United Arab Bank P.J.S.C.

FINANCIAL STATEMENTS

31 DECEMBER 2021

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED ARAB BANK PJSC

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.

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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 *Refer note 7 of the financial statements.* 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"). 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 - Review and approval of classification of loans and advances and Islamic financing receivables facilities. - Management's monitoring of: i) staging and ECL for loans and advances and Islamic financing receivables. ii) identification of loans displaying indicators of impairment (including days past due) under stage 3. iii) macroeconomic variables and forecast iv) performance of ECL models - The review and approval of management overlays and the governance process around such overlays. - The independent model validation function.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED ARAB BANK PJSC (continued)

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) *Refer note 7 of the financial statements. (continued)* 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: 1. Forward looking information, including variables used in macroeconomic scenarios and their associated weightings, 2. Stress in specific sectors and industries, and 3. Impact of Government support measures. 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: - We tested the compliance of the Bank's ECL methodologies and assumptions with the requirements of IFRS 9. - 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 - 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. - We assessed appropriateness of the modelling methodologies applied in the ECL model of the Bank. - For a sample of exposures, we examined key data inputs into the ECL models. - We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy. - We assessed appropriateness of disclosures in the financial statements against the requirements of IFRS.

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Report on the audit of the financial statements (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.

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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED ARAB BANK PJSC (continued)

Report on other legal and regulatory requirements

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

T.S. Hari Gopal

Signed by:
Thodla Hari Gopal
Partner
Registration number: 689

2 March 2022

Sharjah, United Arab Emirates

Statement of financial position
As at 31 December 2021

	Notes	As at 31 December 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

The attached notes 1 to 35 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 1 - 8.

Statement of income
For the year ended 31 December 2021

	Notes	2021 AED'000	2020 AED'000
		Year ended 31 December	
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)

The attached notes 1 to 35 form an integral part of these financial statements.
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Statement of comprehensive income
For the year ended 31 December 2021

	Year ended 31 December	
	2021	2020
	AED'000	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 for the year	**(12,842)**	(38,476)
Total comprehensive income / (loss) for the year	**57,349**	(705,771)

The attached notes 1 to 35 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 1 - 8.

Statement of cash flows
For the year ended 31 December 2021

	Notes	Year ended 31 December 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:

	2021	2020
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

The attached notes 1 to 35 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 1 - 8.

Statement of changes in equity

For the year ended 31 December 2021

	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

In August 2020, the IASB issued IBOR reform - Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

IBOR Reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an alternative risk-free benchmark reference rate ("RFR"). The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable. The Bank has assessed the impact of Phase 2 and concluded that it is not material to the Bank's 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

(a) 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 Financial instruments (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. - Data from credit reference agencies, press articles, changes in external credit ratings - Quoted bond and credit default swap (CDS) prices for the borrower where available - 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 - External data from credit reference agencies including industry-standard credit scores	- Payment record – this includes overdue status - Utilisation of the granted limit - Requests for and granting of forbearance - 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.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets the default criteria for a consecutive period of 12 months as determined by the regulatory guidelines.

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 (continued)

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%

There has been no significant sensitivity impact on stage 3 ECL.

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 provision for impairment 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*	*Impairment 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, 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, 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	-	241,979
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	DRC 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

<u>Depreciated Replacement Costs ("DRC") method</u>

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.

<u>Sales comparison method</u>

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	**2,405,463**	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 non-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 profit / (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 and diluted Earnings / (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

Key management personnel	2021 AED'000	2020 AED'000
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:				
Transferred from 12 months ECL	**120**	**(120)**	**-**	**-**
Charge to income statement	**(443)**	**1,866**	**-**	**1,423**
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				**Notional amounts by term to maturity**			
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount AED'000**	**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				Notional amounts by term to maturity			
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	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.

				Notional amounts by term to maturity			
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount AED'000**	**Within 3 months AED'000**	**3-12 months AED'000**	**1-5 years AED'000**	**Over 5 years AED'000**
31 December 2021							
Hedge of investments	**-**	**(109,499)**	**1,989,166**	**-**	**146,900**	**1,180,635**	**661,631**
31 December 2020							
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	**Ineffectiveness recognised in profit and loss AED'000**	Change in value AED'000	Ineffectiveness 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.

26 Contingent liabilities and commitments

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		
	2021	**2020**	**Principal type of collateral held**
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	2020
	AED'000	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*	*Sub total 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*	*Sub total 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:

	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*
31 December 2021						
Assets						
Cash and balances with the UAE Central Bank	**1,300,000**	**-**	**-**	**-**	**709,565**	**2,009,565**
Due from other banks	**150,000**	**-**	**-**	**-**	**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	2,071,763	(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
Decrease 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**

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***
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**

	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.

27 Risk management (continued)

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.

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:

	2021 **AED'000**	2020 AED'000
Right-of-use assets		
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

	2021 **AED'000**	2020 AED'000
Lease liabilities		
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	*Retail banking*	*Total*
	AED'000	*AED'000*	*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			
- Property and equipment	11,343	1,327	12,670
31 December 2021			
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	*Retail banking*	*Total*
	AED'000	*AED'000*	*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			
- Property and equipment	23,756	4,060	27,816
31 December 2020			
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	
	Revised under TESS	**Original**	Revised under TESS	Original
Capital element				
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

31 Capital adequacy (continued)

Capital structure (continued)

	2021 **AED'000**	2020 AED'000
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

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

Capital Ratio	**2021** **%**	**2020** %
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.