | |
| Letters of credit | **278,000** | 215,578 |
| Guarantees | **2,386,034** | 2,527,627 |
| | **2,664,034** | 2,743,205 |
| *Commitments* | | |
| Undrawn loan commitments | **2,286,975** | 3,098,643 |

The undrawn loan commitments of the Bank are all revocable and are not considered for ECL computation.

## 26. Contingent liabilities and commitments (continued)

### Grading of gross balances of commitments and contingent liabilities along with stages

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| High | **4,947** | **-** | **-** | **4,947** |
| Standard | **2,086,697** | **310,828** | **-** | **2,397,525** |
| Watch list | **-** | **53,351** | **-** | **53,351** |
| Default | **-** | **-** | **208,211** | **208,211** |
| Total gross carrying amount | **2,091,644** | **364,179** | **208,211** | **2,664,034** |
| Expected credit loss | **(9,059)** | **(31,855)** | **(47,033)** | **(87,947)** |
| **As at 31 December 2021** | **2,082,585** | **332,324** | **161,178** | **2,576,087** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| High | 16,586 | - | - | 16,586 |
| Standard | 1,843,736 | 662,643 | - | 2,506,379 |
| Watch list | - | 128,978 | - | 128,978 |
| Default | - | - | 91,262 | 91,262 |
| Total gross carrying amount | 1,860,322 | 791,621 | 91,262 | 2,743,205 |
| Expected credit loss | (18,255) | (56,710) | (37,397) | (112,362) |
| As at 31 December 2020 | 1,842,067 | 734,911 | 53,865 | 2,630,843 |

### Movement in the gross balance of contingent liabilities

| Gross carrying amount | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| As at 31 December 2020 | **1,860,322** | **791,621** | **91,262** | **2,743,205** |
| Changes due to financial assets recognised in the opening balance that have: | | | | |
| Transferred to/ (from) Stage 1 | **(58,986)** | **58,986** | **-** | **-** |
| Transferred to/ (from) Stage 2 | **160,523** | **(160,523)** | **-** | **-** |
| Transferred to/ (from) Stage 3 | **-** | **(125,109)** | **125,109** | **-** |
| Originated / (expired) during the year | **129,785** | **(200,797)** | **(8,159)** | **(79,171)** |
| **As at 31 December 2021** | **2,091,644** | **364,178** | **208,212** | **2,664,034** |

| Gross carrying amount | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| As at 31 December 2019 | 2,415,078 | 1,029,493 | 68,116 | 3,512,687 |
| Changes due to financial assets recognised in the opening balance that have: | | | | |
| Transferred to/ (from) Stage 1 | (93,053) | 90,022 | 3,031 | - |
| Transferred to/ (from) Stage 2 | 3,649 | (28,077) | 24,428 | - |
| Transferred to/ (from) Stage 3 | - | - | - | - |
| Originated / (expired) during the year | (465,352) | (299,817) | (4,313) | (769,482) |
| As at 31 December 2020 | 1,860,322 | 791,621 | 91,262 | 2,743,205 |

## 26. Contingent liabilities and commitments (continued)

### Movement in the provision for impairment of contingent liabilities

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Balance as at 31 December 2020 | **18,255** | **56,710** | **37,397** | **112,362** |
| Changes due to provisions recognized in the opening balance that have: | | | | |
| Transferred to 12 month ECL | **1,838** | **(1,838)** | **-** | **-** |
| Transferred to lifetime ECL not credit impaired | **(7,247)** | **7,247** | **-** | **-** |
| Transferred to lifetime ECL credit impaired | **-** | **(1,860)** | **1,860** | **-** |
| Transferred from / (to) ECL credit impaired on loans (Note 7) | **-** | **(7,997)** | **(2,963)** | **(10,960)** |
| Charge to income statement (Note 22) | **(3,856)** | **(7,752)** | **10,738** | **(870)** |
| **As at 31 December 2021** | **8,990** | **44,510** | **47,032** | **100,532** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Balance as at 31 December 2020 | 14,000 | 45,462 | 31,833 | 91,295 |
| Changes due to provisions recognized in the opening balance that have: | | | | |
| Transferred to 12 month ECL | 587 | (587) | - | - |
| Transferred to lifetime ECL not credit impaired | (12,254) | 12,254 | - | - |
| Transferred to lifetime ECL credit impaired | - | (2,961) | 2,961 | - |
| Transferred from / (to) ECL credit impaired on loans (Note 7) | - | (5,191) | 2,603 | (2,588) |
| Charge to income statement (Note 22) | 15,922 | 7,733 | - | 23,655 |
| As at 31 December 2020 | 18,255 | 56,710 | 37,397 | 112,362 |

## 27. Risk management

### Introduction

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

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

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

## 27. Risk management (continued)

### Risk Management Structure

### Board level committees

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate board sub-committees responsible for managing and monitoring risks.

*(a) Board Credit Committee*

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

*(b) Board Audit Committee*

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Bank, internal controls, compliance and internal / external audit processes.

*(c) Board Risk Committee*

The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Bank's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

*(d) Group Remuneration Committee*

The Group Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

### Management Groups

The Board level committees are further supplemented by the management Banks / functions who are responsible for day to day monitoring of risks.

*(a) Risk Management Group*

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safe-guarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

*(b) Treasury*

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

*(c) Internal Audit*

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of, and the Bank's compliance with, its procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

From 2019 till 2021, UAE Central Bank has issued a number of standards and regulations on the various elements of overall Risk Management, Anti-Money Laundering, Capital adequacy and Capital Management Framework. The standards and regulations including but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk have been effected in 2019. The Bank had taken measures to adhere to the aforementioned standards and regulations to ensure compliance from the effective implementation date.

## 27. Risk management (continued)

### Risk Measurement and Reporting Systems

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

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assess the appropriateness of the allowance for credit losses on a quarterly basis.

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

Regular briefings are given to the Chief Executive Officer, GMRC and all other relevant members of management on all aspects of risk taken by the Bank including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

### Risk Mitigation

The Bank actively uses collateral to reduce its credit risks.

Also, as part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

### Risk concentration

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

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

### Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment / contractual obligation, resulting in a financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is the single largest risk for the Bank's business and is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

## 27. Risk management (continued)

### Credit Risk (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

| | Notes | 2021 AED'000 | 2020 AED'000 |
|---|---|---|---|
| Cash and balances with UAE Central Bank (excluding cash on hand) | 5 | **1,953,141** | 1,341,924 |
| Due from other banks | 6 | **378,735** | 296,525 |
| Loans and advances (net of provisions) | 7 | **8,213,350** | 9,013,639 |
| Investments | 8 | **3,531,764** | 3,281,091 |
| Other assets* | 10 | **573,740** | 380,377 |
| *excluding prepayments and assets acquired in settlement of debt and lease assets | | | |
| Total | | **14,650,730** | 14,313,556 |
| Letters of credit | 26 | **278,000** | 215,578 |
| Guarantees | 26 | **2,386,034** | 2,527,627 |
| Undrawn loan commitments | 26 | **2,286,975** | 3,098,643 |
| Total | | **4,951,009** | 5,841,848 |
| Total credit risk exposure | | **19,601,739** | 20,155,404 |

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

### Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client / counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2021 was AED 599,959 thousand (2020: AED 560,000 thousand).

The Bank's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Assets AED'000 | Contingent liabilities and commitments AED'000 | Assets AED'000 | Contingent liabilities and commitments AED'000 |
| United Arab Emirates | **12,409,370** | **4,908,108** | 12,999,665 | 5,558,102 |
| Other Middle East countries | **1,215,353** | **20,695** | 965,536 | 72,207 |
| Europe | **64,323** | **15,186** | 80,571 | 15,009 |
| USA | **75,889** | **-** | 18,601 | - |
| Rest of the World | **885,795** | **7,020** | 249,183 | 196,530 |
| Total | **14,650,730** | **4,951,009** | 14,313,556 | 5,841,848 |

## 27. Risk management (continued)

### Credit risk (continued)

#### Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Bank's maximum exposure to credit risk (excluding cash on hand) after provisions but before taking into account collateral held or other credit enhancements, is as follows:

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| Financial services | **4,108,175** | 3,210,947 |
| Trade | **1,543,351** | 1,610,936 |
| Manufacturing | **778,475** | 1,185,445 |
| Government and public sector | **3,918,262** | 3,157,288 |
| Construction | **481,538** | 570,042 |
| Services | **1,104,348** | 1,926,413 |
| Others | **3,521,406** | 4,308,030 |
| | **15,455,555** | 15,969,101 |
| Less: impairment provision on loans and advances | **(804,825)** | (1,655,545) |
| | **14,650,730** | 14,313,556 |

#### Past due but not impaired

Past due loans and advances include those that are past due on their repayment schedule. Aging analysis of past due but not impaired loans and advances is as follows:

| 31 December 2021 | Less than 30 days AED'000 | 31 to 60 days AED'000 | 61 to 90 days AED'000 | More than 91 days AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| Loans and advances | **42,396** | **8,144** | **710** | **125** | **51,375** |
| 31 December 2020 | | | | | |
| Loans and advances | 96,274 | 24,215 | 5,166 | 10,053 | 135,708 |

Amounts which are not yet past due and related to loans which have delinquent payments, are not included in the table above. Approximately 86% (2020: 88%) of the above loans are advanced to the corporate sector.

#### Loans and advances and Islamic financing receivables with renegotiated terms

Loans and advances and Islamic financing receivables with renegotiated terms are those which have been rescheduled or restructured and where the Bank has made concessions that it would otherwise not consider. Rescheduled and restructured loans are classified under Stage 2 attracting lifetime ECL – not credit impaired impact.

The gross amount per class of on-balance sheet financial assets whose terms have been renegotiated are as follows:

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| Loans and advances and Islamic financing receivables | **963,219** | 1,147,279 |

## 27. Risk management (continued)

### Loans and advances and Islamic financing receivables with renegotiated terms (continued)

| | **Stage 1 AED'000** | **Stage 2 AED'000** | **Stage 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| Outstanding balance | **41,621** | **131,730** | **789,868** | **963,219** |
| Less: Provision for impairment | **(1,768)** | **(13,889)** | **(322,715)** | **(338,372)** |
| **As at 31 December 2021** | **39,853** | **117,841** | **467,153** | **624,847** |

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Outstanding balance | 47,942 | 492,762 | 606,575 | 1,147,279 |
| Less: Provision for impairment | (741) | (134,570) | (396,246) | (531,557) |
| As at 31 December 2020 | 47,201 | 358,192 | 210,329 | 615,722 |

### Collateral and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The main types of collateral obtained are cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other Bank companies. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Collateral is generally not held against non-trading investment and due from banks and financial institutions. Management monitors the market value of collateral and wherever necessary the Bank requests additional collateral in accordance with the underlying agreement, and considers collateral value during its periodic review of credit facilities and adequacy of provision for impairment on loans and advances.

The percentage of collateralized exposure and the principal types of collateral held against loans and advances are as follows:

| | **Percentage of collateralized exposure** | | **Principal type of collateral held** |
|---|---|---|---|
| | **2021** | 2020 | |
| Retail Mortgage Loans | **100%** | 100% | Residential property |
| Corporate customers | **62%** | 65% | Cash, securities, vehicles, property and equipment, commercial property, inventory and trade receivables |

## 27. Risk management (continued)

### Retail mortgage loans

Credit exposure on retail mortgage loans by range of loans to value (LTV) ratio are as follows:

| LTV ratio | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Less than 50% | **213,574** | 161,956 |
| 51- 75% | **579,511** | 589,199 |
| 76- 90% | **176,805** | 580,176 |
| 91- 100% | **29,873** | 117,327 |
| More than 100% | **50,476** | 122,863 |
| Total | **1,050,239** | 1,571,521 |

LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

### Impaired loans

For impaired loans the value of collateral is based on the most recent appraisals. Credit exposure on impaired retail mortgage loans by range of LTV ratio are as follows:

| LTV ratio | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| Less than 50% | **3,807** | 18,915 |
| 51- 75% | **21,636** | 12,328 |
| More than 75% | **50,409** | 93,971 |
| Total | **75,852** | 125,214 |

At 31 December 2021, the carrying amount of impaired loans and advances to retail customers (including mortgages) amounted to AED 93,727 thousand (2020: AED 201,033 thousand) and the value of identifiable collateral held against those loans and advances amounted to AED 88,484 thousand (2020: AED 125,735 thousand).

### Corporate customers

At 31 December 2021, the net carrying amount of impaired loans and advances to corporate customers amounted to AED 1,044,296 thousand (2020: AED 1,476,166 thousand) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 582,839 thousand (2020: AED 543,608 thousand). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

## 27. Risk management (continued)

### Credit risk (continued)

#### Impairment Reserve under the UAE Central Bank

The UAE Central Bank issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE (the "Guidance"). Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under circular 28/2010 of the UAE Central Bank and IFRS 9 is as follows:

| | **2021 AED'000** | 2020 AED'000 |
|---|---|---|
| **Impairment Reserve : General** | | |
| General Provisions under Circular 28/2010 of UAE Central Bank | **163,869** | 160,375 |
| Less: Stage 1 & Stage 2 provisions under IFRS 9 | **260,116** | 382,239 |
| **General Provision transferred to impairment reserve** | **-** | - |
| **Impairment Reserve : Specific** | | |
| Specific Provisions under Circular 28/2010 of UAE Central Bank | **269,726** | 849,669 |
| Less: Stage 3 provisions under IFRS 9 | **544,709** | 1,273,305 |
| **Specific Provision transferred to impairment reserve** | **-** | - |

### Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stressed circumstances. To limit this risk, management have arranged diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of UAE equal to 7% of current deposits and 1% of time deposits (2020: 14% of current deposits and 1% of time deposits). In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The most important of these is to maintain the regulatory limits for Lending to Stable Resources and Eligible Liquid Assets to total liabilities ratios. The Bank stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance its lending to customers. They are monitored using the lending to stable resources ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with medium term borrowing. Eligible Liquid Assets ratio was introduced by Central Bank of the UAE in 2015 and replaced the Liquid Assets ratio. Eligible liquid assets consist of cash, balances with the Central Bank of UAE, short term bank deposits and eligible debt securities. The ratios as at the year-end were as follows:

| | **2021** | 2020 |
|---|---|---|
| Lending to Stable Resources Ratio | **80.7%** | 80.5% |
| Eligible Liquid Assets Ratio | **19.1%** | 16.4% |

## 27. Risk management (continued)

### Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds, as at 31 December 2021 is as follows:

| | Less than 3 months AED'000 | From 3 months to 6 months AED'000 | From 6 months to 12 months AED'000 | Subtotal less than 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Subtotal over 12 months AED'000 | Undated AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash and balances with the UAE Central Bank | 2,009,565 | - | - | 2,009,565 | - | - | - | - | 2,009,565 |
| Due from other banks | 378,735 | - | - | 378,735 | - | - | - | - | 378,735 |
| Loans and advances (Gross) | 2,241,101 | 474,359 | 312,727 | 3,028,187 | 2,642,872 | 3,347,116 | 5,989,988 | - | 9,018,175 |
| Investments | 55,551 | 169,659 | - | 225,210 | 1,404,290 | 1,900,019 | 3,304,309 | 698 | 3,530,217 |
| Property, equipment and capital work-in-progress | - | - | - | - | - | - | - | 303,271 | 303,271 |
| Other assets | 343,296 | 49,781 | 188,745 | 581,822 | 160,191 | 2,891 | 163,082 | - | 744,904 |
| Provision for impairment of loans and advances and interest in suspense | (804,825) | - | - | (804,825) | - | - | - | - | (804,825) |
| **Total assets** | **4,223,423** | **693,799** | **501,472** | **5,418,694** | **4,207,353** | **5,250,026** | **9,457,379** | **303,969** | **15,180,042** |
| **Liabilities and shareholders' funds** | | | | | | | | | |
| Due to banks | 1,883,873 | 108,450 | 418,665 | 2,410,988 | - | - | - | - | 2,410,988 |
| Customers' deposits | 5,784,503 | 2,054,972 | 1,699,157 | 9,538,632 | 867,792 | - | 867,792 | - | 10,406,424 |
| Other liabilities | 485,695 | 43,948 | 188,401 | 718,044 | 53,115 | 60,773 | 113,888 | 18,806 | 850,738 |
| Shareholders' equity | - | - | - | - | - | - | - | 1,511,892 | 1,511,892 |
| **Total liabilities and shareholders' equity** | **8,154,071** | **2,207,370** | **2,306,223** | **12,667,664** | **920,907** | **60,773** | **981,680** | **1,530,698** | **15,180,042** |
| **Net liquidity gap** | **(3,930,648)** | **(1,513,571)** | **(1,804,751)** | **(7,248,970)** | **3,286,446** | **5,189,253** | **8,475,699** | **(1,226,729)** | **-** |

## 27. Risk management (continued)

### Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2020 was as follows:

| | Less than 3 months AED'000 | From 3 months to 6 months AED'000 | From 6 months to 12 months AED'000 | Subtotal less than 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Subtotal over 12 months AED'000 | Undated AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | |
| Cash and balances with the UAE Central Bank | 1,406,322 | - | - | 1,406,322 | - | - | - | - | 1,406,322 |
| Due from other banks | 296,525 | - | - | 296,525 | - | - | - | - | 296,525 |
| Loans and advances (Gross) | 2,601,665 | 424,223 | 203,881 | 3,229,769 | 2,975,821 | 4,463,593 | 7,439,414 | - | 10,669,183 |
| Investments | 91,950 | 188,279 | 61,303 | 341,532 | 1,508,276 | 1,431,280 | 2,939,556 | 638 | 3,281,726 |
| Property, equipment and capital work-in-progress | - | - | - | - | - | - | - | 327,790 | 327,790 |
| Other assets | 311,556 | 53,719 | 35,275 | 400,550 | 122,597 | - | 122,597 | - | 523,147 |
| Provision for impairment of loans and advances and interest in suspense | (1,655,544) | - | - | (1,655,544) | - | - | - | - | (1,655,544) |
| Total assets | 3,052,474 | 666,221 | 300,459 | 4,019,154 | 4,606,694 | 5,894,873 | 10,501,567 | 328,428 | 14,849,149 |
| Liabilities and shareholders' funds | | | | | | | | | |
| Due to banks | 866,220 | - | 367,250 | 1,233,470 | - | - | - | - | 1,233,470 |
| Customers' deposits | 7,058,238 | 1,882,180 | 1,890,771 | 10,831,189 | 415,646 | - | 415,646 | - | 11,246,835 |
| Medium term borrowings | - | - | - | - | - | - | - | - | - |
| Other liabilities | 579,790 | 52,789 | 35,055 | 667,634 | 89,104 | 141,169 | 230,273 | 16,394 | 914,301 |
| Shareholders' equity | - | - | - | - | - | - | - | 1,454,543 | 1,454,543 |
| Total liabilities and shareholders' equity | 8,504,248 | 1,934,969 | 2,293,076 | 12,732,293 | 504,750 | 141,169 | 645,919 | 1,470,937 | 14,849,149 |
| Net liquidity gap | (5,451,774) | (1,268,748) | (1,992,617) | (8,713,139) | 4,101,944 | 5,753,704 | 9,855,648 | (1,142,509) | - |

## 27. Risk management (continued)

### Liquidity risk (continued)

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2021 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

| **Financial Liabilities** | **Carrying amount AED'000** | **On demand AED'000** | **Less than 3 months AED'000** | **3 to 12 months AED'000** | **1 to 5 years AED'000** | **Over 5 years AED'000** | **Total AED'000** |
|---|---|---|---|---|---|---|---|
| **31 December 2021** | | | | | | | |
| Due to banks | **2,410,988** | **5,525** | **1,883,125** | **532,157** | **-** | **-** | **2,420,807** |
| Customers' deposits | **10,406,425** | **2,821,739** | **2,987,649** | **3,816,072** | **896,046** | **-** | **10,521,506** |
| Other liabilities | **734,072** | **245,436** | **258,781** | **229,855** | **-** | **-** | **734,072** |
| Financial derivatives | **218,651** | **-** | **13,440** | **37,887** | **139,661** | **27,663** | **218,651** |
| Total undiscounted financial liabilities | **13,770,136** | **3,072,700** | **5,142,995** | **4,615,971** | **1,035,707** | **27,663** | **13,895,036** |

| Financial Liabilities | Carrying amount AED'000 | On demand AED'000 | Less than 3 months AED'000 | 3 to 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| 31 December 2020 | | | | | | | |
| Due to banks | 1,233,470 | 27,732 | 845,580 | 370,654 | - | - | 1,243,966 |
| Customers' deposits | 11,246,835 | 2,699,327 | 4,399,669 | 3,894,445 | 457,183 | - | 11,450,624 |
| Medium term borrowings | - | - | - | - | - | - | - |
| Other liabilities | 683,714 | 279,122 | 317,052 | 86,559 | 981 | - | 683,714 |
| Financial derivatives | 230,587 | - | 14,455 | 43,300 | 177,024 | 57,389 | 292,168 |
| Total undiscounted financial liabilities | 13,394,606 | 3,006,181 | 5,576,756 | 4,394,958 | 635,188 | 57,389 | 13,670,472 |

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding carrying amounts.

| | **On demand AED'000** | **Less than 3 months AED'000** | **3 to 12 months AED'000** | **1 to 5 years AED'000** | **Over 5 years AED'000** | **Total AED'000** |
|---|---|---|---|---|---|---|
| **31 December 2021** | | | | | | |
| Inflows | **-** | **948** | **5,537** | **57,238** | **13,713** | **77,436** |
| Outflows | **-** | **(13,440)** | **(37,887)** | **(139,661)** | **(27,663)** | **(218,651)** |
| **Net** | **-** | **(12,492)** | **(32,350)** | **(82,423)** | **(13,950)** | **(141,215)** |
| **Discounted at applicable interbank rates** | **-** | **(12,466)** | **(32,216)** | **(81,491)** | **(13,748)** | **(139,921)** |

## 27. Risk management (continued)

### Liquidity risk (continued)

| | On demand AED'000 | Less than 3 months AED'000 | 3 to 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| 31 December 2020 | | | | | | |
| Inflows | - | 1,173 | 2,894 | 17,808 | 12,779 | 34,654 |
| Outflows | - | (14,455) | (43,300) | (177,024) | (57,389) | (292,168) |
| Net | - | (13,282) | (40,406) | (159,216) | (44,610) | (257,514) |
| Discounted at applicable interbank rates | - | (13,250) | (40,326) | (158,764) | (44,319) | (256,659) |

The table below shows the contractual maturity profile of the Bank's contingent liabilities and commitments:

| | **On Demand AED'000** | **Less Than 3 Months AED'000** | **3 to 12 Months AED'000** | **1 to 5 Years AED'000** | **Over 5 Years AED'000** | **Total AED'000** |
|---|---|---|---|---|---|---|
| **31 December 2021** | | | | | | |
| Contingent liabilities | **-** | **2,050,108** | **348,120** | **265,806** | **-** | **2,664,034** |
| Commitments | **2,286,975** | **-** | **-** | **-** | **-** | **2,286,975** |
| **Total** | **2,286,975** | **2,050,108** | **348,120** | **265,806** | **-** | **4,951,009** |
| 31 December 2020 | | | | | | |
| Contingent liabilities | - | 1,963,756 | 609,801 | 169,648 | - | 2,743,205 |
| Commitments | 3,098,643 | - | - | - | - | 3,098,643 |
| Total | 3,098,643 | 1,963,756 | 609,801 | 169,648 | - | 5,841,848 |

The Bank expects that not all of the contingent liabilities or commitments will be drawn and therefore the actual cash flows are expected to be significantly lower than those reflected in the above table.

### Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Asset and Liability Committee (ALCO).

## 27. Risk management (continued)

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

The following table summarises interest rate sensitivity position at the year end. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

| 31 December 2021 | Less than 3 months AED'000 | 3 to 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Non-interest sensitive AED'000 | Carrying amount AED'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with the UAE Central Bank | 1,300,000 | - | - | - | 709,565 | 2,009,565 |
| Due from other banks | 150,00 | - | - | - | 228,735 | 378,735 |
| Loans and advances | 5,785,722 | 668,711 | 1,438,801 | 320,116 | - | 8,213,350 |
| Investments | 55,551 | 138,816 | 1,378,485 | 1,956,670 | 695 | 3,530,217 |
| Other assets | - | - | - | - | 744,904 | 744,904 |
| Total assets | 7,291,273 | 807,527 | 2,817,286 | 2,276,786 | 1683,899 | 14,876,771 |
| **Liabilities and shareholders' equity** | | | | | | |
| Due to banks | 1,878,348 | 527,115 | - | - | 5,525 | 2,410,988 |
| Customers' deposits | 3,020,807 | 3,715,753 | 850,267 | - | 2,819,598 | 10,406,425 |
| Other liabilities | - | - | - | - | 850,737 | 850,737 |
| Shareholders' equity | - | - | - | - | 1,511,892 | 1,511,892 |
| Total liabilities and shareholders' equity | 4,899,155 | 4,242,868 | 850,267 | - | 5,187,752 | 15,180,042 |
| On-balance sheet | 2,392,118 | (3,435,341) | 1,967,019 | 2,276,786 | (3,200,582) | - |
| Off-balance sheet | 3,071,581 | - | - | - | 2,165,104 | 5,236,685 |
| Cumulative interest rate sensitivity gap | 5,463,699 | 2,028,358 | 3,995,377 | 6,272,163 | 5,236,685 | - |

## 27. Risk management (continued)

### Interest rate risk (continued)

| 31 December 2020 | Less than 3 months AED'000 | 3 to 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Non-interest sensitive AED'000 | Carrying amount AED'000 |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and balances with the UAE Central Bank | 850,000 | - | - | - | 556,322 | 1,406,322 |
| Due from other banks | - | - | - | - | 296,525 | 296,525 |
| Loans and advances | 6,157,113 | 465,753 | 1,750,293 | 640,480 | - | 9,013,639 |
| Investments | 91,950 | 249,582 | 1,508,276 | 1,431,283 | 635 | 3,281,726 |
| Property, equipment and capital work-in-progress | - | - | - | - | 327,790 | 327,790 |
| Other assets | - | - | - | - | 523,147 | 523,147 |
| Total assets | 7,099,063 | 715,335 | 3,258,569 | 2,071,763 | 1,704,419 | 14,849,149 |
| Liabilities and shareholders' equity | | | | | | |
| Due to banks | 838,488 | 367,250 | - | - | 27,732 | 1,233,470 |
| Customers' deposits | 4,554,119 | 3,732,588 | 397,115 | - | 2,563,013 | 11,246,835 |
| Medium term borrowings | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | 914,301 | 914,301 |
| Shareholders' equity | - | - | - | - | 1,454,543 | 1,454,543 |
| Total liabilities and shareholders' equity | 5,392,607 | 4,099,838 | 397,115 | - | 4,959,589 | 14,849,149 |
| On-balance sheet | 1,706,456 | 3,384,503) | 2,861,454 | 2,071,762 | (3,255,170) | - |
| Off-balance sheet | 2,365,758 | - | - | - | 2,299,687 | 4,665,445 |
| Cumulative interest rate sensitivity gap | 4,072,214 | 687,711 | 3,549,165 | 5,620,928 | 4,665,445 | - |

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2021, including the effect of hedging instruments.

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Change in basis points** | **Sensitivity of net interest income** AED'000 | Change in basis points | Sensitivity of net interest income AED'000 |
| Increase in rate | **+25** | **19,398** | +25 | 23,135 |
| Increase in rate | **-25** | **(19,398)** | -25 | (23,135) |

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

The Bank is also exposed to fair value risk arising from its unhedged fixed rate bonds portfolio. A change in the fair value of these bonds by +/-5% will result in a positive/negative change in the fair value reserve in equity by AED 1,062 thousand (2020: AED 2,256 thousand).

## 27. Risk management (continued)

### Interest rate risk (continued)

### Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates - RFR (referred to as 'IBOR reform'). The Bank has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. The Bank has established a cross-functional IBOR Transition Working Group (referred to as 'IBOR Working Group') to manage its transition to alternative RFRs.

The Bank continues to maintain its momentum in tracking its exposure to IBOR, preparing its IT systems to accommodate the incoming RFRs, amending contracts / addendums and communicating progress with the regulators and clients. IBOR reform exposes the Bank to various risks, which the IBOR Working Group is managing and monitoring closely.

These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- Pricing risk including re-pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable; and
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.

The Bank has set up a methodical framework to monitor the progress of transition from IBORs to new benchmark rates by reviewing its exposure and contracts on a regular basis. The Bank considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fall back clause that deals with the cessation of the existing IBOR.

The Bank holds derivatives for risk management purposes. Derivatives held for risk management purposes are designated in hedging relationships. The interest rate swaps have floating legs that are indexed to various IBORs. The Bank's derivative instruments are governed by ISDA definitions and adheres to the ISDA 2020 IBOR fall back official protocol and supplement.

Further, the Bank evaluated the extent to which it's fair value hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. The Bank's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly USD 3 months LIBOR Index. These IBOR benchmark rates are quoted regularly and IBOR cash flows are exchanged with its counterparties as usual.

The Bank's exposure to interest rate swaps designated in hedge accounting relationships as at 31 December 2021 represents an amount of AED 1,989 million. The objective of the majority of these hedges is to maintain consistency with the overall interest rate risk profile and to manage, hedge and optimize interest rate risk.

The Bank has achieved readiness to transition the relevant portion of its IBOR exposure to RFRs and has in place detailed plans, processes and procedures to support the transition of the IBOR exposures prior to the its cessation. The Bank is communicating to the impacted customers with necessary information and price revision letters based on RFR effective 01 January 2022.

The Bank's IBOR exposures on floating-rate loans and advances and Islamic financing facilities amounted to AED 987,464 thousand and AED 83,098 thousand for USD and EUR respectively as at 31 December 2021.

## 27. Risk management (continued)

### Interest rate risk (continued)

### Interest rate benchmark reform (continued)

The Bank has floating-rate derivative liabilities indexed to 3-month IBOR's as shown in the table below denominated in USD and EUR which will be affected by IBOR transition to RFRs:

| | Notional Amount AED'000 | Average Remaining Maturity (in years) |
|---|---|---|
| 3 Months LIBOR: Interest Rate Swaps | | |
| - USD | 2,247,576 | 1.4 years |
| - EUR | 41,772 | 4.1 years |
| **Total as at 31 Dec 2021** | **2,289,348** | **4.1 years** |

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and most of the GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicates the currencies to which the Bank had significant exposure at 31 December 2021 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the statement of income (due to the fair value of currency sensitive monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

| | **2021** | | 2020 | |
|---|---|---|---|---|
| **Currency** | **Change in currency rate in %** | **Effect on profit AED'000** | Change in currency rate in % | Effect on profit AED'000 |
| EUR | **+10** | **19** | +10 | (27) |
| GBP | **+10** | **(2)** | +10 | 2 |

### Concentration of assets and liabilities by currency

| | AED AED'000 | USD AED'000 | Other AED'000 | Total AED'000 |
|---|---|---|---|---|
| Cash and balances with UAE Central Bank | 2,009,565 | - | - | 2,009,565 |
| Due from other banks | 161,847 | 195,212 | 21,676 | 378,735 |
| Loans and advances and Islamic financing receivables | 6,873,722 | 1,249,882 | 89,746 | 8,213,350 |
| Investments and Islamic instruments | 543 | 3,485,844 | 43,830 | 3,530,217 |
| Property, equipment and capital work-in-progress | 303,271 | - | - | 303,271 |
| Other assets | 703,641 | 40,278 | 985 | 744,904 |
| **Total assets** | **10,052,589** | **4,971,216** | **156,237** | **15,180,042** |
| Due to banks | 515,525 | 1,895,463 | - | 2,410,988 |
| Customers' deposits and Islamic customer deposits | 7,427,284 | 1,248,801 | 1,730,340 | 10,406,425 |
| Other liabilities | 702,475 | 132,035 | 16,217 | 850,727 |
| **Total liabilities** | **8,645,284** | **3,276,299** | **1,746,557** | **13,668,140** |
| **Net shareholders' equity** | **1,529,698** | **(23,749)** | **5,943** | **1,511,892** |
| **Net balance sheet position** | **(122,393)** | **1,718,666** | **(1,596,262)** | **11** |
| **Off-balance sheet position** | **132,210** | **(1,721,569)** | **1,598,574** | **9,215** |

## 27. Risk management (continued)

### Currency risk (continued)

### Concentration of assets and liabilities by currency (continued)

| | AED AED'000 | USD AED'000 | Other AED'000 | Total AED'000 |
|---|---|---|---|---|
| Cash and balances with UAE Central Bank | 1,406,322 | - | - | 1,406,322 |
| Due from other banks | 13,492 | 239,710 | 43,323 | 296,525 |
| Loans and advances and Islamic financing receivables | 8,151,437 | 855,554 | 6,648 | 9,013,639 |
| Investments and Islamic instruments | 542 | 3,231,817 | 49,367 | 3,281,726 |
| Property, equipment and capital work-in-progress | 327,790 | - | - | 327,790 |
| Other assets | 484,382 | 37,946 | 819 | 523,147 |
| Total assets | 10,383,965 | 4,365,027 | 100,157 | 14,849,149 |
| Due to banks | 641,668 | 591,788 | 14 | 1,233,470 |
| Customers' deposits and Islamic customer deposits | 7,504,302 | 1,617,131 | 2,125,402 | 11,246,835 |
| Medium term borrowings | - | - | - | - |
| Other liabilities | 619,886 | 252,129 | 42,286 | 914,301 |
| Total liabilities | 8,765,856 | 2,461,048 | 2,167,702 | 13,394,606 |
| Net shareholders' equity | 1,453,763 | (5,121) | 5,904 | 1,454,546 |
| Net balance sheet position | 164,346 | 1,909,100 | (2,073,449) | (3) |
| Off-balance sheet position | (163,229) | (1,903,463) | 2,070,380 | 3,688 |

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

### Current Economic Situation

The economic fallout of COVID-19 crisis continued to evolve and disrupt businesses and economic activity in 2021. The regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate any impact of the corona virus. The Central Bank of the UAE ("CBUAE") has announced (a) TESS (Targeted Economic Support Scheme) and (b) Capital and Liquidity stimulus packages. The Bank has participated in the scheme of CBUAE.

## 27. Risk management (continued)

### Current Economic Situation (continued)

In line with the IASB guidance issued on 27th March 2021, the CBUAE introduced a joint guidance on 22 April 2021 which stipulates the following considerations while measuring ECL:

a) Temporary moratorium on payments, or a waiver of a breach of covenant in itself is not considered an SICR trigger in the current environment, therefore

b) For the duration of the COVID-19 pandemic, aside from scenario inputs to be considered gradually, CBUAE does not expect any re-calibration of the macro models

c) The Bank distinguishes between obligors whose long-term credit risk is unlikely to be significantly affected by the COVID-19 from those who may be more permanently impacted. These factors are considered to determine whether there is a case of SICR.

### Impact of COVID-19 on ECL and Significant Increase in Credit Risk (SICR)

IFRS 9 framework requires estimation of ECL based on current and forecast economic conditions. In order to assess ECL under forecast economic conditions, the Bank utilizes a range of economic scenarios of varying severity, and with appropriate weightings, to ensure that ECL estimates are representative of a range of possible economic outcomes. The Bank has robust governance in place to ensure the appropriateness of the IFRS 9 framework and resultant ECL estimates at all times.

The measurement of ECL for each stage consider information about past events, current condition as a well as reasonable and supported forecast of future events and economic conditions. Inherent limitations in modeling process and its reliance on previous historical losses required Bank to implement the ECL overlay framework with subjective inputs to adequately cover the current and future losses. In some instances the inputs and model used for calculating ECLs may not always capture all the obligor characteristic at the time of preparation of financial statements, to reflect this, qualitative adjustments or overlay are used to shore the ECL coverage across the customers.

The Bank has reviewed the potential impact of COVID-19 outbreak on the inputs and assumptions for IFRS 9 ECL measurement in light of available information. Overall, the COVID-19 situation remains fluid which makes it challenging to reliably reflect its impact in our ECL estimates. Notwithstanding this, recognizing that the outbreak is expected to have an impact on the macro-economic environment beyond reasonable doubt, the Bank has assessed the impact of an increase in probability for the pessimistic scenario and removal of any upside scenario in the ECL measurement on as follows:

| Scenario | Assigned probabilities Pre COVID-19 | Assigned probabilities Post COVID-19 |
|---|---|---|
| Base | 72% | 40% |
| Upside | 14% | 20% |
| Downside | 14% | 40% |

Under IFRS 9, loans are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of SICR since origination. SICR occurs when there has been a significant increase in risk of default. The Bank continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or long term. The Bank supported its impacted customers through a program of payment relief that was initiated in 2020 by deferring interest / principal due.

These payment reliefs are considered as short term liquidity support to address borrower cash flow issues. The Bank believes that availing payment reliefs does not automatically trigger SICR where the impact on customer's business is expected to be short term. For all other customers, the Bank continues to consider severity and extent of potential COVID-19 impact on economic sector and future outlook, cash flow and financial strength, agility and change in risk profile along with the past track record in determining SICR.

The Bank has participated in CBUAE TESS program by providing deferrals to it wholesale and retail banking customers affected by COVID 19. The total installment deferred by the Bank on its customers amounts to AED 449,110 thousand. The TESS deferral program has formally concluded as of 31 December 2021 and all the customers have moved out of TESS deferral and the Bank has reverted to its regular SICR classifications and staging rules.

## 27. Risk management (continued)

### Forward Looking Information

The Bank has assessed the macro-economic scenarios and associated weights and analyzed their impact on 2021 ECL estimates. Accordingly, updated macroeconomic variables (refer Note 4) were used with the associated weights remaining unchanged from those used at year end 2020. The Bank has also applied ECL adjustments to retail customers availing TESS deferrals based upon employment status and level of salary inflows. The Bank continues to assess individually significant exposures for any adverse movements due to COVID-19.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Overlays are judgmental and the Bank will continue to reassess the impact of these on a regular basis.

### Deferral amount and outstanding balances of UAE customers

During 2020, the Bank drew AED 449,110 thousand of Zero Cost Funding (ZCF) under the CBUAE TESS program and repaid the full amount as at 31 December 2021. As at 31 December 2021, there are no active deferrals related to TESS program.

## 28. Right of use assets and lease liabilities

Below are the carrying amounts of right-of-use assets (included under 'Other Assets' in Note 10) and lease liabilities (included under 'Other Liabilities' in Note 14) and the movements during the year:

| Right-of-use assets | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| As at 1 January | 9,838 | 18,059 |
| Less: Asset retirement obligation | (56) | (3,699) |
| Less: Depreciation charge | (4,896) | (4,522) |
| **As at 31 December** | **4,886** | 9,838 |

| Lease liabilities | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| As at 1 January | 9,838 | 18,247 |
| Add: Accretion of interest | 243 | 326 |
| Less: Payments | (4,336) | (4,529) |
| Less: Liability increase in obligation / (retirement) | 419 | (4,206) |
| **As at 31 December** | **6,164** | 9,838 |

## 29. Segmental analysis

For the purposes of reporting to the chief operating decision makers, the Bank is organised into two segments:

Wholesale banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers. This segment also includes Financial Markets which is principally involved in providing money market, trading and treasury services, as well as the management of the Bank's funding operations; and

Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

## 29. Segmental analysis (continued)

Segmental information for the year ended 31 December 2021 is as follows:

| | Wholesale Banking AED'000 | Retail Banking AED'000 | Total AED'000 |
|---|---|---|---|
| Net interest income and income from Islamic products net of distribution to depositors | 202,872 | 74,939 | 277,811 |
| Other operating income | 154,070 | 17,753 | 171,823 |
| Operating expenses | (181,319) | (62,397) | (243,716) |
| Net impairment losses | (96,353) | (39,374) | (135,727) |
| **Profit / (Loss) for the year** | **79,270** | **(9,079)** | **70,191** |
| Capital Expenditure<br>- Property and equipment | 11,343 | 1,327 | 12,670 |
| 31 December 2021<br>Segment Assets | 13,590,009 | 1,590,033 | 15,180,042 |
| Segment Liabilities | 11,867,321 | 1,800,830 | 13,668,151 |

Segmental information for the year ended 31 December 2020 was as follows:

| | Wholesale Banking AED'000 | Retail Banking AED'000 | Total AED'000 |
|---|---|---|---|
| Net interest income and income from Islamic products net of distribution to depositors | 208,591 | 84,818 | 293,409 |
| Other operating income | 103,347 | 6,107 | 109,454 |
| Operating expenses | (191,956) | (70,079) | (262,035) |
| Net impairment losses | (702,460) | (105,663) | (808,123) |
| Loss for the year | (582,478) | (84,817) | (667,295) |
| Capital Expenditure<br>- Property and equipment | 23,756 | 4,060 | 27,816 |
| 31 December 2020<br>Segment Assets | 12,681,841 | 2,167,308 | 14,849,149 |
| Segment Liabilities | 10,753,905 | 2,640,701 | 13,394,606 |

The Bank operates in only one geographic area, the Middle East. Accordingly, no geographical analysis of operating income, net profit and net assets is given.

## 30. Fair values of financial instruments

### Determination of fair value and fair value hierarchy

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

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 - techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data

### Financial instruments and assets recorded at fair value

The following table shows an analysis of financial instruments and assets recorded at fair value by level of the fair value hierarchy:

| 31 December 2021 | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *Derivative financial instruments* | | | | |
| Interest rate swaps | - | 5,454 | - | 5,454 |
| Forward contracts | - | 10,600 | - | 10,600 |
| Currency swaps | - | - | - | - |
| | - | 16,054 | - | 16,054 |
| *Financial investments FVOCI* | | | | |
| *Quoted investments* | | | | |
| Government debt securities | 1,683,641 | - | - | 1,683,641 |
| Other debt securities | 1,736,947 | - | - | 1,736,947 |
| Equities | 153 | - | - | 153 |
| *Unquoted Investments* | | | | |
| Equities | - | - | 543 | 543 |
| | 3,420,741 | - | 543 | 3,421,284 |
| **Financial liabilities** | | | | |
| *Derivative financial instruments* | | | | |
| Interest rate swaps | - | 114,954 | - | 114,954 |
| Forward contracts | - | 1,710 | - | 1,710 |
| Currency options | - | - | - | - |
| | - | 116,664 | - | 116,664 |

## 30. Fair values of financial instruments (continued)

### Financial instruments and assets recorded at fair value (continued)

| 31 December 2020 | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *Derivative financial instruments* | | | | |
| Interest rate swaps | - | 4,368 | - | 4,368 |
| Forward contracts | - | 3,687 | - | 3,687 |
| Currency swaps | - | - | - | - |
| | - | 8,055 | - | 8,055 |
| *Financial investments FVOCI* | | | | |
| *Quoted investments* | | | | |
| Government debt securities | 1,391,137 | - | - | 1,391,137 |
| Other debt securities | 1,889,954 | - | - | 1,889,954 |
| Equities | 92 | - | - | 92 |
| *Unquoted Investments* | | | | |
| Equities | - | - | 543 | 543 |
| | 3,281,183 | - | 543 | 3,281,726 |
| **Financial liabilities** | | | | |
| *Derivative financial instruments* | | | | |
| Interest rate swaps | - | 230,554 | - | 230,554 |
| Forward contracts | - | 33 | - | 33 |
| Currency options | - | - | - | - |
| | - | 230,587 | - | 230,587 |

The following is a description of the determination of fair value for financial instruments and assets which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

### 30.1 Derivatives

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

### 30.2 Financial investments

Financial investments valued using a valuation technique or pricing models primarily consist of unquoted equities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

### 30.3 Movements in level 3 financial instruments measured at fair value

There was no other movement between the levels of financial instruments during the year (2020: AED Nil).

## 30. Fair values of financial instruments (continued)

### 30.4 Gains or losses on level 3 financial instruments included in the profit or loss for the year:

No gains or losses on level 3 financial instruments were included in the profit or loss for the year (2020: AED Nil).

### 30.5 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

### 30.6 Financial instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with UAE Central Bank, due from other banks, loans and advances, other assets (excluding derivative assets), due to banks, customers' deposits and other liabilities (excluding derivative liabilities) that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

#### 30.6.1 Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

#### 30.6.2 Financial instruments carried at amortised cost

The fair value of the quoted debt instruments at amortised cost as at 31 December 2021 amounted to AED 111,176 thousand (2020: AED Nil). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

## 31. Capital adequacy

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

### Capital management

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

The Bank manages its capital base and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital base, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

## 31. Capital adequacy (continued)

### Capital management (continued)

As per UAE Central Bank Regulation for Basel III, Minimum Capital Requirement including Capital Conservation Buffer ("CCB") for the year ended 31 Dec 2021 is as below:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| Capital element | Revised under TESS | Original | Revised under TESS | Original |
| Minimum Common Equity Tier 1 (CET 1) ratio | 7% | 7% | 7% | 7% |
| Minimum tier 1 capital ratio | 8.5% | 8.5% | 8.5% | 8.5% |
| Minimum capital adequacy ratio | 10.5% | 10.5% | 10.5% | 10.5% |
| CCB | 1.0% | 2.5% | 1.0% | 2.5% |

As part of the capital stimulus package provided by the CBUAE under the TESS program, Banks are allowed to tap into the capital conservation buffer of 2.5% up to a maximum of 60% effective from 15 March 2021 until 30 June 2022. Upon full consumption of this capital relief, the minimum capital adequacy ratio requirement reduces to 11.5% (as opposed to 13.0% previously applicable) for reporting periods falling within the specified duration. The Bank continues to be in compliance with this revised minimum capital threshold requirement as per CBUAE guidelines for the year ended 31 December 2021.

The risk asset ratio calculations, in accordance with the capital adequacy guidelines as per Basel II and III established for the global banking industry, are as follows:

### Capital structure

The table below details the regulatory capital resources of the Bank:

| | 2021 AED'000 | 2020 AED'000 |
|---|---|---|
| **CET 1 / Tier 1 Capital** | | |
| Share capital | 2,062,550 | 2,062,550 |
| Statutory reserve | 35,943 | 28,924 |
| Special reserve | 7,019 | - |
| General reserve | 9,311 | 9,311 |
| Fair value reserves on investment securities at FVOCI | 3,445 | 9,224 |
| Accumulated losses | (610,587) | (667,257) |
| Add back of ECL under TESS program | - | 73,639 |
| Regulatory deduction for amounts exceeding large exposure threshold | - | (45,496) |
| **Total CET 1 / Tier 1** | 1,507,681 | 1,470,895 |
| **Tier 2 Capital** | | |
| Eligible general provision | 136,558 | 133,649 |
| **Total Tier 2** | 136,558 | 133,649 |
| **Total Regulatory Capital** | 1,644,239 | 1,604,544 |
| **Risk weighted exposures** | | |
| Credit Risk | 10,924,600 | 10,691,945 |
| Operational Risk | 996,951 | 1,055,571 |
| Market Risk | 2,835 | 1,295 |
| **Total Risk weighted exposures** | 11,924,386 | 11,748,811 |
| CET 1 / Tier I and II Capital | | |
| CET 1 / Tier I Capital | 1,507,681 | 1,470,895 |
| Tier II Capital | 136,558 | 133,649 |
| **Total Capital Base** | 1,644,239 | 1,604,544 |

## 31. Capital adequacy (continued)

### Capital structure (continued)

The Capital Adequacy Ratio as per Basel III capital regulation is given below:

| Capital Ratio | 2021<br>% | 2020<br>% |
|---|---|---|
| Total capital adequacy ratio | 13.8% | 13.7% |
| Common equity Tier 1 capital ratio | 12.6% | 12.6% |
| Tier 1 capital ratio | 12.6% | 12.6% |

## 32. Social contribution

Social contributions (including donations and charity) made during the year to various beneficiaries amounts to AED 264 thousand (2020: AED 755 thousand).

## 33. Zakat

The articles of association of the Bank do not require the Bank to pay zakat on behalf of its shareholders. Consequently, distribution of the zakat is the responsibility of the shareholders of the Bank.

## 34. Legal proceedings

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Bank is expected to arise from legal claims as at 31 December 2021other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

## 35. Comparative Figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these financial statements.

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## 1. Introduction

This report provides Pillar 3 disclosures for United Arab Bank PJSC referred to as "UAB" or the "Bank". The disclosures consist of both quantitative and qualitative information in compliance with the requirements of Central Bank of UAE (CBUAE).

The Basel Committee on Banking Supervision (BCBS) Basel 3 capital adequacy framework consists of three pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market and operational risks faced by banks. Pillar 2 allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risk types and/or to cover other risks. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.

The capital requirements are computed using the Basel III framework of the Basel Committee on Banking Supervision (Basel Committee), after applying the amendments advised by the CBUAE, within national discretion. The Basel framework is structured around three 'pillars', with the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process complemented by Pillar 3 market discipline.

The report is prepared as per the enhanced Pillar 3 Disclosure requirements guidelines issued by CBUAE in November 2020 and are effective for the year ended 31st December 2021. The enhanced Pillar 3 disclosures focus on regulatory measures required under Pillar 1 of the Basel framework for measuring credit, market and operational risks and their associated resulting risk-weighted assets (RWA) and capital requirements. In some instances, Pillar 3 also requires supplementary information to be disclosed to improve the understanding of underlying risks.

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. Additional capital buffers (Capital Conservation Buffer and Countercyclical Capital Buffer - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

In November 2020, CBUAE issued revised standards and guidelines for Capital Adequacy in UAE. The new version to the Standards also includes additional Guidance on the topics of Credit Risk, Market Risk, and Operational Risk.

Following are the changes in the revised standards which have been adopted either prior to or during 2021:

- The Tier Capital Supply Standard
- Tier Capital Instruments Standard
- Pillar 2 Standard: Internal Capital Adequacy Assessment Process (ICAAP)
- Credit Risk, Market Risk and Operational Risk
- Equity Investment in Funds, Securitization, Counterparty Credit Risk, Leverage Ratio

In addition, Credit Value Adjustment (CVA) for Pillar 1 and 3 will be effective from 30 June 2022.

CBUAE requires the Pillar 2 - Supervisory Review Process to focus on each bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based forward looking view of, but not limited to, Credit, Market and Operational Risk Capital.

The purpose of Pillar 3 - Market Discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The CBUAE supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy of the Bank.

The revised Pillar 3 disclosures, based on a common framework, are an effective means of informing the market about the risks faced by the Bank, and provide a consistent and understandable disclosure framework that enhances transparency and improves comparability and consistency.

In compliance with the CBUAE Basel III standards and guidelines, these disclosures include qualitative and quantitative information on the Bank's risk management objectives and policies, risk assessment processes, capital management and capital adequacy.

The Pillar 3 Disclosures for the year 2021 have been appropriately reviewed by the management and internal and external audit.

## 2. About the Bank

United Arab Bank P.J.S.C. (the "Bank") was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a Public Joint Stock Company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

The bank does not have any subsidiaries and therefore there is no consolidation required.

## 3. Overview of Risk Management, Key Prudential Metrics and Risk Weighted Assets (RWA)

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

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

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

**Risk Management Structure**

**Board level committees**

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate board sub-committees responsible for managing and monitoring risks.

**(a) Board Credit Committee**

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

**(b) Board Audit Committee**

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Bank, internal controls, compliance and internal / external audit processes.

#### (c) Board Risk Committee

The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Bank's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, and liquidity, operational and legal).

The Bank's Board of Directors (BOD), through the Board Risk Committee (BRC), sets out the of the Bank's Risk Appetite.

#### (d) Board Governance and Remuneration Committee

The Board Governance and Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

#### Management Groups

The Board level committees are further supplemented by the management Banks / functions who are responsible for day to day monitoring of risks.

#### (a) Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safeguarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

#### (b) Financial Market

Financial Market is responsible for managing the Bank's assets and liabilities and the overall balance sheet of the Bank. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

#### (c) Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of, and the Bank's compliance with, its procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

Since 2019, UAE Central Bank has issued a number of standards and regulations on the various elements of overall Risk Management, Anti-Money Laundering, Capital adequacy and Capital Management Framework. The standards and regulations including but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk have been effected in 2019. The Bank had taken measures to adhere to the aforementioned standards and regulations to ensure compliance from the effective implementation date.

### Risk Measurement and Reporting Systems

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

Information compiled from all the businesses is examined and processed in order to identify, analyze and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assess the appropriateness of the allowance for credit losses on a quarterly basis.

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

Regular briefings are given to the Chief Executive Officer, RC and all other relevant members of management on all aspects of risk taken by the Bank including the utilization of limits, proprietary investments and liquidity, plus any other risk developments.

### Risk Mitigation

The Bank actively uses collateral to reduce its credit risks.

Also, as part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

### Risk concentration

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

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

### Enterprise Risk Management Department

United Arab Bank continued its drive to focus on strengthening the risk management culture and ensuring the same is institutionalized at an enterprise wide basis. With this objective set forth, the management decided to set up enterprise risk management department to ensure that the bank adopt best in class risk management practices supported by necessary risk infrastructures.

Enterprise risk department housed under risk management is an independent Risk function and report directly to Chief risk officer (CRO). This department is responsible for managing

1. Market,
2. Liquidity Risk,
3. Risk Analytics and
4. Risk Reporting

The priority has been to strengthen the Enterprise Risk Management function with core emphasis on the following:

- Implementation of sound risk framework including policies and procedures.
- Ensure continuous compliance with Regulatory standards and best practices.
- Develop, institutionalized, assessed and monitor Risk Appetite framework. Risk appetite framework is a comprehensive document covering all the material risks which reported to the Risk committees and senior management on a regular basis
- The bank measures and manages Market & liquidity Risk by using different risk parameters with combinations of various limits.
- Refining and strengthening the Stress Testing framework in line with Central Bank of UAE and Basel guidelines
- Ensuring that the Bank remains complaint with IFRS9 Credit related guidelines including continuous and rigorous validation of bank internal models
- Setting up of information security function in line with the bank mission and strategy and continued the efforts to strengthen and protect information, process and systems
- Setting up of internal control unit responsible for implementing the internal control frame work in line with CBUAE guidelines.

## 2.2. UAB's Approach to Pillar 1

| Pillar 1 Risks | Approach |
|---|---|
| Credit Risk | The Bank uses the **Standardized Approach** for calculating regulatory capital requirements for Credit Risk. This approach allows the use of external ratings from designated credit-rating agencies wherever available in determining the appropriate risk weights. The risk weights are determined by the asset class and the external rating of the counterparty. The net exposure incorporates off-balance-sheet exposures after applying the credit conversion (CCF) and credit risk mitigation (CRM) factors. |
| Market Risk | The Bank uses the **Standardized Approach** for calculating regulatory capital requirements for Market Risk. |
| Operational Risk | The Bank uses the **Basic Indicator Approach** for calculating regulatory capital requirements for Operational Risk. |

| No | Key Metrics | 31st Dec 2021 |
|---|---|---|
| 1 | Common Equity Tier 1 (CET1) | 1,507,681 |
| 1a | Fully loaded ECL accounting model (Note 1) | 1,507,681 |
| 2 | Tier 1 | 1,507,681 |
| 2a | Fully loaded ECL accounting model Tier 1 | 1,507,681 |
| 3 | Total capital | 1,644,239 |
| 3a | Fully loaded ECL accounting model total capital | 1,644,239 |
| 6 | Total risk-weighted assets (RWA) | 11,924,386 |
| 5 | Common Equity Tier 1 ratio (%) | 12.64% |
| 5a | Fully loaded ECL accounting model CET1 (%) | 12.64% |
| **6** | **Tier 1 ratio (%)** | **12.64%** |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | 12.64% |
| 7 | Total capital ratio (%) | 13.79% |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | 13.79% |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 2.50% |
| 9 | Countercyclical buffer requirement (%) | 0.00% |
| 10 | Bank D-SIB additional requirements (%) | 0.00% |
| 11 | Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10) | 2.50% |
| 12 | CET1 available after meeting the bank's minimum capital requirements (%) | 3.29% |
| 13 | Total leverage ratio measure | 17,138,289 |
| **14** | **Leverage ratio (%) (row 2/row 13)** | **8.79%** |
| 14a | Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13) | 8.79% |
| 14b | Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves) | 8.79% |
| 15 | Total HQLA | 3,077,935 |
| 16 | Total net cash outflow | 3,216,771 |
| **17** | **LCR ratio (%)** | **95.68%** |
| 18 | Total available stable funding | 7,582,284 |
| 19 | Total required stable funding | 8,838,073 |
| **20** | **NSFR ratio (%)** | **85.79%** |
| 21 | Total HQLA | 2,588,923 |
| 22 | Total liabilities | 13,573,003 |
| **23** | **Eligible Liquid Assets Ratio (ELAR) (%)** | **19.07%** |
| 24 | Total available stable funding | 10,962,743 |
| 25 | Total Advances | 8,843,830 |
| **26** | **Advances to Stable Resources Ratio (%)** | **80.67%** |

Note 1: “Fully Loaded” means bank’s regulatory capital compared with a situation where the transitional arrangement had not been applied. CBUAE introduced transitional arrangements as per circular no. 04/2020 “Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements”. UAB have not used transitional arrangement.

### OV1: Overview of Risk Weighted Assets

The following table provides an overview of total RWAs forming the denominator of the risk-based capital requirements. Further breakdown of RWAs are presented in subsequent parts.

AED 000s

| | | Risk Weighted Assets 31st Dec 2021 | Minimum Capital Requirements* 31st Dec 2021 |
|---|---|---|---|
| 1 | Credit risk (excluding counterparty credit risk) | 10,838,749 | 1,138,069 |
| 2 | Of which: Standardized approach (SA) | 10,838,749 | 1,138,069 |
| 3 | Of which: foundation internal ratings-based (F-IRB) approach | - | - |
| 4 | Of which: supervisory slotting approach | - | - |
| 5 | Of which: advanced internal ratings-based (A-IRB) approach | - | - |
| 6 | Counterparty credit risk (CCR) | 85,852 | 9,014 |
| 7 | Of which: Standardized approach for counterparty credit risk | 85,852 | 9,014 |
| 8 | Of which: Internal Model Method (IMM) | - | - |
| 9 | Of which: other CCR | - | - |
| 10 | Credit valuation adjustment (CVA) | - | - |
| 11 | Equity positions under the simple risk weight approach | - | - |
| 12 | Equity investments in funds - look-through approach | - | - |
| 13 | Equity investments in funds - mandate-based approach | - | - |
| 14 | Equity investments in funds - Fall-back approach | - | - |
| 15 | Settlement risk | - | - |
| 16 | Securitization exposures in the banking book | - | - |
| 17 | Of which: Securitization internal ratings-based approach (SEC-IRBA) | - | - |
| 18 | Of which: Securitization external ratings-based approach (SEC-ERBA) | - | - |
| 19 | Of which: Securitization Standardized approach (SEC-SA) | - | - |
| 20 | Market risk | 2,835 | 298 |
| 21 | Of which: Standardized approach (SA) | 2,835 | 298 |
| 22 | Of which: internal models approach (IMA) | - | - |
| 23 | Operational risk | 996,951 | 104,680 |
| 24 | Amounts below thresholds for deduction (subject to 250% risk weight) | - | - |
| 25 | Floor adjustment | - | - |
| **26** | **Total (1+6+10+11+12+13+14+15+16+20+23)** | **11,924,386** | **1,252,061** |

*The minimum capital requirements applied is 10.5%

## 4. Linkages between financial statements and regulatory exposures

### 4.1 Basic Difference between Pillar 3 disclosures and disclosures in the audited financial statements

| Topic | Risk review in the audited annual consolidated financial statements | Pillar 3 disclosures |
|---|---|---|
| **Basis of requirements** | The Bank's audited annual financial statements is prepared in accordance with the requirements of IFRS and UAE Federal Law No. 2 of 2015. | The Bank's Pillar 3 disclosures provide details on risk from a regulatory perspective as required by the Basel 3 Standardized approach requirements, which have been implemented in the UAE through the Central Bank of the UAE standards/guidelines issued in November 2020.<br><br>The capital supply is determined based on Basel 3 requirements, which have been implemented in the UAE through the Central Bank of the UAE guidelines issued in February 2017 and standards/guidance issued in November 2020. |
| **Basis of preparation** | The quantitative credit risk disclosures in the credit risk management section are set out based on IFRS.<br><br>Loans and advances are analyzed net of impairment, interest in suspense and off-balance-sheet exposures are considered at maximum exposure levels.<br><br>Market risk disclosures are presented using VaR methodology and sensitivity analysis for the trading and non-trading books. | Provides details from a regulatory perspective on credit, market and operational risk. The capital calculation and the disclosures are based on the Standardized approach as recommended by the Central Bank of the UAE.<br><br>Loans and advances are analyzed at gross levels and off-balance-sheet exposures are disclosed at post-CCF levels.<br><br>Market risk and operational risk disclosures are based on the capital required. |

### LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

| AED 000s | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items: | | | | |
|---|---|---|---|---|---|---|---|
| | | | Subject to credit risk framework | Subject to counterparty credit risk framework | Subject to the securitization framework | Subject to market risk framework | Not subject to capital requirements or subject to deduction from capital |
| **Assets** | | | | | | | |
| Cash and balances with UAE Central Bank | 2,009,565 | 2,009,565 | 2,009,565 | - | - | - | - |
| Due from other banks | 378,735 | 378,735 | 378,735 | - | - | - | - |
| Loans and advances and Islamic financing receivables | 8,213,350 | 8,213,350 | 8,213,350 | - | - | - | - |
| Investments and Islamic instruments | 3,530,217 | 3,530,217 | 3,530,217 | - | - | - | - |
| Property, equipment and capital work-in-progress | 303,271 | 303,271 | 303,271 | - | - | - | - |
| Other assets | 744,904 | 744,904 | 744,904 | - | - | - | - |
| **Total Assets** | **15,180,042** | **15,180,042** | **15,180,042** | **-** | **-** | **-** | **-** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to banks | 2,410,988 | 2,410,988 | - | - | - | - | - |
| Customers' deposits and Islamic customer deposits | 10,406,425 | 10,406,425 | - | - | - | - | - |
| Other liabilities | 850,737 | 850,737 | - | - | - | - | - |
| **Total Liabilities** | **13,668,150** | **13,668,150** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | | |
| **Shareholder Equity** | | | | | | | |
| Share Capital | 2,062,550 | 2,062,550 | - | - | - | - | - |
| Other Reserves | 59,929 | 59,929 | - | - | - | - | - |
| Accumulated losses | (610,587) | (610,587) | - | - | - | - | - |
| **Total shareholders' equity** | **1,511,892** | **1,511,892** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | | |
| **Total shareholders' equity and liabilities** | **15,180,042** | **15,180,042** | **-** | **-** | **-** | **-** | **-** |

### LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

| AED 000s | Total | Items subject to: | | | |
|---|---|---|---|---|---|
| | | Credit risk framework | Securitization framework | Counterparty credit risk framework | Market risk framework |
| **Total assets amount under regulatory scope of consolidation (as per LI1)** | 15,180,042 | 15,180,042 | - | - | - |
| Off-balance sheet amounts recognized in regulatory exposure (post CCF) including Acceptances | 4,951,009 | 2,009,242 | - | - | - |
| **Gross exposures before credit risk mitigation** | 20,114,180 | 20,114,180 | - | - | - |
| Credit risk mitigation (excluding guarantees) | 958,445 | 958,445 | - | - | - |
| **Gross regulatory exposures at default** | **19,155,735** | **19,155,735** | **-** | **-** | **-** |

### LIA: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

**(a) Banks must explain the origins of any significant differences between the amounts in columns (a) and (b) in LI1**

UAB does not have any subsidiary and hence no differences

**(b) Banks must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2**

Differences arise due to fact that balances are shown net of provisions in accounting consolidation whereas they are shown gross in regulatory consolidation. In addition to that non funded portfolio is also included in regulatory exposes post Credit Conversion Factors and adjusted with Credit Risk Mitigation. (CRM).

**(c) In accordance with the implementation of the guidance on prudent valuation, banks must describe systems and controls to ensure that the valuation estimates are prudent and reliable.**

- **Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used**
- **Description of the independent price verification process**
- **Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument)**

At reporting date, UAB have two material assets that required daily valuation. 1) Fixed Income Securities 2) Derivative Instrument (IRS). Both these instruments get mark to market.

For fixed income securities, UAB is using price available on Bloomberg terminal. These prices are on daily basis shared between Treasury Middle office and Treasury Back office. Prices are used to MTM the securities on daily basis.

Additionally, on monthly basis, complete derivative portfolio is MTM. UAB is using Bloomberg terminal for extracting the instrument price at reporting date.

The MTM changes are reflect in bank P&L. Whereas, Fixed income securities MTM are transfer to Fair value reserves through OCI.

**(d) Banks with insurance subsidiaries must disclose:**

Not Applicable

**(e) The CBUAE regulatory approach used with respect to insurance entities in determining a bank's reported capital positions**

Not applicable.

## 5. Prudential Valuation Adjustment

### PV1: Prudential valuation adjustments (PVA)

Not applicable.

## 6. Composition of Capital

### CCI: Composition of Capital

AED 000s

| | Common Equity Tier 1 capital: instruments and reserves | Amounts |
|---|---|---|
| 1 | Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus | 2,062,550 |
| 2 | Retained earnings | -610,587 |
| 3 | Accumulated other comprehensive income (and other reserves) | 55,718 |
| 4 | Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies) | 0 |
| 5 | Common share capital issued by third parties (amount allowed in group CET1) | 0 |
| **6** | **Common Equity Tier 1 capital before regulatory deductions** | **1,507,681** |
| | **Common Equity Tier 1 capital regulatory adjustments** | |
| 7 | Prudent valuation adjustments | 0 |
| 8 | Goodwill (net of related tax liability) | 0 |
| 9 | Other intangibles including mortgage servicing rights (net of related tax liability) | 0 |
| 10 | Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability) | 0 |
| 11 | Cash flow hedge reserve | 0 |
| 12 | Securitization gain on sale | 0 |
| 13 | Gains and losses due to changes in own credit risk on fair valued liabilities | 0 |
| 14 | Defined benefit pension fund net assets | 0 |
| 15 | Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet) | 0 |
| 16 | Reciprocal cross-holdings in CET1, AT1, Tier 2 | 0 |
| 17 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | 0 |
| 18 | Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | 0 |
| 19 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | 0 |
| 20 | Amount exceeding 15% threshold | 0 |
| 21 | Of which: significant investments in the common stock of financials | 0 |
| 22 | Of which: deferred tax assets arising from temporary differences | 0 |
| 23 | CBUAE specific regulatory adjustments | 0 |
| **24** | **Total regulatory adjustments to Common Equity Tier 1** | **0** |
| **25** | **Common Equity Tier 1 capital (CET1)** | **1,507,681** |

**CCI: Composition of Capital (continued)**

AED 000s

| | | Amounts |
|---|---|---|
| | **Additional Tier 1 capital: instruments** | |
| 26 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus | 0 |
| 27 | OF which: classified as equity under applicable accounting standards | 0 |
| 28 | Of which: classified as liabilities under applicable accounting standards | 0 |
| 29 | Directly issued capital instruments subject to phase-out from additional Tier 1 | 0 |
| 30 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1) | 0 |
| 31 | Of which: instruments issued by subsidiaries subject to phase-out | 0 |
| 32 | Additional Tier 1 capital before regulatory adjustments | 0 |
| | **Additional Tier 1 capital: regulatory adjustments** | |
| 33 | Investments in own additional Tier 1 instruments | 0 |
| 34 | Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation | 0 |
| 35 | Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation | 0 |
| 36 | CBUAE specific regulatory adjustments | 0 |
| 37 | Total regulatory adjustments to additional Tier 1 capital | 0 |
| **38** | **Additional Tier 1 capital (AT1)** | **0** |
| **39** | **Tier 1 capital (T1= CET1 + AT1)** | **1,507,681** |
| | **Tier 2 capital: instruments and provisions** | |
| 40 | Directly issued qualifying Tier 2 instruments plus related stock surplus | 0 |
| 41 | Directly issued capital instruments subject to phase-out from Tier 2 | 0 |
| 42 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | 0 |
| 43 | Of which: instruments issued by subsidiaries subject to phase-out | 0 |
| 44 | Provisions | 136,558 |
| **45** | **Tier 2 capital before regulatory adjustments** | **136,558** |
| | **Tier 2 capital: regulatory adjustments** | |
| 46 | Investments in own Tier 2 instruments | 0 |
| 47 | Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold) | 0 |
| 48 | Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | 0 |
| 49 | CBUAE specific regulatory adjustments | 0 |
| **50** | **Total regulatory adjustments to Tier 2 capital** | **0** |
| **51** | **Tier 2 capital (T2)** | **136,558** |
| **52** | **Total regulatory capital (TC = T1 + T2)** | **1,644,239** |
| **53** | **Total risk-weighted assets** | **11,924,386** |

**CCI: Composition of Capital (continued)**

AED 000s

| | | Amounts |
|---|---|---|
| | **Capital ratios and buffers** | |
| 54 | **Common Equity Tier 1 (as a percentage of risk-weighted assets)** | 12.64% |
| 55 | **Tier 1 (as a percentage of risk-weighted assets)** | 12.64% |
| 56 | **Total capital (as a percentage of risk-weighted assets)** | 13.79% |
| 57 | **Institution specific buffer requirement (Capital Conservation Buffer (CCB)plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)** | 2.50% |
| 58 | **Of which: capital conservation buffer requirement** | 2.50% |
| 59 | **Of which: bank-specific countercyclical buffer requirement** | 0.00% |
| 60 | **Of which: higher loss absorbency requirement (e.g. DSIB)** | 0.00% |
| 61 | **Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.** | 3.29% |
| | **The CBUAE Minimum Capital Requirement (Including CCB)** | **13%** |
| 62 | Common Equity Tier 1 minimum ratio | 7% |
| 63 | Tier 1 minimum ratio | 8.5% |
| 64 | Total capital minimum ratio | 10.5% |
| | **Amounts below the thresholds for deduction (before risk weighting)** | |
| 65 | Non-significant investments in the capital and other TLAC liabilities of other financial entities | |
| 66 | Significant investments in common stock of financial entities | - |
| 67 | Mortgage servicing rights (net of related tax liability) | - |
| 68 | Deferred tax assets arising from temporary differences (net of related tax liability) | - |
| | **Applicable caps on the inclusion of provisions in Tier 2** | |
| 69 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to Standardized approach (prior to application of cap) | 178,866 |
| 70 | Cap on inclusion of provisions in Tier 2 under Standardized approach | 136,558 |
| 71 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap) | |
| 72 | Cap for inclusion of provisions in Tier 2 under internal ratings-based approach | |
| | **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)** | |
| 73 | *Current cap on CET1 instruments subject to phase-out arrangements* | - |
| 74 | *Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)* | - |
| 75 | *Current cap on AT1 instruments subject to phase-out arrangements* | - |
| 76 | *Amount excluded from AT1 due to cap (excess after redemptions and maturities)* | - |
| 77 | *Current cap on T2 instruments subject to phase-out arrangements* | - |
| 78 | *Amount excluded from T2 due to cap (excess after redemptions and maturities)* | - |

### CC2: Reconciliation of regulatory capital to balance sheet

| | Balance sheet as in published financial statements | Under regulatory scope of consolidation | Reference |
|---|---|---|---|
| | 31-12-2021 | 31-12-2021 | |
| **Assets** | | | |
| Cash and balances at central banks | 2,009,565 | 2,009,565 | |
| Items in the course of collection from other banks | - | - | |
| Trading portfolio assets | - | - | |
| Financial assets designated at fair value | 109,629 | 109,629 | |
| Derivative financial instruments | 16,054 | 16,054 | |
| Loans and advances to banks | 378,735 | 378,735 | |
| Loans and advances to customers | 8,213,350 | 8,213,350 | |
| Reverse repurchase agreements and other similar secured lending | - | - | |
| Available for sale financial investments (Includes FVOCI) | 3,420,588 | 3,420,588 | |
| Current and deferred tax assets | - | - | |
| Prepayments, accrued income and other assets | 728,850 | 728,850 | |
| Investments in associates and joint ventures | - | - | |
| Goodwill and other intangible assets | - | - | |
| Of which: goodwill | - | - | (a) |
| Of which: intangibles (excluding MSRs) | - | - | (b) |
| Of which: MSRs | - | - | (c) |
| Property, plant and equipment | 303,271 | 303,271 | |
| **Total assets** | **15,180,042** | **15,180,042** | |
| **Liabilities** | | | |
| Deposits from banks | 2,410,988 | 2,410,988 | |
| Items in the course of collection due to other banks | - | - | |
| Customer accounts | 10,406,425 | 10,406,425 | |
| Repurchase agreements and other similar secured borrowing | - | - | |
| Trading portfolio liabilities | - | - | |
| Financial liabilities designated at fair value | - | - | |
| Derivative financial instruments | - | - | |
| Debt securities in issue | - | - | |
| Accruals, deferred income and other liabilities | 730,792 | 730,792 | |
| Current and deferred tax liabilities | - | - | |
| Of which: DTLs related to goodwill | - | - | (d) |
| Of which: DTLs related to intangible assets (excluding MSRs) | - | - | (e) |
| Of which: DTLs related to MSRs | - | - | (f) |
| Subordinated liabilities | - | - | |
| Provisions | 100,722 | 100,722 | |
| Retirement benefit liabilities | 19,223 | 19,223 | |
| **Total liabilities** | **13,668,150** | **13,668,150** | |

### CC2: Reconciliation of regulatory capital to balance sheet (continued)

| **Shareholders' equity** | | | |
|---|---|---|---|
| Paid-in share capital | 2,062,550 | 2,062,550 | |
| Of which: amount eligible for CET1 | 2,062,550 | 2,062,550 | (h) |
| Of which: amount eligible for AT1 | - | - | (i) |
| Legal , Statutory and Other disclosed reserves | 52,273 | 52,273 | |
| Retained earnings | (610,587) | (610,587) | |
| Accumulated other comprehensive income | 7,656 | 3,445 | Cumulative changes in fair value taken at 45% for regulatory capital purposes (Basel III). |
| **Total shareholders' equity** | **1,511,892** | **1,507,681** | |

### CCA: Main features of regulatory capital instruments – Not Applicable

## 7. Macro Prudential Measures

CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

Not applicable.

## 8. Leverage Ratio

The Basel 3 leverage ratio is calculated by dividing the tier 1 capital by the leverage ratio exposure.

**LRI: Summary Comparison of Accounting Assets Vs Leverage Ratio Exposure** AED 000s

| | | 31st Dec 2021 |
|---|---|---|
| **S No** | **Description** | **Amount** |
| 1 | Total consolidated assets as per published financial statements | 15,180,042 |
| 2 | Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | - |
| 3 | Adjustment for securitized exposures that meet the operational requirements for the recognition of risk transference | - |
| 4 | Adjustments for temporary exemption of central bank reserves (if applicable) | - |
| 5 | Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | - |
| 6 | Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting | - |
| 7 | Adjustments for eligible cash pooling transactions | - |
| 8 | Adjustments for derivative financial instruments | (34,124) |
| 9 | Adjustment for securities financing transactions (i.e. repos and similar secured lending) | - |
| 10 | Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 2,009,242 |
| 11 | Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital | - |
| 12 | Other adjustments | - |
| **13** | **Leverage ratio exposure measure** | **17,155,160** |

The Leverage Ratio Exposure consists of IFRS on-balance sheet assets and off-balance sheet items. Derivative exposures are calculated by including replacement value, Potential Future Exposures (PFE) and eligible cash variation margin netting, the current exposure method add-on and net notional amounts for written credit derivatives.

The table on the next page shows the difference between total IFRS assets per IFRS consolidation scope and the BCBS total on balance sheet exposures. Those exposures are the starting point for calculating the BCBS Leverage Ratio Exposure, as shown in the LR2 table. The difference is due to the application of the regulatory scope of consolidation for the purpose of the BCBS calculation. In addition, carrying amounts for derivative financial instruments and securities financing transactions (SFTs) are deducted from IFRS total assets. They are measured differently under BCBS leverage ratio rules and are therefore added back in separate exposure line items in the LR2 table.

**LR2: Leverage Ratio Common Disclosure Template**

AED 000s

| On-balance sheet exposures | | 31-Dec-21 |
|---|---|---|
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral) | 15,163,988 |
| 2 | Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework | - |
| 3 | (Deductions of receivable assets for cash variation margin provided in derivatives transactions) | (119,778) |
| 4 | (Adjustment for securities received under securities financing transactions that are recognized as an asset) | - |
| 5 | (Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital) | - |
| 6 | (Asset amounts deducted in determining Tier 1 capital) | - |
| 7 | **Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)** | 15,044,210 |
| 8 | Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting) | 16,054 |
| 9 | Add-on amounts for PFE associated with all derivatives transactions | 45,127 |
| 10 | (Exempted CCP leg of client-cleared trade exposures) | - |
| 11 | Adjusted effective notional amount of written credit derivatives | - |
| 12 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | - |
| 13 | **Total derivative exposures (sum of rows 8 to 12)** | 85,653 |
| 14 | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | - |
| 15 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - |
| 16 | CCR exposure for SFT assets | - |
| 17 | Agent transaction exposures | - |
| 18 | **Total securities financing transaction exposures (sum of rows 14 to 17)** | - |
| 19 | Off-balance sheet exposure at gross notional amount | 4,951,009 |
| 20 | (Adjustments for conversion to credit equivalent amounts) | (2,941,767) |
| 21 | (Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital) | - |
| 22 | **Off-balance sheet items (sum of rows 19 to 21)** | 2,009,242 |
| 23 | **Tier 1 capital** | 1,507,681 |
| 24 | **Total exposures (sum of rows 7, 13, 18 and 22)** | 17,139,105 |
| **25** | **Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)** | **8.797%** |
| 25a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) | 8.797% |
| 26 | CBUAE minimum leverage ratio requirement | 3% |
| **27** | **Applicable leverage buffers** | **5.797%** |

## 9. Liquidity Risk Management

**LIQA: Liquidity risk management**

**(a) Governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity risk strategy, policies and practices across business lines and with the board of directors**

Liquidity risk is the risk that the Bank cannot meet its financial liabilities when they come due. Liquidity risk can materialize both through its trading book (market liquidity risk) and banking book (funding liquidity risk) positions.

Liquidity risk arises either:

- From the inability to manage unplanned decreases or changes in funding sources;
- From the failure to recognize or address changes in market conditions that effects the ability to liquidate assets quickly and with minimum loss in value;
- Concentration of facilities from one source due to insufficient diversification of types of funding between different products and types of customers;
- Maturity mismatch where long term assets being funded with short-term liabilities;
- External rating downgrade/adverse publicity may decrease alternate source of funds;
- Unexpected funding required for off-balance sheet items, such as payment to beneficiaries under letter of credit or guarantees; or
- Operating in different currencies which create a funding requirement and liquidity risk in each currency.

Liquidity Risk Management in the Bank is governed by the Liquidity Risk Management policy and the Risk Appetite Framework approved by the Bank's Board of Directors. The Board has delegated the responsibility of managing the liquidity risk of the Bank to the Board Risk Committee (BRC). BRC & Risk Committee (RC) review liquidity risk policy, liquidity risk appetite and tolerance limits proposed by Risk Management for the Bank in line with the Bank's objectives, strategy and overall risk appetite. RC reviews annually the risk policies to manage and monitor liquidity risk in the Bank and recommend them to the BRC for approval.

The Risk Limits are recommended by the Asset, Liability and Investment Committee (ALICO). Financial Market Department is primarily responsible for managing liquidity for the Bank. Risk Management and Finance teams are responsible for the measurement and monitoring of liquidity metrics stipulated in the policy and updating ALICO, RC and BRC on issues pertaining to liquidity risk.

UAB as per the CBUAE is required to monitor and maintained mainly the below ratios:

- Eligible Liquid Asset (ELAR) Ratio
- Advanced to Stable Funding (ASF) Ratio

In addition, the UAB as per the bank internal Risk appetite statement (RAS) are required to monitor Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio. These metrics are complemented by internal metrics like, concentration and maturity mismatch analyses.

Liquidity Risk policy includes the Contingency Funding Plan ("CFP") which can be triggered in the event of a major liquidity problem, either due to bank specific or market wide/systematic triggers.

**(b) Funding strategy, including policies on diversification in the sources of funding (both products and counterparties)**

Liquidity risk is the risk that the Bank cannot meet its financial liabilities when they come due. Liquidity risk can The Bank has adopted a conservative strategy to manage its liquidity and funding positions - maintaining a higher than required level of liquidity as measured by the regulatory liquidity ratios of ELAR and ASF Ratios.

Financial Market Department under ALICO supervision and in coordination with Finance is involved in the annual business planning / budgeting exercise, analyzes overall funding requirements for the coming year(s) and provides funding strategy / fund raising plans.

The Funding profile along with available tools are presented frequently to ALICO for seeking their inputs and opinion.

**(c) Liquidity risk mitigation techniques**

The Bank has adopted a pro-active approach in identifying and assessing, measuring and monitoring liquidity risks. Risk Management conducts regular and ad-hoc risk analyses (such as stress tests) and reports, findings and recommendations, to Bank ALICO.

Following are some of the key controls and risk management strategies for Liquidity Risk:

- Comprehensive Risk Appetite Framework and Policy.
- Liquidity profile along with available avenues for raising liquidity and utilization.
- Maintaining a diverse, yet stable pool of potential funding
- Maintaining sufficient liquidity buffers, pool of readily saleable and repo-eligible liquid assets regular monitoring of liquidity risk exposures.

Compressive framework along with reporting framework is available and continuously updated and shared with relevant committee.

**An explanation of how stress testing is used**

The Enterprise Risk Management function shall, in conjunction with the Chief Risk Officer and other Executive management, finalize the key risk scenarios which could have an impact on the Bank's liquidity. The scenarios will be reviewed on an ongoing basis and will be aligned with UAE Central Bank guidelines. These scenarios will be the basis for carrying out detailed stress testing of the Bank's liquidity positions.

Some potential scenarios that could be considered are:

- Bank's specific Stress situation - a significant reputational risk leading to:
- Two or Three notch downgrade of the institution's credit rating
- Partial to severe loss of deposits
- Loss of unsecured wholesale funding
- Drying up of short-term liquidity from the inter-bank market

Market wide Stress situation - a general deterioration of the business environment caused by one or more of the following: - recession / global economic conditions (e.g. Euro situation) / local property market downturn / liquidity crisis / political unrest/ Pandemic. Impact of these may include:

- Increases in derivative collateral calls.
- Substantial calls on contractual and non-contractual off-balance sheet exposures, including liquidity facilities.
- Need to fund balance sheet growth arising from non-contractual obligations honoured in the interest of mitigating reputational risk.
- Significant increase in use of committed credit lines.

Stress testing results will be presented to ALICO at least on a quarterly basis and shall assess impact on various aspects of liquidity and on key regulatory ratios. Stress testing may be carried out on a more frequent basis if ALICO opines that market conditions warrant the need for more frequent stress testing.

### (d) An outline of the bank's contingency funding plans

The Contingency Funding Plan (CFP) sets out the Bank's strategies to respond to a severe disruption of the bank's liquidity or funding position due to internal or external events. The plan designates the CFP Team, which will be activated in the event of a liquidity crisis and establishes allocation of roles within the Team. The CFP includes a set of early warning triggers consisting of internal and external indicators, which are monitored by bank's ALICO and updated to the BRC. The plan includes identification, invocation and escalation procedures and details potential actions, available sources of liquidity, mitigations and specifies a communication plan, which could be implemented based on the severity of the liquidity crisis.

ALICO is the governing body for activation and monitoring of CFP. Once the CFP is activated, the same is required to be notified to the Board and Central Bank of UAE.

### LIQ1: Liquidity Coverage Ratio (LCR)

| | | 31st Dec 2021 | |
|---|---|---|---|
| | | Total unweighted value (Avg.) | Total weighted value (Avg.) |
| **High-quality liquid assets** | | | |
| 1 | Total HQLA | | |
| **Cash outflows** | | | |
| **2** | **Retail deposits and deposits from small business customers, of which:** | 1,880,150 | 117,367 |
| 3 | Stable deposits | 0 | 0 |
| 4 | Less stable deposits | 1,880,150 | 117,367 |
| **5** | **Unsecured wholesale funding, of which:** | 3,930,782 | 2,370,704 |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | 5,847 | 1,462 |
| 7 | Non-operational deposits (all counterparties) | 3,924,935 | 2,369,242 |
| 8 | Unsecured debt | 0 | 0 |
| **9** | **Secured wholesale funding** | | 0 |
| **10** | **Additional requirements, of which:** | 2,619,941 | 730,737 |
| 11 | Outflows related to derivative exposures and other collateral requirements | 0 | 0 |
| 12 | Outflows related to loss of funding of debt products | 0 | 0 |
| 13 | Credit and liquidity facilities | 2,619,941 | 730,737 |
| **14** | **Other contractual funding obligations** | 113,743 | 0 |
| **15** | **Other contingent funding obligations** | 365,508 | 18,275 |
| **16** | **Total Cash Outflows** | | 3,237,084 |
| **Cash inflows** | | | |
| **17** | **Secured lending (e.g. reverse repo)** | | |
| **18** | **Inflows from fully performing exposures** | 234,665 | 120,922 |
| **19** | **Other cash inflows** | -100,609 | -100,609 |
| **20** | **Total Cash Inflows** | **134,055** | **20,312** |
| | | | **Total adjusted value** |
| **21** | **Total HQLA** | | **3,077,935** |
| **22** | **Total net cash outflows** | | **3,216,771** |
| **23** | **Liquidity coverage ratio (%)** | | **95.68%** |

### LIQ2: Net Stable Funding Ratio (NSFR)

AED 000s

| | (In currency amount) | Unweighted value by residual maturity | | | | Weighted value |
|---|---|---|---|---|---|---|
| | | No maturity* | <6 months | 6 months to <1 year | ≥1 year | |
| **Available stable funding (ASF) item** | | | | | | |
| 1 | Capital: | - | - | - | 1,644,239 | **1,644,239** |
| 2 | *Regulatory capital* | - | - | - | 1,644,239 | 1,644,239 |
| 3 | *Other capital instruments* | - | - | - | - | - |
| 4 | Retail deposits and deposits from small business customers: | - | 1,496,010 | 156,840 | 222,175 | 1,709,457 |
| 5 | *Stable deposits* | - | - | - | - | - |
| 6 | *Less stable deposits* | - | 1,496,010 | 156,840 | 222,175 | 1,709,457 |
| 7 | Wholesale funding: | | 8,221,245 | 1,853,132 | 834,486 | 3,896,043 |
| 8 | *Operational deposits* | - | 5,538 | - | - | 2,769 |
| 9 | *Other wholesale funding* | - | 8,215,707 | 1,853,132 | 834,486 | 3,893,274 |
| 10 | Liabilities with matching interdependent assets | - | - | - | - | - |
| 11 | Other liabilities: | - | 79,384 | 0 | 353,102 | 353,102 |
| 12 | *NSFR derivative liabilities* | | | - | | |
| 13 | *All other liabilities and equity not included in the above categories* | - | 79,384 | 0 | 353,102 | 353,102 |
| **14** | **Total ASF** | | | | | **7,602,841** |
| **Required stable funding (RSF) item** | | | | | | |
| 15 | Total NSFR high-quality liquid assets (HQLA) | | | | | 388,353 |
| 16 | Deposits held at other financial institutions for operational purposes | - | 226,129 | - | - | 113,065 |
| 17 | Performing loans and securities: | | | | | |
| 18 | *Performing loans to financial institutions secured by Level 1 HQLA* | - | - | - | - | - |
| 19 | *Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions* | - | 381,723 | 206,841 | 3,267,390 | 3,428,069 |
| 20 | *Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:* | - | 4,678,917 | 987,396 | - | 2,833,157 |

**LIQ2: Net Stable Funding Ratio (NSFR) (continued)**

AED 000s

| (In currency amount) | | Unweighted value by residual maturity | | | | Weighted value |
|---|---|---|---|---|---|---|
| | | No maturity* | <6 months | 6 months to <1 year | ≥1 year | |
| 21 | *With a risk weight of less than or equal to 35% under the standardized approach for credit risk* | - | - | - | - | - |
| 22 | *Performing residential mortgages, of which:* | - | - | - | 1,317,679 | 939,851 |
| 23 | *With a risk weight of less than or equal to 35% under the standardized approach for credit risk* | - | - | - | 900,883 | 585,574 |
| 24 | *Securities that are not in default and do not qualify as HQLA, including exchange-traded equities* | - | - | - | 1,581,733 | 1,344,473 |
| 25 | *Assets with matching interdependent liabilities* | | | | | |
| 26 | *Other assets:* | - | 3,697,495 | - | -821,897 | -208,893 |
| 27 | *Physical traded commodities, including gold* | - | | | | - |
| 28 | *Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs* | | - | - | - | - |
| 29 | *NSFR derivative assets* | | - | - | - | - |
| 30 | *NSFR derivative liabilities before deduction of variation margin posted* | | - | - | - | - |
| 31 | *All other assets not included in the above categories* | - | - | - | -821,897 | -821,897 |
| 32 | *Off-balance sheet items* | | 3,697,495 | - | - | 613,004 |
| ***33*** | ***Total RSF*** | | | | | ***8,838,073*** |
| ***34*** | ***Net Stable Funding Ratio (%)*** | | | | | ***86.02%*** |

* Items to be reported in the "no maturity" time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

### ELAR: Eligible Liquid Assets Ratio

| 1 | High Quality Liquid Assets | Nominal amount | Eligible Liquid Asset |
|---|---|---|---|
| 1.1 | Physical cash in hand at the bank + balances with the CBUAE | 2,014,063 | |
| 1.2 | UAE Federal Government Bonds and Sukuks | 0 | |
| | Sub Total (1.1 to 1.2) | 2,014,063 | 2,014,063 |
| 1.3 | UAE local governments publicly traded debt securities | 669,026 | |
| 1.4 | UAE Public sector publicly traded debt securities | 191,212 | |
| | Subtotal (1.3 to 1.4) | 860,238 | 574,860 |
| 1.5 | Foreign Sovereign debt instruments or instruments issued by their respective central banks | 0 | 0 |
| **1.6** | **Total** | **2,874,301** | **2,588,923** |
| **2** | Total liabilities | | 13,571,925 |
| **3** | **Eligible Liquid Assets Ratio (ELAR)** | | **19.08%** |

### LIQ2: Net Stable Funding Ratio (NSFR)

AED 000s

| | | Items | 31-Dec-21 |
|---|---|---|---|
| **1** | | **Computation of Advances** | **Amount** |
| | 1.1 | Net Lending (gross loans - specific and collective provisions + interest in suspense) | 7,716,960 |
| | 1.2 | Lending to non-banking financial institutions | 160,719 |
| | 1.3 | Net Financial Guarantees & Stand-by LC (issued - received) | 427,281 |
| | 1.4 | Interbank Placements | 538,561 |
| | **1.5** | **Total Advances** | **8,843,521** |
| **2** | | **Calculation of Net Stable Resources** | |
| | **2.1** | **Total capital + general provisions** | **1,772,008** |
| | | **Deduct:** | |
| | 2.1.1 | Goodwill and other intangible assets | 0 |
| | 2.1.2 | Fixed Assets | 460,008 |
| | 2.1.3 | Funds allocated to branches abroad | 0 |
| | 2.1.5 | Unquoted Investments | 76 |
| | 2.1.6 | Investment in subsidiaries, associates and affiliates | 0 |
| | **2.1.7** | **Total deduction** | **460,084** |
| | **2.2** | **Net Free Capital Funds** | **1,311,924** |
| | **2.3** | **Other stable resources:** | |
| | 2.3.1 | Funds from the head office | 0 |
| | 2.3.2 | Interbank deposits with remaining life of more than 6 months | 418,665 |
| | 2.3.3 | Refinancing of Housing Loans | 0 |
| | 2.3.4 | Borrowing from non-Banking Financial Institutions | 2,177,575 |
| | 2.3.5 | Customer Deposits | 7,052,929 |
| | 2.3.6 | Capital market funding/ term borrowings maturing after 6 months from reporting date | 0 |
| | **2.3.7** | **Total other stable resources** | **9,649,169** |
| | **2.4** | **Total Stable Resources (2.2+2.3.7)** | **10,961,093** |
| **Advances to Stable Resources Ratio (1.6/ 2.4*100)** | | | **80.68** |

## 10. Credit Risk

### CRA: General qualitative information about credit risk

#### (a) How the business model translates into the components of the bank's credit risk profile

Credit risk is the most materially significant and prevalent risk.

Credit risk arise from the risk that the counterparty dealing with financial institutions will fail to honor / discharge their obligation causing bank to incur a financial loss. Credit risk underwriting, credit risk monitoring and control are jointly performed by Credit and Risk department.

In order to effective monitor the credit risk, the UAB has put in place the effective three lines mechanism (lines of defense). Adequate segregation of duties to be followed, so as to ensure independence and avoid conflicts of interest in pursuit of the Bank's business objectives and strategy. The Bank shall maintain high governance standards and credit principles, and adopt industry accepted practices to avoid undesirable effects of unclear roles and responsibilities.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly and approved by Board Credit committee or directly by the Board. The Risk Appetite Statement of the Bank which is approved by the Board reflects the Risk Strategy translated to the Business Strategy to manage growth and profile of the portfolio within acceptable tolerances.

#### (b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits

Approval, disbursements, administration, rating classification wholesale and retail are governed by the Bank's Credit Policies. Similarly, distressed assets policy are governing the restructuring, recoveries and write-offs. The policies is drafted by risk management department and approved by the Board via the Board Risk Committee (BRC).. The policy scope cover all the major products and line of business. The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual customers and groups, and to industries and countries. The underwriting standards also define the minimum quality for new on-boarding of customers.

The policies, guidelines and processes outlined in the Credit Policy cover the entire spectrum of Bank's credit/ assets portfolio. The policy applies to all Business Units/Departments which are engaged in the process of originating; maintaining, managing and/or reviewing the related credit portfolio(s).

Identifying the credit approval authorities and the scope of delegated authorities is governed by delegation of authority (DOA) which is approved by Board.

#### (c) Structure and organization of the credit risk management and control function

All Wholesale Banking and FI (Financial Institutions) credit proposals are independently reviewed by Credit Department and recommended to appropriate approval authority as defined in the DoA and Credit Policies of the Bank. For Retail, the Bank has in place necessary approval in line with Delegation of Authority. Board Credit Committee (BCC) and Board is ultimately responsible for approving the credit

The underwriting and risk control functions are separated from each other. Risk management is responsible for Credit post disbursement control and portfolio management, together with credit administration. These functions together with Special Assets Management (SAM) report to the Chief Risk Officer (CRO). The CRO reports independently to the BRC.

Credit function is responsible for underwriting and engaging in credit review. Credit function headed by the Chief Credit Officer (CCO), who reports to the CEO.

**(d) Relationships between the credit risk management, risk control, compliance and internal audit functions**

All Wholesale Banking Credit proposals submitted by Wholesale banking Group are independently reviewed by Credit Dept, before they are approved by the Head of Credit or, under the DoA to Credit Committee (comprising of CCO, CRO and CEO) and, if required, recommendation to the appropriate level committee Board Credit Committee (BCC) for final approval.

Compliance team ensures that guidelines are complied with, in the due diligence process for KYC and AML among others, such as dealing with PEPs and related parties or insider trading. This is done by following the strict guidelines in-place for all these aspects.

Only after final approval and fulfillment of documentation and conditions precedent, that Credit Administration Department makes the limits available for utilization by the customer. At this point, transactions can be executed by the customer through operations.

As part of Internal Audit plan, Internal Audit team acting as the verification unit (third line of defense) reviews the Credit Approval Process and submits its findings to Board Audit Committee for its review.

Although they work very closely with Risk Management, Compliance and Internal Audit are both independent from Credit Department.

**(e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors**

Comprehensive Portfolio reports include but are not limited to: Loans and Advances, Sukuk and investment book total size, trends, risk rating, sector, past due, restructured information and geographic concentrations, retail product-wise exposures and performance, large exposure concentrations, top watch list exposures, top NPL exposures, write-offs etc. This is presented to the Special Asset Management Committee, Risk Committee and Board Risk Committee on a regular basis. The report highlights the status of the exposure, recoveries, if any, collaterals, provisions held against these accounts and the action plan to regularize/recover the dues from these accounts.

At the Board level, the Board Risk Committee has oversight of Risk Management function across the Bank.

### CR1: Credit quality of assets

| | | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|---|
| | | | Gross carrying values of | | | Of which ECL accounting provisions for credit losses on SA exposures | | |
| | | | Defaulted exposures | Non-defaulted exposures | Allowances / Impairment | Allocated in regulatory category of Specific | Allocated in regulatory category of General | Net values (a+b-c) |
| 1 | Loans | | 1,138,023 | 7,880,152 | 804,825 | 544,709 | 260,116 | 8,213,350 |
| 2 | Debt securities | | - | 3,531,764 | 25,502 | - | 25,502 | 3,506,262 |
| 3 | Off-balance sheet exposures | Contingent liabilities | 208,211 | 2,455,823 | 87,947 | 47,033 | 40,914 | 2,576,087 |
| 4 | | Commitments | - | 2,286,975 | - | - | - | 2,286,975 |
| | **Total** | | **1,346,234** | **16,154,714** | **918,274** | **591,742** | **326,532** | **16,582,674** |

### CR2: Changes in stock of defaulted loans and debt securities

| | | Amount |
|---|---|---|
| **1** | **Defaulted loans and debt securities at the end of the previous reporting period** | 1,677,199 |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 674,183 |
| 3 | Returned to non-default status | - |
| 4 | Amounts written off | (1,011,859) |
| 5 | Other changes | (201,500) |
| **6** | **Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)** | 1,138,023 |

### CRB: Additional disclosure related to the credit quality of assets

**(a) The scope and definitions of 'past due' and 'impaired' exposures for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.**

Once an account / relationship hits 90 DPD it is proposed for a 'Default' to Special Assets Committee (SAC) for downgrade to MRA 8. All customers which are in default i.e. the principal payment or accrued profit is in arrears for a period of 90 days or more should be classified as 'Default' rated and considered non-performing. Business or Credit can also submit a case to SAC for a downgrade (and immediately transfer to SAM) in the event of a drastic deterioration in quality due to financial or non-financial reasons even before reaching 90 dpd.

For Retail Portfolio, once an account / relationship hits 90 DPD it is proposed for a 'Default'

The term 'classified asset' refers to an exposure rated Substandard, Doubtful or Loss.

**(b) The extent of past-due exposures (>90 days) that are not considered to be impaired and the reasons for this.**

AED 8,748,709 is overdue past 90 days but not classified as NPL. Of this AED 8.3M was classified as Stage 3 (NPL) subsequently in January 2022

**(c) Description of methods used for determining accounting provisions for credit losses. In addition, banks that have adopted an ECL accounting model must provide information on the rationale for categorization of ECL accounting provisions in general and specific categories for standardized approach exposures.**

**Impairment of Financial Assets**

Financial assets that are measured at amortized cost are assessed for impairment at each reporting date.

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are measured at amortized cost:

- Financing and investing assets and investment in Bonds/ Sukuks;
- Off-balance sheet instruments issued;
- Financial guarantee contracts issued;
- Due from banks and financial institutions;
- Balances with Central Banks; and
- Other financial assets (Receivable loan and advances)

Financial assets migrate through three stages based on the change in Credit Risk since initial recognition. No impairment loss is recognized on equity investments.

**Excepted Credit Loss impairment model**

The Expected Credit Loss (ECL) model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit Risk since initial recognition, an amount equal to 12 months ECL will be recorded. The 12 months ECL is calculated as the portion of life time ECL that represents the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12 month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original effective profit rate;
- Under Stage 2, where there has been a significant increase in credit Risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. The PD and LGD are estimated over the lifetime of the instrument and the expected cash shortfalls are discounted by an approximation to the original effective profit rate; and
- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets, with the PD set at 100%.

**(c) Description of methods used for determining accounting provisions for credit losses. In addition, banks that have adopted an ECL accounting model must provide information on the rationale for categorization of ECL accounting provisions in general and specific categories for standardized approach exposures. (continued)**

AED 8,748,709 is overdue past 90 days but not classified as NPL. Of this AED 8.3M was classified as Stage 3 (NPL) The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective profit rate on the financing.

The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the Risk-adjusted rate relevant to the exposure.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increase in credit risk and measurement of ECL.

**Assessment of significant increase in Credit Risk**

The assessment of a significant increase in Credit Risk is done on a relative basis. To assess whether the Credit Risk on a financial asset has increased significantly since origination, the Bank compares the Risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding Risk of default at origination, using key Risk indicators that are used in the Bank's existing Risk management processes. At each reporting date, the assessment of a change in Credit Risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

The exposure will be moved from stage 1 to stage 2 if:

- The changes in rating notch beyond the Bank's established threshold related to the initial recognition;
- Restructuring and Rescheduling of account;
- An instrument is past due beyond 30 days; and
- An instrument's Credit Risk is considered higher based on qualitative criteria of the Bank.

The instruments moved to stage 2 from stage 1 remain in the stage until they perform for a sustained period as per Bank's policy and CBUAE guideline (i.e. 12 months). Movement from stage 2 to stage 3 are based on whether the financial assets are Credit impaired at the reporting date.

**Experienced Credit Judgment**

The Bank's ECL allowance methodology requires the use of experienced Credit judgment to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements.

SAC is ultimately authority in downgrading the wholesale banking account to NPL. Wherever required significant credit judgment is applied in case of transfer between Stage 1 and Stage 2.

**Expected life**

When measuring expected credit loss, the Bank considers the maximum contractual period over which the Bank is exposed to Credit Risk along with repayment till maturity.

**(c) Description of methods used for determining accounting provisions for credit losses. In addition, banks that have adopted an ECL accounting model must provide information on the rationale for categorization of ECL accounting provisions in general and specific categories for standardized approach exposures. (continued)**

**Refinancing and restructuring policies**

Refinancing: The replacement of an obligor's existing credit facilities from another Bank with new credit facilities from UAB or consolidation of an obligor's existing credit facilities within UAB provided such facilities are not in default or likely to lead to a default.

Restructuring: The material revision or alteration of the terms and conditions of an obligor's existing credit facilities which may include reduced or deferred repayments, extended terms, reduced interest/profit rates or interest/profit roll-up or forgiveness, relaxation of covenants or terms and conditions, or relaxed collateral/security requirements. In such circumstances, failure to agree to such a restructuring is likely to lead to a credit event in the immediate or near term.

i. The Bank may consider the refinance of an existing credit facility from another Bank where the obligor is not in financial distress.

ii. Proposals for refinancing of existing credit facilities which meet the above "refinancing" definition should follow the existing credit approval process for new and existing facilities.

iii. As soon as existing credit facilities exhibit early indicators which may lead to a potential credit event, the Bank must refer the early action. The relevant approving authority shall review credit facilities exhibiting indicators which may lead to a credit event and decide whether a downgrade and the restructuring of the facility are required.

iv. Restructuring of existing credit facilities is usually contemplated by the Bank to avoid an impending default, address an existing payment default, or rehabilitate delinquent debt and is usually considered as a better alternative than acceleration towards legal redress.

Existing credit facilities which are being considered for restructuring may have one or more of the following features:

a. Interest/profit payments are more than 90 days past due

b. Principal payments are more than 90 days past due

c. The obligor is in serious financial difficulties

d. Sources of repayment or ability to repay or service the debt are uncertain

e. The value or recoverability of supporting security is in doubt

f. The principal is at serious risk of substantial or full capital loss

g. A previous rescheduling has been unsuccessful

h. In any other circumstance where CRO deems appropriate

The terms and conditions of the restructured credit facilities may have one or more of the following characteristics:

a. Reduced cash pay interest/profit rate

b. Reduced fees

c. Interest/profit forgiveness (non-recovery of accrued interest/profit)

d. Reduced or rescheduled principal payments

e. Extended tenor

f. Forgiveness of principal

g. Weakened financial covenants and/or conditions

h. A mechanism to provide the Bank with additional reward upon a successful outcome e.g. success fees or non-cash pay interest/profit – PIK (payment in kind)

i. Significantly reduced LTV due to a reduction in the value of the collateral

**(c) Description of methods used for determining accounting provisions for credit losses. In addition, banks that have adopted an ECL accounting model must provide information on the rationale for categorization of ECL accounting provisions in general and specific categories for standardized approach exposures. (continued)**

Overall credit assessment of the obligor's credit status and ability to repay will continue to be a matter of judgment and this will inform both the nature of the restructured facilities and the subsequent risk rating attributable to the obligor both before and after the revised facilities being operative.

When considering restructuring proposals of existing credit facilities, particular emphasis should be given to the following areas when assessing the financial position of the obligor, the obligor's ability to repay, and the overall credit risk:

a. Current and future financial performance, understanding assumptions and key sensitivities

b. Visibility and sustainability of current and future cash flows

c. Availability and access to free cash flow

d. Full details of funded and unfunded facilities from other lenders, repayment profiles and any personal or corporate guarantees

e. Details of trade or other creditors including details of post-dated cheques issued

f. Full details of both current and fixed assets together with details of security to other lenders

g. Current assessment of the value and recoverability of existing collateral and potential for value appreciation or deterioration over time

If the information made available is either incomplete, insufficiently detailed or is not robust, consideration should be given to involving external advisors to support the obligor and obtain an independent assessment of the situation to better inform the Bank.

x. Refinancing, as defined above, is subject to the normal credit process and the obligor's risk rating will be assessed based upon the criteria as set out in the policy sections of this policy.

xi. Where credit facilities have been restructured and if they fall within "Non–performing credit facilities" as defined by CB UAE's instructions, the credit is to be considered as "Substandard".

**(d) The bank's own definition of a restructured approach**

Rescheduling & Restructuring may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate

Rescheduled are facilities with renegotiated terms that do not result in NPV loss to the Bank as compared to the original facility.

Restructured are facilities with renegotiated terms that result in NPV loss to the Bank as compared to the original facility. This NPV loss can occur due to various reasons, such as: a haircut of the principal, reduction in the interest/profit rate, extension in the tenor or such other consequential terms and conditions.

(h) Breakdown of restructured exposures between impaired and not impaired exposures.

Restructured accounts are totaling of AED 963.2 million. The total restructured amount is 11.73% of total gross financing.

**CRC: Qualitative disclosure requirements related to credit risk mitigation techniques**

**(a) Core features of policies and processes for, and indication of the extent to which the bank makes use of, on- and off-balance sheet netting**

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognized amounts and when the Bank intends to settle either on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

Credit – Related Commitments Risks

The Bank provide its customers guarantees and letters of credit which require that the Bank makes payments in the event of default that the customer fails to fulfil certain obligations to other parties.

This exposes the Bank to a similar Risk to financing and investing assets and these are mitigated by the same control processes and policies.

**(b) Core features of policies and processes for collateral evaluation and management**

Security is defined as all cash or near cash items, such as cash margin, fixed deposits under lien, unconditional financial guarantees from acceptable banks, negotiable instruments like bankers' check, demand draft, bills of exchange issued by prime banks and certain government securities/bonds.

Collateral means additional security, which secures the bank's exposure in case the primary source of repayment and liquidity of security stated above is not sufficient to settle in full the bank's exposure. Example of such collaterals is mortgage of property, pledge of blue-chip quoted and listed company shares, mortgage of plant, machinery and vehicles etc. Policy clearly defines the acceptable practice for valuation and frequency based on the type of asset. A list of approved valuation firms is maintained to conduct such valuation.

**(c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers)**

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

The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors, which is achieved through Risk Appetite thresholds, Target Market Criteria and Risk Acceptance Criteria.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups and economic segments. It also does so by credit risk mitigation through guarantees and tangible collaterals.

**CRD: Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk**

**(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period**

CBUAE recognized credit assessment institutions (ECAIs). There is no change over the reporting period.

**(b) The asset classes for which ECAI and ECA is used**

Externally rated Corporate, Banks, Sovereign and Government Related Entities. Where external ratings are available, these can be used internally. The external ratings are mapped to the internal scale using PDs. For easy of conversion we are using 22 rating scale same as used by majority of rating agencies.

**(c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book**

The Bank assesses and map the probability of default of individual wholesale counterparties using internal term structure table which is to the various categories of counterparties. These segments include: Corporate, SME, FI, and Sovereign.

Models are developed with the external support of accredited consultants and are subject to external and internal validation. Models are calibrated to the Bank's internal rating scale, and are housed within the Moody's CreditLens platform. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

**(d) The alignment of the alphanumerical scale of each agency used with the risk buckets (except where the relevant supervisor publishes a standard mapping with which the bank has to comply).**

The Bank's internal ratings scale is mapped to Credit Lens's rating scale:

It is the Bank's policy to maintain accurate and consistent Risk Ratings across the credit portfolio. This facilitates focused management of the applicable Risks and the comparison of financing exposures across all lines of business, regions and products. All internal Risk Ratings are segmented into various category based on risk appetite, segmentation and risk profile. The attributable Risk Ratings are assessed and updated regularly.

### (e) Breakdown of loan exposures by geographical areas (residence country) and industry

| Country | FY 2021 | |
|---|---|---|
| | On Balance sheet Assets | Contingent Assets and Unused Commitments |
| | AED'000 | AED'000 |
| United Arab Emirates | 12,409,369 | 4,908,107 |
| Other Middle East countries | 1,215,353 | 20,695 |
| Europe | 64,323 | 15,186 |
| USA | 75,889 | - |
| Rest of the world | 885,795 | 7,020 |
| **TOTAL** | **14,650,728** | **4,951,008** |

### (f) Breakdown of loan & advances (Funded exposures) by geographical areas (residence country) and industry

| Country | Wholesale Banking | Retail Banking | Total |
|---|---|---|---|
| United Arab Emirates | 6,795,849 | 1,680,393 | 8,476,242 |
| Turkey | 110,642 | - | 110,642 |
| Egypt | 107,290 | - | 107,290 |
| Bangladesh | 91,522 | - | 91,522 |
| Oman | 86,304 | - | 86,304 |
| Mauritius | 55,088 | - | 55,088 |
| Brundi | 35,398 | - | 35,398 |
| Vietnam | 23,871 | - | 23,871 |
| Nigeria | 18,363 | - | 18,363 |
| Pakistan | 7,345 | - | 7,345 |
| Saudi Arabia | 3,479 | - | 3,479 |
| Sri Lanka | 2,295 | - | 2,295 |
| Malaysia | 179 | - | 179 |
| Kuwait | 159 | - | 159 |
| **Total** | **7,337,782** | **1,680,393** | **9,018,175** |

**(g) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances, broken down by industry.**

| Sector wise impaired loans | | |
|---|---|---|
| **Economic Sector** | **Total** | **Total** |
| Government and public sector | - | - |
| Trade | 325,273 | 136,488 |
| Personal loans (retail and business) | 438,017 | 186,754 |
| Manufacturing | 181,326 | 70,896 |
| Construction | 7,218 | 11,793 |
| Services | 97,744 | 90,224 |
| Financial institutions | 88,446 | 42,779 |
| Transport and communication | - | 5,775 |
| Agriculture | - | - |
| Others | - | - |
| **Total** | **1,138,023** | **544,709** |

**(h) Ageing analysis of accounting past-due but not impaired exposures.**

| FY 2021 | Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 days | Total |
|---|---|---|---|---|---|
| **Loans and advances** | **42,396** | **8,144** | **710** | **125** | **51,376** |
| **FY 2020** | | | | | |
| **Loans and advances** | **96,274** | **24,215** | **5,166** | **10,053** | **135,709** |

**(i) Breakdown of restructured exposures between impaired and not impaired exposures.**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Total | 42,396 | 42,396 | 42,396 | 42,396 |
| Total Provisions | (1,768) | (13,889) | (322,715) | (338,372) |
| Net credit exposure | 39,853 | 117,841 | 467,153 | 624,847 |

### CR3: Credit risk mitigation techniques - overview

| | | Gross Exposures unsecured: carrying amount | Exposures secured by collateral | Exposures secured by collateral, of which: secured amount | Exposures secured by financial guarantees | Exposures secured by financial guarantees, of which: secured amount | Exposures secured by credit derivatives | Exposures secured by credit derivatives, of which: secured amount |
|---|---|---|---|---|---|---|---|---|
| 1 | Loans | 9,018,175 | - | - | - | - | - | - |
| 2 | Debt securities | 3,531,764 | - | - | - | - | - | - |
| **3** | **Total** | 12,549,939 | - | - | - | - | - | - |
| 4 | Of which defaulted | 1,138,023 | - | - | - | - | - | - |

### CR4: Standardized approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

| | | Exposures before CCF and CRM | | Exposures post-CCF and CRM | RWA and RWA density | |
|---|---|---|---|---|---|---|
| | **Asset classes** | **On-balance sheet amount** | **Off-balance sheet amount** | **On-balance sheet amount and Off-balance sheet amount** | **RWA** | **RWA density** |
| 1 | Sovereigns and their central banks | 4,205,166 | - | 4,205,166 | 767,167 | 18.2% |
| 2 | Public Sector Entities | 2,483,199 | - | 2,483,199 | 1,616,740 | 65.1% |
| 3 | Multilateral development banks | - | - | - | - | - |
| 4 | Banks | 1,154,234 | 193,663 | 1,300,890 | 968,880 | 83.9% |
| 5 | Securities firms | - | - | - | - | - |
| 6 | Corporates | 3,610,810 | 4,788,372 | 5,275,725 | 4,256,261 | 117.9% |
| 7 | Regulatory retail portfolios | 561,742 | - | 561,742 | 441,412 | 78.6% |
| 8 | Secured by residential property | 1,023,687 | - | 1,023,687 | 387,473 | 37.9% |
| 9 | Secured by commercial real estate | 808,009 | - | 808,009 | 808,009 | 100.0% |
| 10 | Equity Investment in Funds (EIF) | - | - | - | - | - |
| 11 | Past-due loans | 1,032,725 | 69,140 | 510,122 | 575,549 | 55.7% |
| 12 | Higher-risk categories | - | - | - | - | - |
| 13 | Other assets | 1,488,174 | - | 1,105,293 | 1,103,110 | 74.1% |
| **14** | **Total** | 16,367,748 | 5,051,175 | 17,273,834 | 10,924,601 | 66.7% |

### CR5: Standardized approach - exposures by asset classes and risk weights

Risk weight

| | Asset classes | 0% | 20% | 35% | 50% | 75% | 100% | 150% | Others | credit exposures amount (post CCF and post-CRM) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Sovereigns and their central banks | 3,295,691 | 177,885 | | | | 731,590 | | | 4,205,166 |
| 2 | Public Sector Entities | | 894,782 | | 301,267 | | 1,287,150 | | | 2,483,199 |
| 3 | Multilateral development banks | | | | | | | | | |
| 4 | Banks | | 19,643 | | 675,055 | | 563,727 | 42,464 | | 1,300,890 |
| 5 | Securities firms | | | | | | | | | |
| 6 | Corporates | 958,445 | | | | | 3,841,902 | 15,828 | 459,550 | 5,275,725 |
| 7 | Regulatory retail portfolios | | | | | 481,324 | 80,419 | | | 561,742 |
| 8 | Secured by residential property | | | 978,791 | | | 44,896 | | | 1,023,687 |
| 9 | Secured by commercial real estate | | | | | | 808,009 | | | 808,009 |
| 10 | Equity Investment in Funds (EIF) | | | | | | | | | |
| 11 | Past-due loans | | | | | | 379,269 | 130,853 | | 510,122 |
| 12 | Higher-risk categories | | | | | | | | | |
| 13 | Other assets | 56,423 | | | | | 940,391 | 108,479 | | 1,105,293 |
| **14** | **Total** | **4,310,560** | **1,092,310** | **978,791** | **976,322** | **481,324** | **8,677,353** | **297,625** | **459,550** | **17,273,834** |

## 11. Counterparty Credit Risk

Counterparty credit risk that the counterparty to a transaction could default before the final settlement of the transaction in cases where there is a bilateral risk of loss. The bilateral risk of loss is the key concept on which counterparty risk is calculated. Broad definition of counterparty credit risk include wrong way risk.

Bank calculate a counterparty credit risk charge for all exposure that give risk to counterparty credit risk. The categories of transaction that give risk to counterparty credit risk are:

- Over the counter (OTC) derivatives
- Exchange traded derivative
- Long settlement transaction
- Securities financing transaction

The transaction listed above generally exhibit the following abstract characteristic:

- The transaction generate a current exposure or market value
- The transaction have an associated random future market value based on market variable

**CCRA: Qualitative disclosure related to counterparty credit risk**

**(a) The method used to assign operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures**

Not Applicable. No Exposure to CCP

**(b) Policies relating to guarantees and other risk mitigants and assessments concerning counterparty credit risk, including exposures towards CCPs'**

Not Applicable. No Exposure to CCP

There is currently no exposure to CCPs'.

**(c) Policies with respect to wrong-way risk exposures**

There is currently no exposure to CCPs'.

**(d) The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade.**

Not applicable.

### CCR1: Analysis of counterparty credit risk (CCR) exposure by approach.

| | | Replacement cost | Potential future exposure | EEPE | Alpha used for computing regulatory EAD | EAD post-CRM | RWA |
|---|---|---|---|---|---|---|---|
| 1 | SA-CCR (for derivatives) | 84,169 | 15,996 | | | 100,165 | 85,852 |
| 2 | Internal Model Method (for derivatives and SFTs) | | | - | - | - | - |
| 3 | Simple Approach for credit risk mitigation (for SFTs) | | | | | - | - |
| 4 | Comprehensive Approach for credit risk mitigation (for SFTs) | | | | | - | - |
| 5 | VaR for SFTs | | | | | - | - |
| **6** | **Total** | | | | | | 85,852 |

### CCR3: Standardized approach - CCR exposures by regulatory portfolio and risk weights

| Regulatory Portfolio \ Risk weight | 0% | 20% | 50% | 75% | 100% | 150% | Others | Total credit exposure |
|---|---|---|---|---|---|---|---|---|
| Sovereigns | - | - | - | - | - | - | - | - |
| Public Sector Entities (PSEs) | - | - | - | - | - | - | - | - |
| Multilateral development banks (MDBs) | - | - | - | - | - | - | - | - |
| Banks | - | - | 5,030 | - | 82,071 | 826 | - | 87,927 |
| Securities firms | - | - | - | - | - | - | - | - |
| Corporates | - | - | - | - | 12,238 | - | - | 12,238 |
| Regulatory retail portfolios | - | - | - | - | - | - | - | - |
| Secured by residential property | - | - | - | - | - | - | - | - |
| Secured by commercial real estate | - | - | - | - | - | - | - | - |
| Equity Investment in Funds (EIF) | - | - | - | - | - | - | - | - |
| Past-due loans | - | - | - | - | - | - | - | - |
| Higher-risk categories | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **5,030** | **-** | **94,309** | **826** | **-** | **100,165** |

### CCR5: Composition of collateral for CCR exposure

| | Collateral used in derivative transactions | | | | Collateral used in SFTs | |
|---|---|---|---|---|---|---|
| | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | Fair value of posted collateral |
| | Segregated | Unsegregated | Segregated | Unsegregated | | |
| Cash - domestic currency | - | - | - | - | - | - |
| Cash - other currencies | - | - | - | - | - | - |
| Domestic sovereign debt | - | - | - | - | - | - |
| Government agency debt | - | - | - | - | - | - |
| Corporate bonds | - | - | - | - | - | - |
| Equity securities | - | - | - | - | - | - |
| Other collateral | - | - | - | - | - | - |
| **Total** | - | - | - | - | - | - |

### CCR6: Credit derivative exposures – Nil

### CCR8: Exposures to central counterparties – Nil

## 12. Securitization

Not applicable

| | | |
|---|---|---|
| SECA | Qualitative disclosures related to securitization exposures | Not Applicable |
| SEC1 | Securitization exposures in the banking book | Nil |
| SEC2 | Securitization exposures in the trading book | Nil |
| SEC3 | Securitization exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor | Nil |
| SEC4 | Securitization exposures in the trading book and associated capital requirements - bank acting as investor | Nil |

## 13. Market Risk

**MRA: General qualitative disclosure requirements related to market risk**

**(a) Strategies and processes of the bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges.**

Market Risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as foreign exchange rates, profit rates, credit spreads, equity and sukuk/bond market prices etc.

The Bank, keeping in view the size and scale, doesn't encourage proprietary trading activities. The Bank has a low appetite for market risk exposure(s) guided by approved tolerances. The Bank provides hedging solutions to its customers to mitigate their market risk on their underlying commitments and not for any speculative purposes. The Bank allows limited products for hedging purposes. These positions are monitored and reported on a regular basis. The Bank squares off its customer deals with the interbank counterparties in order to not carry any significant market risk on these positions.

**(b) Structure and organization of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in the above point, and describing the relationships and the communication mechanisms between the different parties involved in market risk management.**

Market Risk is governed by the Enterprise Risk Management Framework, Risk Appetite Framework and the Market Risk Policy approved by the Bank's Board of Directors. The Board has delegated the responsibility of managing Market risk of the Bank to the Board Risk Committee (BRC). BRC & Risk Management Committee (RC) reviews Market risk policy, Market risk appetite and tolerance limits proposed by Risk Management for the Bank in line with the Bank's objectives, strategy and overall risk appetite.

ERM framework and the Market Risk Policy are reviewed annually and changes/enhancements if any are approved by the RC and BRC.

Asset Liability and Investment Committee (ALICO) monitors the market risk positions, Head of ERM will report related management information to ALICO for necessary discussion, resolutions and decisions.

The Market Risk function folds under Enterprise Risk Management Unit under Risk Management and reports to the Chief Risk Officer. MRM department reviews the framework periodically and ensure that it remains aligned with changing market conditions and updates in regulatory guidelines that impact operations of the Bank.

### (c) The scope and nature of risk reporting and/or measurement systems

The Bank calculates market risk capital requirements using Basel III Standardized Approach.

The market risks subject to a capital charge are as follows:

| Risk Type | Definition | Exposure as of 31/12/2021 |
|---|---|---|
| Interest rate risk | Risk arising from fluctuations in the level of interest rates in the market environment and impacts prices of interest rate sensitivities financial Instruments. | **Assets (figures 000):**<br>1. Gross due from banks: 378,735<br>2. Gross Loans: 9,018,175<br>3. Gross Investment :3,531,764<br>**Liabilities (figures 000):**<br>1. Due to Banks:2,410,988<br>2. Deposits: 10.406,425 |
| Foreign Exchange risk | Risk arising from fluctuations in foreign exchange rates and impacts transactions denominated in a currency other than the domestic currency of the Bank. | Yes |
| Equity Exposure risk | Risk arising from fluctuations in equity prices, volatilities, and dividend yields. | Nil |
| Commodity risk and | Risk arising from fluctuations in the prices of commodities. | Nil |
| Options risk | Risk arising from fluctuations in the volatilities and prices/ rates impacts financial instruments with optionality. | Nil |

**Key Reports used in Market Risk.**

Liquidity

- Calculate the month liquidity premium as input for FTP
- Prepare BRFs related to LCR, NSFR, Interest rate risk in banking book and options Greeks
- Report on Cost Of Funds
- Deposits monitoring and impact on key ratios
- Deposits concentration report
- Update behavioral study for non-maturing and term deposits
- Testing EWIs for CFP
- ALM balance sheet preparation
- Liquidity and interest reports
- Evaluate deposits pricing
- Liquidity Gap analysis

Interest Rate Risk:

- DVO1 Balance and Trading Portfolio
- Interest Rate mismatch report
- NII , EVE Report
- Stress Testing

Market Risk:

- Limit Monitoring across Product, asset class
- Market Intelligence and Alerts reporting
- Market to Market and valuation report
- Hedge Effectiveness' Reports (IRS Deals) & Hedge Ratio calculation
- Monitoring Country Limit and CDS / Rating

**MR1: Market risk under the Standardized approach (SA)**

AED 000s

| | | 31-Dec-21 |
|---|---|---|
| | | RWA |
| 1 | General Interest rate risk (General and Specific) | 0 |
| 2 | Equity risk (General and Specific) | 0 |
| 3 | Foreign exchange risk | 2,835 |
| 4 | Commodity risk | 0 |
| | Options | |
| 5 | Simplified approach | |
| 6 | Delta-plus method | |
| 7 | Scenario approach | |
| 8 | Securitization | 0 |
| **9** | **Total** | **2,835** |

## 14. Interest Rate Risk in Banking Book

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALICO is the monitoring body for compliance with these limits and is assisted by Financial Market in its day to day monitoring activities.

Impact of shock on Interest rate is shown below:

**IRRBB1: Quantitative information on IRRBB**

| In reporting currency (AED 000s) | Change in EVE | Change in NII |
|---|---|---|
| **Period** | **31/12/2021** | **31/12/2021** |
| General Interest rate risk (General and Specific) | (37,530) | 155,184 |
| Parallel down (200 bps) | 89,931 | (155,184) |
| Steepener | (471) | |
| Flattener | (75,134) | |
| Short rate up | (22,764) | |
| Short rate down | - | |
| **Maximum** | (75,134) | |

## 15. Operational Risk

### (a) Bank's policies, frameworks and guidelines for the management of operational risk

Operational risk is "the risk of loss resulting from inadequate or failed internal processes, people and system or from external events". This definition includes legal risk but excludes strategic and reputational risk. Key elements of the framework include:

- Risk Control Self-Assessment
- Incident Management where all loss events and relevant incidents are captured in an incident database Risk identification and setting up of Key Risk Indicators for new or enhanced processes
- Risk reporting to the senior management and Board

The day-to-day management of operational risk is through the maintenance of a comprehensive system of internal controls, supported by systems and Policy & procedures to monitor transaction and documentation, as well as business continuity planning and disaster recovery process.

### (b) The structure and organization of their operational risk management and control function

The Bank's Operational Risk Framework follows the three lines of defense methodology. The framework clearly defines roles and responsibilities of individuals/units (across the three lines) that are involved in identifying, assessing, controlling, mitigating, monitoring and reporting Operational risk. Operational risk management department reports to Risk Management, independent of business and operations and ensures that practices remain compliant with approved framework.

### (c) Their operational risk measurement system

To support measurement of operational risks, Bank has put in place a dedicated operational risk system that allows maintenance of incident database and risk assessment tools like Risk Control Self-Assessment and Key Risk Indicators. Bank presently follows the Basel II Basic Indicator Approach in calculating operational risk capital requirements.

### (d) The scope and main context of their reporting framework on operational risk to executive management and to the board of directors

The Board assumes overall responsibility for Operational Risk Management. This includes defining risk appetite for operational risk, approval of the Operational Risk management framework, and oversight of senior management to ensure that strategies, policies and processes are implemented effectively.

Operational risk reports are shared with relevant Business units, Senior Management and Board on a periodic basis which includes analysis of the Bank's operational risk profile.

### (e) The risk mitigation and risk transfer used in the management of operational risk

The Bank manages to mitigate the risk through setting policies & procedures and enhancing the control environment on an ongoing basis in line with the Board approved Operational Risk appetite. While the bank is committed to have effective risk management practices in place it also maintains an effective risk transfer methodology by procuring Insurance. The Bank actively engages with the Insurance provider for timely renewal and claims management.

## 16. Remuneration Policy

### Qualitative disclosures

**Key features of the remuneration system**

**(a) Name, composition and mandate of the main body overseeing remuneration.**

Name: Board Nomination & Remuneration Committee

Composition and other rules are specified in term of references

The Board Governance & Remuneration Committee (GRC) provides oversight to the bank's Human Resources policies and is the main body that oversees remuneration for the bank, on behalf of the Board of Directors. The GRC has an independent oversight and control to review and approve HR policies endorsed by the bank's Management Committee (Mancom) or the Chief Executive Officer (CEO).

**(b) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.**

**Korn Ferry** in 2020 performed Job Evaluations, new grading structure, peer group Benchmarking, Reward Strategy, new salary scales and variable pay.

**(c) A description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.**

- Pay positioning has been ascertained on non-national data likewise pay ranges have also been developed on non-national data.
- National allowances has been added as a top up in allowances for nationals which align the pay range for nationals to peer group data.
- Separate scales have been developed for Core, Enabler and Support. For outsourced employee category the guidelines are to have their data as 10% less than support data. Separate scale has not been built in.

**(d) A description of the types of employees considered as material risk-takers and as senior managers**

The CEO (senior management) and direct reports (executive management) are considered as senior managers and material risk-takers.

Information relating to the design and structure of remuneration processes. Disclosures should include:

**(e) An overview of the key features and objectives of remuneration policy.**

The bank's compensation approach is a performance-based, market-aware and aligned with business strategy and stakeholder interests. It encourages a culture that is driven by merit and differentiates the rewards excellent performance, both in the short and long term. Our principles are:

- Pay for performance, based on balanced risk taking and good business conduct as measured on a performance appraisal rating process.
- Attract, retain top performers, talent and business critical resources and motivate all employees to achieve results with integrity and fairness.
- Monitor compensation trends and practices in the relevant markets.

Apply strong corporate governance and comply with regulatory requirements.

It is the bank's policy that each employee's level of compensation is based on his/her role evaluation. An individual's level of responsibility is derived from his/her Job Description. The remuneration and bonus/rewards of employees will be linked to the soundness of the bank's financial position.

Compensation increases resulting from promotions or merit increments shall be in compliance with the approved job level and salary structure and job benefits applicable to each employee. However, the bank will not guarantee that monetary increments take effect every year, even in the instance of excellent performance results. Our principles are:

- To clearly state responsibilities and expectations of each position.
- To ensure that a consistent compensation and benefits structure continues to exist throughout the bank.
- To retain a competitive compensation and benefit structure comparable to similar organizations.
- To provide a competitive compensation and benefits package to all employees fully, accurately and on time.
- To revisit the structure in a short to long term basis to ensure alignment with market trends.
- To provide performance incentives based on performance and overall contribution in achieving business objectives.

**(f) Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.**

Remuneration committee approved Korn Ferry new reward strategy in December 2020 and implemented in April 2021. The main changes is replacement the old grades with salary bands, applied new salary scale, refer to the job evaluation conducted and last performance rating, consolidated all allowances, made corrections on the benefits such as Education and National allowances. The impact on remuneration is increase of the staff cost. The reasons for the changes is to comply with Central Bank Corporate Governance regulations and align the salaries with the market which supposed to take many years.

**(g) A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.**

- Control departments such as Risk, Compliance and Audit considered Enabler functions.
- Given the pay differentials across the job families within the peer group and at UAB, the differential in the overall pay range has been created.
- The percentage differential of 10% for Core at middle level and 15% at senior level. For Enabler, 10% mark up at senior levels represent the pay premiums in the market for each of the category of roles.

**(h) Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include an overview of the key risks, their measurement and how these measures affect remuneration.**

The current main key risk is the remuneration is below the market sometimes and chances for employees to leave the organization to better prospective and increase the regret attrition especially for national employees. The challenge is increasing the salaries will impact on the staff costs.

Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include:

**(i) An overview of main performance metrics for bank, top-level business lines and individuals.**

Main performance metrics for bank should be as follows:-

Profitability:

1. Return on average shareholder's equity
2. Profitability: Return on assets / Cost: Income ratio
3. Capital: Capital Adequacy Ratio/ Tier 1 Capital Ratio
4. Loan loss ratio and Non-performing asset ratio
5. Concentration Loan and Deposit
6. Sensitivity analysis
7. Liquidity: ELAR, ASR, LCR and NSFR

Main performance metrics for individuals measured by performance appraisal against KPIs achievement on the areas of Financial, Customer, People and Process

**(j) A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.**

- Different weights are assigned to corporate and individual performance based on bands
- Board Governance & Remuneration Committee will determine:
    - o KPIs for corporate scorecard
    - o Performance threshold for each KPI
- Payout linkage to corporate, divisional and individual performance as shown in the following table:

| Career Band | Corporate performance | Divisional Performance | Individual Performance |
|---|---|---|---|
| CEO / DCEO | 100% | - | - |
| Executive Management | 60% | 40% | - |
| Senior Management | 50% | 50% | - |
| Management | - | 40% | 60% |
| Junior Management | - | 30% | 70% |
| Senior Officer | - | 20% | 80% |
| Officer | - | 10% | 90% |
| Admin Support | - | - | 100% |

**(k) A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics.**

Non Performing ratio KPI is measured as following criteria:

- Keeping the annual growth in NPLs within budget target
- Progressive bring the historical/ legacy NPL ratio with industry norm within next five years
- Computation should be in line with internal KPI

Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include:

Long term incentive plans not approved by the remuneration committee because the bank not achieving net profit that allows payment of bonuses

**(l) A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.**

Not applicable

**(m) A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.**

Not applicable as currently there is no deferral policy in the Bank.

**(n) An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms).**

The only variable remuneration that bank utilizes is incentive plans for Branches and Sales employees managed by Retail Banking.

Performance Bonus:

UAB has not given any performance related bonus

**(o) A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.**

Variable remuneration (if applicable) is paid in cash.

### REM1: Remuneration awarded during the financial year

In AED 000

| Remuneration Amount | | | a<br>Senior Management | b<br>Other Material Risk-takers |
|---|---|---|---|---|
| 1 | Fixed Remuneration | Number of employees | 14 | 0 |
| 2 | | Total fixed remuneration (3 + 5 + 7) | 16,153.54 | 0 |
| 3 | | Of which: cash-based | 16,153.54 | 0 |
| 4 | | Of which: deferred | 0 | 0 |
| 5 | | Of which: shares or other share-linked instruments | 0 | 0 |
| 6 | | Of which: deferred | 0 | 0 |
| 7 | | Of which: other forms | 0 | 0 |
| 8 | | Of which: deferred | 0 | 0 |
| 9 | Variable Remuneration | Number of employees | 0 | 0 |
| 10 | | Total variable remuneration (11 + 13 + 15) | 0 | 0 |
| 11 | | Of which: cash-based | 0 | 0 |
| 12 | | Of which: deferred | 0 | 0 |
| 13 | | Of which: shares or other share-linked instruments | 0 | 0 |
| 14 | | Of which: deferred | 0 | 0 |
| 15 | | Of which: other forms | 0 | 0 |
| 16 | | Of which: deferred | 0 | 0 |
| **17** | **Total Remuneration (2+10)** | | **16,153.54** | **0** |

### REM2: Special payments

In AED 000

| Special Payments | Guaranteed Bonuses | | Sign on Awards | | Severance Payments | |
|---|---|---|---|---|---|---|
| | No of employees | Total amount | No of employees | Total amount | No of employees | Total amount |
| Senior Management | 0 | 0 | 1 | 1,227.73 | 2 | 40.63 |
| Other material risk-takers | 0 | 0 | 0 | 0 | 0 | 0 |

### REM3: Deferred payments

In AED 000

| Deferred and retained remuneration | Total amount of O/s deferred remuneration | Of which: Total amount of O/s deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment | Total amount of amendment during the year due to ex post explicit adjustments | Total amount of amendment during the year due to ex post implicit adjustments | Total amount of deferred remuneration paid out in the financial year |
|---|---|---|---|---|---|
| Senior management | 0 | 0 | 0 | 0 | 0 |
| Cash | 0 | 0 | 0 | 0 | 0 |
| Shares | 0 | 0 | 0 | 0 | 0 |
| Cash-linked instruments | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other material risk-takers | 0 | 0 | 0 | 0 | 0 |
| Cash | 0 | 0 | 0 | 0 | 0 |
| Shares | 0 | 0 | 0 | 0 | 0 |
| Cash-linked instruments | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| **Total** | 0 | 0 | 0 | 0 | 0 |


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