Arab Bank PLC
United Arab Emirates Branches

FINANCIAL STATEMENTS

31 DECEMBER 2021

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REPORT OF THE MANAGEMENT

We are pleased to submit this report and the audited financial statements of Arab Bank PLC, United Arab Emirates ("UAE") branches (the "Branches" or the "Bank") for the year ended 31 December 2021.

Incorporation and registered offices

The Branches were incorporated in the United Arab Emirates as a commercial bank in 1971. The Bank has eight branches, three in Dubai, three in Abu Dhabi and one each in Sharjah and Ras al-Khaimah.

The Head Office of the Branches is Arab Bank PLC (the "Head Office"), a public listed bank registered in Amman, Jordan. The Head office is listed on the Amman Securities Exchange.

Financial position and results

The financial position and results of the Branches for the year ended 31 December 2021 are set out in the accompanying financial statements.

During the year ended 31 December 2021, the Branches recorded total operating income of AED 441,019 thousand (2020: AED 536,173 thousand) and net loss of AED 203,866 thousand (2020: net loss of AED 173,782 thousand).

Signed on behalf of the Management

Feras Darwish
Country Manager

Date: 21 March 2022

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INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF ARAB BANK PLC, UNITED ARAB EMIRATES BRANCHES

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Arab Bank PLC, United Arab Emirates Branches (the "Bank" or the "Branches"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 Branches 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 ("IFRS").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section* of our report. We are independent of the Branches in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information
The other information obtained at the date of the auditor's report is the Branches' 2021 Management Report. Those charged with governance are responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on the audit of the financial statements (continued)

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 UAE Federal Law No (2) of 2015 (as amended), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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.

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 Branches' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF ARAB BANK PLC, UNITED ARAB EMIRATES BRANCHES (continued)

Report on the audit of the financial statements (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branches ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Branches to cease to continue as a going concern.

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

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

Report on other legal and regulatory requirements

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

For Ernst & Young

Signed by:
Wardah Ebrahim
Partner
Registration No: 1258

22 March 2022

Dubai, United Arab Emirates

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021

	Notes	*2021* *AED'000*	*2020* *AED'000*
Interest income	3	**399,045**	594,563
Interest expense	4	**(122,958)**	(220,966)
NET INTEREST INCOME		**276,087**	373,597
Other operating income	5	**164,932**	162,576
TOTAL OPERATING INCOME		**441,019**	536,173
Credit loss expense on financial assets	6	**(479,874)**	(498,274)
NET OPERATING (LOSS) / INCOME		**(38,855)**	37,899
General and administrative expenses	7	**(202,389)**	(231,786)
Depreciation on property and equipment	15	**(4,375)**	(6,376)
Depreciation on right-of-use assets	34	**(10,678)**	(12,423)
TOTAL OPERATING EXPENSES		**(217,442)**	(250,585)
LOSS BEFORE TAXATION		**(256,297)**	(212,686)
Income tax credit	21(b)	**52,431**	38,904
NET LOSS FOR THE YEAR AFTER TAXATION		**(203,866)**	(173,782)
Other comprehensive income for the year			
Item that will be reclassified subsequently to profit or loss			
- Unrealised (loss)/gain on revaluation of financial assets at FVTOCI	12(c)	**(7)**	42
- Tax effect		**3**	(9)
Other comprehensive (loss) / income for the year, net of tax		**(4)**	33
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(203,870)**	(173,749)

Feras Darwish
Country Manager – United Arab Emirates

Khalil Abu Farah
Country Head of Finance – United Arab Emirates

The attached notes 1 to 34 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Notes	2021 AED'000	2020 AED'000
ASSETS			
Cash and balances with the Central Bank of UAE	8	**2,161,184**	3,367,297
Due from banks, net	9	**1,621,300**	2,859,875
Due from Head Office and its branches abroad	10	**186,558**	285,176
Loans and advances, net	11	**9,211,200**	10,835,118
Other financial assets, net	12	**3,961,240**	832,385
Right-of-use assets	34	**24,116**	27,962
Other assets	13	**399,817**	322,896
Deferred tax assets	14	**366,016**	300,393
Property and equipment	15	**7,851**	10,056
TOTAL ASSETS		**17,939,282**	18,841,158
LIABILITIES AND HEAD OFFICE EQUITY			
LIABILITIES			
Due to banks	16	**72,084**	245,620
Due to Head Office and its branches abroad	17	**121,035**	135,941
Customers' deposits	18	**13,744,673**	14,221,675
Security deposits from customers	19	**1,211,098**	1,249,497
Other liabilities	20	**514,484**	449,400
Provisions	21	**30,105**	85,190
Deferred tax liability		**176**	177
Lease contract liability	34	**19,418**	23,579
Subordinated loan	22	**374,595**	374,595
TOTAL LIABILITIES		**16,087,668**	16,785,674
HEAD OFFICE EQUITY			
Designated share capital	23	**620,704**	620,704
Statutory reserve	24	**310,352**	310,352
Other reserve	24	**23,000**	23,000
Impairment reserve	24	**127,247**	59,179
Revaluation reserve on financial assets - FVTOCI		**703**	707
Retained earnings		**769,608**	1,041,542
TOTAL HEAD OFFICE EQUITY		**1,851,614**	2,055,484
TOTAL LIABILITIES AND HEAD OFFICE EQUITY		**17,939,282**	18,841,158

These financial statements were approved and authorised for issue on 21 March 2022 by:

Feras Darwish
Country Manager – United Arab Emirates

Khalil Abu Farah
Country Head of Finance – United Arab Emirates

The attached notes 1 to 34 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	*2021* *AED'000*	*2020* *AED'000*
OPERATING ACTIVITIES			
Net loss before taxation for the year		**(256,297)**	(212,686)
Adjustments for:			
Depreciation expense on property and equipment	15	**4,375**	6,293
Depreciation on right-of-use assets	34	**10,678**	12,423
Provision for expected credit losses	6	**480,287**	498,608
Gain on disposal of property and equipment		**(10)**	(284)
Provision for employees' end of service benefits	21(d)	**2,699**	3,070
Amortisation of premium on other financial assets	12 (e)	**15,651**	3,909
Cash generated from operations before changes in operating assets and liabilities		**257,383**	311,333
Changes in operating assets and liabilities:			
Due from Central Bank on statutory deposits		**122,199**	18,256
Due from Central Bank and banks with original maturity of more than 3 months	27 & 8a	**-**	300,000
Due to banks		**-**	(11,153)
Loans and advances, net		**1,141,688**	410,938
Other assets		**(25,576)**	17,976
Customers' deposits		**(477,002)**	574,119
Security deposits from customers		**(38,399)**	(573,999)
Other liabilities		**17,856**	(30,196)
Cash generated from operations		**998,149**	1,017,274
Income tax paid	21(a)	**(68,900)**	(84,998)
Employees' end of service benefits paid	21(d)	**(2,077)**	(1,533)
Net cash generated from operating activities		**927,172**	930,743
INVESTING ACTIVITIES			
Purchase of property and equipment	15	**(2,170)**	(6,078)
Proceeds from disposal of property and equipment		**10**	702
Purchase of investments	12(e)	**(10,672,217)**	(1,407,639)
Proceeds from redemption of investments	12(e)	**7,525,493**	2,661,683
Net cash (used in)/generated from investing activities		**(3,148,884)**	1,248,668
FINANCING ACTIVITY			
Repayment of lease liability		**(10,953)**	(10,816)
Net cash used in financing activity		**(10,953)**	(10,816)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(2,232,665)**	2,168,595
Cash and cash equivalents at the beginning of the year		**5,343,851**	3,175,256
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27	**3,111,186**	5,343,851
Interest income received		**393,045**	616,154
Interest expense paid		**149,865**	261,783
Dividend received		**22**	47

The attached notes 1 to 34 form an integral part of these financial statements.

STATEMENT OF CHANGES IN HEAD OFFICE EQUITY
For the year ended 31 December 2021

	Designated share capital AED'000	*Statutory reserve AED'000*	*Other reserve AED'000*	*Impairment reserve AED'000*	*Asset Revaluation reserve AED'000*	*Retained earnings AED'000*	*Total Head Office equity AED'000*
Balance at 1 January 2020	620,704	310,352	23,000	66,879	674	1,207,624	2,229,233
Loss for the year	-	-	-	-	-	(173,782)	(173,782)
Other comprehensive income	-	-	-	-	33	-	33
Total comprehensive income / (loss) for the year	-	-	-	-	33	(173,782)	(173,749)
Excess impairment reserve transferred to retained earnings (note 11(i))	-	-	-	(7,700)	-	7,700	-
Balance at 31 December 2020	620,704	310,352	23,000	59,179	707	1,041,542	2,055,484
Loss for the year	-	-	-	-	-	(203,866)	(203,866)
Other comprehensive loss	-	-	-	-	(4)	-	(4)
Total comprehensive loss for the year	-	-	-	-	(4)	(203,866)	(203,870)
Shortfall in impairment reserve transferred from retained earnings (note 11(i))	-	-	-	68,068	-	(68,068)	-
Balance at 31 December 2021	**620,704**	**310,352**	**23,000**	**127,247**	**703**	**769,608**	**1,851,614**

The attached notes 1 to 34 form an integral part of these financial statements.

1 ACTIVITIES

Arab Bank plc, United Arab Emirates Branches (the "Branches" or the "Bank") were incorporated in the United Arab Emirates ("UAE") as a commercial bank in 1971. The Head Office of the Branches is Arab Bank plc (the "Head Office"), a public shareholding bank, listed on the Amman Securities Exchange.

The Bank operates within the UAE through the following branches:

Abu Dhabi	3 branches
Dubai	3 branches
Sharjah	1 branch
Ras al-Khaimah	1 branch

These financial statements reflect the activities of the Branches in the United Arab Emirates only and exclude all transactions, assets and liabilities of the Head Office and its other branches elsewhere. Since the capital of the Branches is not publicly traded, no segmental analysis has been presented.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Branches have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), the UAE Federal Law No. (2) of 2015 (as amended) and applicable regulations of the Central Bank of UAE.

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments measured at fair value;
- Financial instruments measured at fair value and classified as either fair value through profit or loss or fair value through other comprehensive income;
- Recognised assets and liabilities that are a hedged item in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged.

The financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Branches, rounded to the nearest thousand except when otherwise stated.

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding the regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 33 (b).

The Covid-19 pandemic resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE announced measures to provide both financial and non-financial assistance to the affected entities. The pandemic has effects on the assumptions and estimation uncertainty associated with the measurements of assets and liabilities with details covered in Note 33 (a) of these financial statements.

2 ACCOUNTING POLICIES (continued)

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS

The Branches have consistently applied the accounting policies same as prior year except for the changes in accounting policies resulting from adoption of new standards and interpretation.

(a) New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2021.

Interest Rate Benchmark Reform: Phase 2: *Amendments to IFRS 9, IFRS 7, IFRS 4 and IFRS 16*
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in the market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Bank expects to have a minimal impact because the transition is done and expected to be done on economically equivalent rates and therefore no material modification gain or loss will take place.

Covid-19 Related Rent concessions beyond 30 June 2021: Amendments to IFRS 16
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.

However, the Bank has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

(b) New/amended standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. These amendments are not applicable to the Bank.

2 ACCOUNTING POLICIES (continued)

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

(b) New/amended standards and interpretations issued but not yet effective (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The IASB also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the IASB decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Bank.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Bank.

IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

Property, Plant and Equipment: Proceeds before intended use – *Amendments to IAS 16*
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

2 ACCOUNTING POLICIES (continued)

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

(b) New/amended standards and interpretations issued but not yet effective (continued)

Definition of Accounting Estimates – Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates.' The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Bank.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

2.3 SIGNIFICANT ACCOUNTING POLICIES

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

Interest income and expense
Interest income and expense for all interest-bearing financial instruments are recognised using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability on initial recognition. When there is doubt in the collection of the principal or the interest, the recognition of interest income ceases.

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses (continued)

Fee and commission income
Fee and commission income is recognised at point in time when customer obtain controls over the related services as performed.

Fees and commission that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Other fees and commissions are recognised over the period of service.

Income from recoveries
Recoveries in respect of defaulted loans are accounted for when recovery is virtually certain and amount can be measured reliably.

Contract balances
The following is recognised in the statement of financial position arising from revenue from contracts with customers:

- 'Unearned income' included under 'Other liabilities', which represent the Bank's obligation to transfer services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made, or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Bank performs.

Taxation
Taxation is provided for in accordance with local regulations for assessment of tax on branches of foreign banks operating in the Emirates of Dubai, Abu Dhabi, Sharjah, and Ras al-Khaimah.

Deferred tax
Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax (continued)
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Deferred taxes relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of the Branches are measured in UAE Dirhams (AED) which is the functional and presentation currency of the Branches, rounded to the nearest thousand except when otherwise stated.

(b) Transactions and balances
Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

Fair value measurement
For those assets and liabilities carried at fair value, the Branches measure fair value at each reporting date. 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.

The fair value measurement of financial instruments is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Branches. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of non-financial instruments (instruments other than financial instruments) takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branches use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair values for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm’s length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
Fair values of non financial instruments are measured based on valuation provided by independent valuators.

The fair value of a derivative financial instrument is the equivalent of the unrealised gain or loss from marking to market the derivative financial instrument, using relevant market rates or internal pricing models.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, branch, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Branches determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Bank 's Valuation Committee determines the policies and procedures for both recurring fair value measurement and unquoted financial assets. External valuers are involved for valuation of significant assets, such as unquoted financial assets, and significant liabilities, such as contingent consideration. At each reporting date, the Valuation Committee analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Bank's accounting policies. For this analysis, the Valuation Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions notes
- Quantitative disclosures of fair value measurement hierarchy
- Investment in non-listed equity shares (discontinued operations)
- Financial instruments (including those carried at amortised cost)
- Contingent consideration

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments
A financial instrument is any contract that gives rise to both a financial asset for the Branches and a financial liability or equity instrument for another party or vice versa.

Date of recognition
All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Branches become a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction costs are charged off to the statement of comprehensive income.

Financial assets
All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets
For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Debt instruments, including loans and advances and investments products, are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit (SPPI) on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Financial assets at amortised cost
Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss - see below). They are subsequently measured at amortised cost using the effective interest method less any impairment (see below), with interest revenue recognised on an effective yield basis in interest income.

Subsequent to initial recognition, the Branches are required to reclassify debt instruments from amortised cost to fair value through profit or loss, if the objective of the business model changes so that the amortised cost criteria are no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Branches may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at fair value through profit or loss, if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Classification of financial assets (continued)

Financial assets at FVTOCI
At initial recognition, the Branches can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Branches manage together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in income statement when the Branches' right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at fair value through profit or loss (FVTPL)
Debt instruments that do not meet the amortised cost criteria (as described above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the income statement. The net gain or loss is recognised in the income statement.

Interest income on debt instruments as at FVTPL is included in the net gain or loss described above and is included in the income statement.

Dividend income on investments in equity instruments at FVTPL is recognised in the income statement when the Branches' right to receive the dividends is established.

Reclassification of financial assets
The financial assets are required to be reclassified if the objective of the Branches' business model for managing those financial assets changes. Such changes are expected to be very infrequent. The Branches' management determine these changes as a result of external or internal changes and must be significant to the Branches' operations and demonstrable to external parties.

If the Branches reclassify financial assets, it shall apply the reclassification prospectively from the reclassification date. Any previously recognised gains, losses or interest are not required to be restated.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Reclassification of financial assets (continued)
If the Branches reclassify a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in the income statement.

If the Branches reclassify a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount. The reclassification day is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

Impairment calculation in accordance with IFRS 9

(i) Overview of expected credit losses
IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

All ECL calculations for the Branches are performed at Head Office level.

The Bank recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- due from banks and financial institutions;
- financial assets that are debt instruments;
- loans and advances;
- loan commitments issued; and
- financial guarantees contracts issued.

Equity instruments are not subject to impairment testing under IFRS 9.

The provision for credit losses is based on expected credit losses over the lifetime of the asset. If there is no significant change in credit risk from inception, the provision is based on the expected 12-month credit loss.

The expected credit loss weighted by the probability of default on credit exposure within 12 months is part of the expected credit loss on the lifetime of the asset arising from financial instrument deteriorations that may occur within 12 months of the reporting date.

The expected credit losses are calculated by the probability of default for the entire lifetime of the credit exposure or within 12 months of the credit exposure either on an individual or collective basis based on the nature of the portfolio of financial instruments.

The Bank has established a policy to periodically assess whether the credit risk of the financial instrument has increased significantly from the date of initial recognition, taking into account the change in the risk of default on the remaining life of the financial instruments.

Based on the above, the Bank classifies the financial instruments into three stages, stage (1), stage (2) and stage (3), as described below:

- Stage 1 – Upon initial recognition of financial instruments, the Bank records an allowance based on credit losses expected over the next 12 months. Stage 1 also includes financial assets which have been reclassified from Stage 2.
- Stage 2 – When a financial instrument experiences a significant increase in credit risk subsequent to origination, the Bank recognises an allowance for expected credit losses for the entire lifetime of the credit exposure. Stage 2 includes financial instruments which have seen an improvement in credit risk and have been reclassified from Stage 3.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(i) Overview of expected credit losses (continued)
The key inputs into the measurement of ECL are:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD)

For financial assets where the Bank has no reasonable expectation of recovery, either for the full amount of the outstanding amount or part of it, the carrying amount of the financial asset is reduced. It is considered as a (partial) cancellation of the financial assets.

The Bank's internal credit rating system:
The Bank's credit review and evaluation process is governed by the credit rules and policies set out in the Credit Facility Policies. The credit rating of the borrower is a key element in the credit review and evaluation. Consequently, the Bank has developed an internal rating methodology “Arab Bank's Credit Rating System” whereby the customer is evaluated according to the customer’s financial and non-financial criteria. In parallel, the Bank has also implemented the Moody's Risk Analysis System (MRA), a credit rating system issued by Moody's Credit Rating Company, which is based on financial and non-financial criteria for the evaluation of corporate customers and is equivalent to the Arab Bank Classification System. The system has been reviewed by a third party to ensure that the system outputs are properly aligned with the historical data of the bank's customers. Moody's rating system complements the Arab Bank's internal credit rating system and provides a mechanism consistent with Basel guidelines. The Moody's credit rating system is centrally managed by the Risk Management Department at Head Office level. The Corporate Business Department and the Credit Review Department represent the departments used by the system. The rating of customers' risks, whether by using the Arab Bank rating system or Moody's, is annually reviewed upon the annual review of each customer facility.

(ii) Measurement of ECL
The Bank calculates expected credit losses based on the weighted average of four scenarios to measure the expected cash deficit, discounted at an effective interest rate. The cash deficit is the difference between the cash flows due to the Bank in accordance with the contract and the expected cash flows.

The mechanism for calculating expected credit losses and key components is as follows:

- **Probability of default (PD):** The probability of default is an estimate of the probability of default over a certain period of time. Impairment may occur in a specified period during the valuation period.

- **Exposure at default (EAD):** The credit exposure at default is the estimate of the amount outstanding at a future date, taking into account expected changes to the amount after the reporting date, principal and interest, whether scheduled with a contract, expected withdrawals from facilities, or interest payable due to delayed payments.

- **Loss given default (LGD):** The loss given default is an estimate of the loss arising in a situation where the default occurs at a particular time. It represents the difference between the contractual cash flows due and the amount that the lender expects to collect from the existence of collateral. It is usually expressed as a percentage of credit exposure upon default.

In estimating the expected credit losses, the Bank took into account three scenarios (the base scenario, the upside scenario and the downside scenario) , each with different probabilities of default, credit exposure at default, and loss given default. An additional severe downside scenario was used in the prior year to address the impact of Covid-19.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(ii) Measurement of ECL (continued)
The multi-scenario assessment also includes how to recover non-performing loans, including the possibility of recovering non-performing loans and the amount of collaterals or amounts expected to be collected from the sale of collateral.

Except for credit cards and other revolving loans, the maximum period for which credit losses are determined is the contractual life of the financial instruments unless the Bank has the legal right to purchase them in advance.

The mechanisms for calculating expected credit losses are summarized as follows:

- **Stage 1** – The expected credit losses are calculated as the probability of default on the credit exposure within 12 months as part of the expected credit losses on the lifetime of the asset. Accordingly, the Bank calculates the provision for the probability of default of the financial instruments within 12 months after the reporting date. These 12-month defaults are applied to the amount of credit exposure at default multiplied by the loss rate given default, discounted at the effective interest rate. This calculation is made for each of the four scenarios, as described above.

- **Stage 2 –** In the event of a significant increase in credit risk from the date of initial recognition, the Bank calculates an allowance for expected credit loss for the entire lifetime of the credit exposure. The calculation mechanism is similar to the method described above, including the use of different scenarios, but the probability of default and credit exposure at default are used for the entire lifetime of the financial instrument and the expected cash deficit amount is deducted at the effective interest rate.

- **Stage 3** – Financial instruments to which the concept of default applies, the Bank calculates the expected credit loss for the entire lifetime of the credit exposure. The calculation mechanism is similar to that used in stage 2. The probability of default is 100% and the loss rate is assumed to be greater than that applied in stages 1 and 2.

- **Loan commitment and letter of credit –** The ECL related to loan commitments and letters of credit are recognised in other liabilities. When estimating ECLs for undrawn loan commitments, the Branch estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

- **Financial guarantee contract -** The Branches' liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of comprehensive income, and the ECL provision. For this purpose, the Branch estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within other liabilities.

(iii) Forward-looking Expected Credit Losses approach
In the expected credit loss calculation model, the Bank relies on a wide range of future information used as inputs, for example:

- International oil prices
- Equity market indices

The inputs and models used to calculate expected credit losses may not include all market characteristics as at the date of the financial statements. As a result, qualitative adjustments are sometimes made as temporary modifications in case of significant differences.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(iv) Scenarios
Weighted average ECL is calculated considering base case, upside, and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts. During 2020, due to the developments and the abnormal situation resulted from Covid-19, an additional downside scenario was used by the management for calculating the ECL for the year ended 31 December 2020. The Bank updated the macroeconomic factors used for calculating ECL for the year ended 31 December 2021 in addition to changing the probability of weights assigned to the macroeconomic scenarios by giving higher weights to the downside scenario. Further, management adopted a more conservative approach reducing the DPDs in stage 2 to 30 days instead of 45 days.

Scenario (Corporate and Institutional Banking & Treasury)	*Assigned weighted average 31 December 2021*	*Assigned weighted average 31 December 2020*
Base case	**45%**	35%
Upside	**20%**	15%
Downside	**35%**	20%
Severe Downside	**-**	30%

Scenario (Retail Banking)	*Assigned weighted average 31 December 2021*	*Assigned weighted average 31 December 2020*
Base case	**40%**	40%
Upside	**30%**	30%
Downside	**30%**	30%

The most significant period-end assumptions used for ECL estimate as at 31 December 2021 are equity market indices, represented by Abu Dhabi Securities Market General Index (ADSMI) and international oil prices. The scenarios base case, upside and downside were used for Corporate and Institutional Banking and treasury portfolios keeping in view the following principal macroeconomic variables:

Corporate and Institutional Banking & Treasury

Macroeconomic variables	*Scenario*	*Assigned probabilities*	***2021***	*2022*	*2023*	*2024*	*Subsequent years*
ADX General Index (ADSMI)	Base case	45%	**5,089**	5,023	5,090	5,213	5,448
	Upside	20%	**5,089**	5,364	5,366	5,411	5,595
	Downside	35%	**5,089**	3,798	4,372	4,896	5,081
Oil prices (USD per barrel)	Base case	45%	**79**	62	61	62	65
	Upside	20%	**79**	66	67	67	70
	Downside	35%	**79**	37	48	51	56

Retail Banking

Macroeconomic variables	*Scenario*	*Assigned probabilities*	***2021***	*2022*	*2023*	*2024*	*Subsequent years*
ADX General Index (ADSMI)	Base case	40%	**79**	62	61	62	65
	Upside	30%	**79**	66	67	67	70
	Downside	30%	**79**	37	48	51	56
Oil prices (USD per barrel)	Base case	40%	**79**	62	61	62	65
	Upside	30%	**79**	66	67	67	70
	Downside	30%	**79**	37	48	51	56

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(v) Sensitivity analysis
If the macroeconomic variables (defined above) were to change by the base case, upside and downside scenarios, the ECL under stages 1 and 2 will change as follows:

Change in ECL due to change in macroeconomic variables	*Base case*	*Upside*	*Downside*
Stage 1	(17.1%)	(27.1%)	40.7%
Stage 2	(2.8%)	(10.8%)	11.6%

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

Collateral valuation
To mitigate its credit risks on financial assets, the Branches seek to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets and credit enhancements such as netting agreements. The Branches' accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same it was under IAS 39. Collateral, unless foreclosed, is not recorded on the Branches' statement of financial position. However, the fair value of collateral is re-assessed periodically. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Branches uses active market date for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or independent valuers.

Write-offs
Financial assets are written off either partially or in their entirety only when the Branches has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Renegotiated loans and advances
Where possible, the Branches seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously 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.

Derecognition of financial assets
The Branches derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Branches neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Branches recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Branches retain substantially all the risks and rewards of ownership of a transferred financial asset, the Branches continue to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is not reclassified to the income statement, but is reclassified to retained earnings.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Branches manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Branches' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.
- Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of income.

Other financial liabilities
Other financial liabilities, include deposits and balances due to Head Office and its branches abroad, borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Derivative financial instruments
The Branches enters into forward foreign exchange contracts to manage its exposure to fluctuations in exchange rates. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position. For derivatives, which do not qualify for hedge accounting and for "held for trading" derivatives, any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of comprehensive income.

Financial guarantees
Financial guarantee contracts issued by the Branches are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Hedge accounting
As part of its asset and liability management, the Branches use derivatives for hedging purpose.

When derivatives are designated as hedges, the Branches classify them as either:

- fair value hedges which hedge the change in the fair value of recognised assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

(i) Hedge documentation
At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Branches' risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Branches will assess the effectiveness of the hedging relationship on an ongoing basis.

(ii) Hedge effectiveness testing
Hedge effectiveness is measured by the Bank on a prospective basis at inception, as well as retrospectively (where applicable) and prospectively over the term of the hedge relationship.

(iii) Fair value hedge
The changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments is recognised in the income statement.

(iv) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Hedge accounting (continued)

(v) Discontinuance of hedge accounting
The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognised in OCI remains in other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

(vi) Derivatives that do not qualify for hedge accounting
For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the period.

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 Branches intend 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.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and impairment in value, if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of property and equipment. Capital work in progress is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	25
Furniture, information systems and vehicles	3 - 6
Leasehold improvements	10 years or as per lease term (whichever is lower)

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 comprehensive income in the year the asset is derecognised.

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). Subsequent to initial recognition, 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.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Branch uses the incremental borrowing rate, as applicable, at the lease commencement date since 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.

Short-term leases and leases of low-value assets
The Bank applies the short-term lease recognition exemption to its short-term leases of property and equipment (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). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. 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).

Assets held for sale
Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the asset or disposal Branch is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Assets that are classified as held for sale are not depreciated or amortised.

Impairment of non-financial assets
At the end of each reporting period, the Branches review the carrying amounts of their non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Branches estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Bank of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in statement of comprehensive income.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
Provisions are recognised when the Branches have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Branches expect some or all of a provision to be reimbursed, for example, under an insurance contract or through a counter guarantee, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

End of service benefits
With respect to its national employees, the Branches make contributions to a pension fund established by the UAE General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Branches' obligations are limited to these contributions, which are expensed when due.

The Branches provide end of service benefits to its other employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour and National Pension and Social Security Laws.

Contingencies
Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Branches' accounting policies, which are described in Note 2.3, management is required to use certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

b) Fair value of financial instruments not quoted in active markets
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of unquoted financial instruments.

b) Classification and measurement of financial assets
The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Branches' investments in securities are appropriately classified and measured.

2 ACCOUNTING POLICIES (continued)

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Impairment of financial assets

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Branches while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk (SICR)

As per IFRS 9, SICR can be assessed at a collective/portfolio level if common risk characteristics are shared. Any instruments that are assessed collectively must possess shared credit risk characteristics. The Branches has followed the following criteria to determine the ECL calculation at collective basis vs on individual basis as follow:

- Retail Portfolio: on collective basis based on the product level (Loans, Housing Loans, Car Loans, and Credit Cards)
- Corporate Portfolio: individual basis at customer/ facility level
- Financial Institutions: individual basis at Bank/ facility level.
- Debt instruments measured at amortized cost: individual level at instrument level.

To assess whether the credit risk on a financial asset has increased significantly since origination, the Branches compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Branches' existing risk management processes.

The Branches' assessment of significant increases in credit risk is performed periodically for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. Significant increases in credit risk based on movement in the customer's internal credit grade and the related PDs relative to initial recognition against established thresholds.
2. Restructuring and/or Rescheduling on the customers' accounts/ facilities during the assessment period is considered as indicator for SICR.
3. Instruments which are 90 days past due have experienced a significant increase in credit risk as per the Branches' policies. Central Bank of UAE in its instructions requested to apply 90 days past due for significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39, as mentioned in the "Definition of default" below.

Curing criteria – upward ECL stage movement

The curing criteria is in line with UAE Central Bank IFRS 9 guidelines and is considered based on the combination of the following qualitative factors:

- DPD movement
- Probationary period
- Notches of ratings upward movement

From Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL)

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for 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.
- DPD shall be ≤ 30 days over the last 12 months period; and / or
- Upward movement of risk ratings is reflected as per internally defined criteria.

From Stage 3 (Lifetime ECL – credit impaired) to Stage 2 (Lifetime ECL – not credit impaired)

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for a probationary period of 3 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 3 to stage 2.
- DPD shall be <90 days over the last 3 months period; and/or
- Upward movement of risk ratings is reflected as per internally defined criteria.

An exposure cannot be upgraded from Stage 3 to Stage 1 directly and should be upgraded to Stage 2 initially before upgrading to Stage 1 based on the above-mentioned criteria.

2 ACCOUNTING POLICIES (continued)

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

c) Impairment of financial assets (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios
The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment in cooperation with international expert in this area.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

The estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

The base case scenario will be based on macroeconomic forecasts (e.g. stock exchange indices and international oil prices indices etc). Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

Scenarios will be probability-weighted according to the best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default
The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Notwithstanding the above, the classification of credit facilities is governed by the Central Bank of UAE regulations.

The Branches has set out the definition of default where a default is considered to have occurred when either or both of the two following events have taken place:

- The obligor is considered unlikely to pay its credit obligations in full; and
- The obligor is past due for 90 days or more on any material credit obligation

Expected Life
When measuring ECL, the Branches must consider the maximum contractual period over which the Branches are exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Branches are exposed to credit risk and where the credit losses would not be mitigated by management actions.

d) Useful lives of property and equipment
The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

2 ACCOUNTING POLICIES (continued)

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

e) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

- An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

f) Tax liabilities and deferred tax assets

Deductions for loan impairments for UAE tax purposes generally occur when the impaired loan is specifically approved for deduction by UAE tax authority, written off, or if earlier, when the impaired loan is sold. The tax deduction often occurs in periods subsequent to that in which the impairment is recognised for accounting purposes.

As a result, the amount of the associated deferred tax asset should generally move in line with the impairment allowance balance.

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Based on available evidence, it is assessed whether it is probable that all or a portion of the deferred tax assets will be realised, or will not be realised. The main factors which are considered include future earnings potential; cumulative losses in recent years; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset.

g) Employees end of service benefits

The Branches' carried provision for employees end of service benefits based on applicable laws and regulations. The management has determined that provision for employees end of service benefits using actuarial valuation would not be significantly different than carrying amount as the net impact of increase in salaries and discount rate would not be material.

h) Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. 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 that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

2 ACCOUNTING POLICIES (continued)

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

i) Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (‘IBR’) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank ‘would have to pay’, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

j) Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in United Arab Emirates and in other jurisdictions, arising in the ordinary course of the Bank’s business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

For further details on provisions and other contingent liabilities see Notes 21 and 25.

k) Effective Interest Rate (EIR) method

The Bank’s EIR method recognises interest income using a rate of return, as explained in Note 2.3, that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to base rate and other fee income/expense that are integral parts of the instrument.

3 INTEREST INCOME

	2021 AED’000	*2020 AED’000*
Interest income calculated using the effective interest method		
Loans and advances to customers	**378,235**	552,287
Other financial assets – debt instruments	**15,671**	25,294
Due from Banks and Certificates of Deposits with Central Bank of UAE	**6,339**	18,828
	400,245	596,409
Other interest and similar income		
Interest income from derivatives	**9,903**	4,794
Interest expense on derivatives	**(11,103)**	(6,640)
	(1,200)	(1,846)
	399,045	594,563

4 INTEREST EXPENSE

	2021 ***AED'000***	*2020* *AED'000*
Interest expense calculated using the effective interest method		
Customers' and security deposits	**117,876**	212,464
Due to banks	**4,779**	7,694
Interest expense on lease contracts	**303**	808
	122,958	220,966

5 OTHER OPERATING INCOME

	2021 ***AED'000***	*2020* *AED'000*
Fees and commission income		
Over time	**69,576**	79,157
At a point in time	**53,900**	37,627
	123,476	116,784
Commission expense	**(12,209)**	(11,142)
	111,267	105,642
Net foreign currencies exchange income	**44,799**	44,156
Net gain on disposal of loans and advances (Note 12)	**-**	7,752
Others	**8,866**	5,026
	164,932	162,576

Disaggregated revenue information

	For the year ended 31 December 2021 In AED'000		
	Retail banking	***Corporate banking***	***Total***
Fees and commission income			
Fees and commission income earned from services that are provided over time:			
Loan commitment fees	**-**	**18,212**	**18,212**
Trade Finance	**4**	**51,360**	**51,364**
	4	**69,572**	**69,576**
Fees and commission income from services that are provided at a point in time:			
Account services and maintenance	**2,426**	**9,340**	**11,766**
Loan commitment fees	**6,325**	**11,874**	**18,199**
Interchange fees	**17,936**	**-**	**17,936**
Other fees received	**1,222**	**4,777**	**5,999**
	27,909	**25,991**	**53,900**
Total revenue from contracts with customers	**27,913**	**95,563**	**123,476**

5 OTHER OPERATING INCOME (continued)

Disaggregated revenue information (continued)

	For the year ended 31 December 2020 In AED'000		
	Retail banking	*Corporate banking*	*Total*
Fees and commission income			
Fees and commission income earned from services that are provided over time:			
Loan commitment fees	-	18,341	18,341
Trade Finance	6	60,810	60,816
	6	79,151	79,157
Fees and commission income from services that are provided at a point in time:			
Account services and maintenance	2,032	8,991	11,023
Loan commitment fees	8,802	-	8,802
Custody fees	-	21	21
Interchange fees	13,088	-	13,088
Other fees received	536	4,157	4,693
	24,458	13,169	37,627
Total revenue from contracts with customers	24,464	92,320	116,784

6 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

The charge for the net impairment allowances in the statement of comprehensive income comprises of the following:

	2021 AED'000	*2020 AED'000*
Provision for expected credit losses:		
Specific (Stage 3, see i below)	**507,835**	478,527
Collective (Stage 1 and 2, see ii below)	**(27,961)**	19,747
	479,874	498,274

i) Provisions against impaired loans and advances, net (Stage 3)/Specific provision

	2021 AED'000	*2020 AED'000*
Charge for specific impairment allowance (see note 11(g) & 25(f))	**558,026**	493,153
Reversal upon recoveries (see note 11(g) & 25(f))	**(49,778)**	(14,292)
Recoveries from written off loans and advances	**(413)**	(334)
	507,835	478,527

6 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (continued)

ii) Provisions against impaired loans and advances, net (Stage 1 &2)/Collective provision

	2021 AED'000	*2020 AED'000*
Charge for collective impairment allowance	**23,432**	64,956
Reversal upon recoveries	**(51,393)**	(45,209)
	(27,961)	19,747

iii) Expected credit losses (Stage 1 and 2)

	2021 AED'000	*2020 AED'000*
Loans and advances, net (note 11 (h))	**(26,018)**	19,618
Other financial assets, at amortised cost (note 11 (h))	**2,211**	(1,036)
Due from banks (note 11 (h))	**(73)**	158
Indirect facilities (note 11 (h))	**(4,081)**	1,007
	(27,961)	19,747

(iv) The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

31 December 2021 In AED'000	***Notes***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Due from banks	9(a)	**(73)**	**-**	**-**	**(73)**
Loans and advances to customers	11	**(26,863)**	**845**	**507,835**	**481,817**
Debt instruments measured at amortised cost	12	**2,211**	**-**	**-**	**2,211**
Financial guarantees	11	**(1,107)**	**(102)**	**-**	**(1,209)**
Letters of credit	11	**(506)**	**(39)**	**-**	**(545)**
Other undrawn commitments	11	**(2,010)**	**(317)**	**-**	**(2,327)**
Total Impairment loss		**(28,348)**	**387**	**507,835**	**479,874**

31 December 2020 In AED'000	*Notes*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Due from banks	9(a)	158	-	-	158
Loans and advances to customers	11	11,378	8,240	478,527	498,145
Debt instruments measured at amortised cost	12	(1,036)	-	-	(1,036)
Financial guarantees	11	803	(158)	-	645
Letters of credit	11	74	(13)	-	61
Other undrawn commitments	11	208	93	-	301
Total Impairment loss		11,585	8,162	478,527	498,274

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2021 AED'000	*2020 AED'000*
Salaries and benefits	**92,679**	116,726
Head Office charges (see note 28)	**30,104**	36,283
Services expenses (see note 7a)	**22,983**	23,665
Operating leases, utilities and related expenses	**8,506**	8,771
IT services related expenses (see note 7b)	**10,632**	11,584
Others	**37,485**	34,757
	202,389	231,786

a) Services expenses represent cost of transaction processing and back-office support activities recharged to the Branches by Arab Company for Shared Services FZ - LLC (a 100% owned subsidiary of the Head office) (see note 28).

b) IT related expenses represent cost of IT support services recharged to the Branches by Arab Gulf-Tech for IT Services FZ-LLC (a 100% owned subsidiary of the Head office) (see note 28).

c) The social contributions (including donations and charity) made during the year ended 31 December 2021 amount to AED Nil (2020: AED Nil).

8 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE

	2021 AED'000	*2020 AED'000*
Cash on hand	**98,954**	63,954
Balances with the Central Bank of UAE:		
- Current accounts	**17,493**	16,407
- Overnight deposits	**1,380,000**	1,400,000
- Certificates of deposit (see note a)	**-**	1,100,000
- Statutory reserves (see note b)	**664,737**	786,936
Less: ECL collective provision	**-**	-
	2,161,184	3,367,297

a) As at 31 December 2021, there were no certificates of deposit with Central Bank of UAE, with an original maturity of more than 3 months (2020: AED Nil). Certification of deposits amounting to AED 300,000 thousand were encashed during 2020. There were no amounts (2020: AED 156,683 thousand) (Note 16) was encumbered and pledged as collateral against repurchase agreements with CBUAE pertaining to TESS zero cost facilities.

b) Statutory reserves are not available for use in the Bank's day to day operations and cannot be withdrawn without the prior approval of the Central Bank of UAE. The level of reserves required changes periodically in accordance with the directives of the Central Bank of UAE.

Cash and cash equivalents with the Central Bank of UAE were classified as Stage 1 financial assets throughout the year.

9 DUE FROM BANKS

	2021 AED'000	*2020 AED'000*
Current account	**784,030**	780,475
Time deposits	**837,564**	2,079,767
	1,621,594	2,860,242
Less: Provision for expected credit loss (see note a below)	**(294)**	(367)
	1,621,300	2,859,875

a) An analysis of the movement for provision for impairment is as follows:

	2021 AED'000	*2020 AED'000*
At 1 January	**367**	209
Provided during the year	**(73)**	158
At 31 December	**294**	367

b) Following is the geographical distribution of due from banks:

	2021 AED'000	*2020 AED'000*
Banks in the U.A.E.	**16,538**	1,178,387
Banks abroad	**1,259,696**	1,340,314
Related parties – abroad	**345,066**	341,174
	1,621,300	2,859,875

c) As at 31 December 2021, there were no time deposits with an original maturity of more than 3 months (2020: Nil).

d) Gross Exposure by credit rating (for due from banks):

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's impairment assessment and measurement approach is set out in Note 2.3 and 33.

	2021 AED'000	*2020 AED'000*
Rated Aaa to Aa3	**395,532**	861,224
Rated A1 to A3	**474,531**	1,505,064
Rated Baa1 to Baa3	**221,723**	150,782
Rated below Baa3 and unrated - others	**529,808**	343,172
	1,621,594	2,860,242

9 DUE FROM BANKS (continued)

e) Gross Exposure by Internal Rating (of due from banks):

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in Note 33 (a) and the Bank's impairment assessment and measurement approach is set out in Note 2.3 and 33.

In AED'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Internal rating grade				
Performing				
1	**-**	**-**	**-**	**-**
2	**395,532**	**-**	**-**	**395,532**
3	**474,531**	**-**	**-**	**474,531**
4	**221,724**	**-**		**221,724**
5	**176,805**	**-**	**-**	**176,805**
6	**-**	**-**	**-**	**-**
7	**-**	**-**	**-**	**-**
Unrated	**353,002**	**-**	**-**	**353,002**
At 31 December 2021	**1,621,594**	**-**	**-**	**1,621,594**

In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Internal rating grade				
Performing				
1	-	-	-	-
2	861,224	-	-	861,224
3	1,505,064	-	-	1,505,064
4	150,782	-	-	150,782
5	3,459	-	-	3,459
6	-	-	-	-
7	-	-	-	-
Unrated	339,713	-	-	339,713
At 31 December 2020	2,860,242	-	-	2,860,242

9 DUE FROM BANKS (continued)

f) A reconciliation of changes in gross carrying amount and corresponding ECL allowances by stage for due from banks is, as follows:

In AED'000

	Stage 1		***Stage 2***		***Stage 3***		***Total***	
	Outstanding exposure	***ECL***	***Outstanding exposure***	***ECL***	***Outstanding exposure***	***ECL***	***Outstanding exposure***	***ECL***
1 January 2021	**2,860,242**	**367**	**-**	**-**	**-**	**-**	**2,860,242**	**367**
New assets originated or purchased	**77,048,277**	**(73)**	**-**	**-**	**-**	**-**	**77,048,277**	**(73)**
Payments and assets derecognised	**(78,286,925)**	**-**	**-**	**-**	**-**	**-**	**(78,286,925)**	**-**
At 31 December 2021	**1,621,594**	**294**	**-**	**-**	**-**	**-**	**1,621,594**	**294**

In *AED'000*

	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Outstanding exposure	*ECL*	*Outstanding exposure*	*ECL*	*Outstanding exposure*	*ECL*	*Outstanding exposure*	*ECL*
1 January 2020	1,588,812	209	-	-	-	-	1,588,812	209
New assets originated or purchased	153,010,380	158	-	-	-	-	153,010,380	158
Payments and assets derecognised	(151,738,950)	-	-	-	-	-	(151,738,950)	-
At 31 December 2020	2,860,242	367	-	-	-	-	2,860,242	367

10 DUE FROM HEAD OFFICE AND ITS BRANCHES ABROAD

	2021 AED'000	*2020 AED'000*
Current accounts	**48,238**	53,822
Time deposits	**138,320**	231,354
	186,558	285,176

Due from Head Office and its branches abroad are classified as Stage 1 financial assets, with no provision.

11 LOANS AND ADVANCES, NET

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

a) By type:

	2021 AED'000	*2020 AED'000*
Overdrafts	**2,525,627**	3,250,647
Loans	**8,413,828**	8,712,637
Bills discounted	**178,031**	362,933
Credit cards	**41,135**	47,413
Loans and advances, gross	**11,158,621**	12,373,630
Less: Interest in suspense (see note g)	**(255,960)**	(214,454)
Specific provisions for impairment (Stage 3) (see note g)	**(1,638,756)**	(1,172,087)
ECL collective impairment provision for on-balance sheet (Stage 1 and 2) (see note h)	**(52,705)**	(151,971)
Loans and advances, net	**9,211,200**	10,835,118

b) By economic sector (Gross):

	2021 AED'000	*2020 AED'000*
Trading	**1,992,467**	2,529,180
Manufacturing	**1,480,343**	1,912,918
Construction	**1,535,132**	1,904,650
Real estate	**1,310,332**	1,787,324
Retail loans	**1,638,363**	1,561,815
Services	**1,529,692**	1,184,858
Transportation, storing and communication	**511,710**	578,969
Government	**806,650**	500,000
Others	**353,932**	413,916
	11,158,621	12,373,630

c) By classification (Gross):

	2021 AED'000	*2020 AED'000*
Corporate	**9,520,258**	10,811,815
Retail	**1,638,363**	1,561,815
	11,158,621	12,373,630

11 LOANS AND ADVANCES, NET (continued)

d) As at 31 December 2021, the total value of non-performing loans and advances, for which interest has been suspended amounted to AED 2,019 million. (2020: AED 1,891 million) (see note 33a).

e) As at 31 December 2021, loans and advances include AED 263 million (2020: AED 366 million) of loans and advances that are past due but not impaired.

f) The Branches do not hold any significant loans and advances outside the Middle East region.

g) Loans and advances are stated net of interest in suspense and allowance for expected credit loss (stage 1, 2 & 3). The movements for interest in suspense and allowance for expected credit loss (stage 3) are as follows:

	31 December 2021		*31 December 2020*	
	Interest in suspense AED'000	***Allowance for expected credit loss (stage 3) AED'000***	*Interest in suspense AED'000*	*Allowance for expected credit loss (stage 3) AED'000*
At 1 January	**214,454**	**1,172,087**	173,534	655,193
Suspended/provided during the year (see note 6)	**105,996**	**557,626**	82,309	493,153
Reversal upon recoveries (see note 6)	**(2,139)**	**(49,378)**	(40,831)	(14,292)
Amounts written off during the year	**(62,351)**	**(114,827)**	(558)	(140)
Transfers from other stages	**-**	**73,248**	-	38,173
At 31 December	**255,960**	**1,638,756**	214,454	1,172,087

h) The movement in the allowance for ECL for stage 1 & 2 is as follows:

	Loans & Advances AED'000 (note 11 (a))	***Off-Balance Sheet AED'000 (note 20)***	***Other financial asssets AED'000 (notes 9 & 12)***	***Total AED'000***
At 1 January	**151,971**	**7,198**	**1,113**	**160,282**
Provided during the year, net (see note 6)	**19,760**	**1,461**	**2,211**	**23,432**
Released during the year	**(45,778)**	**(5,542)**	**(73)**	**(51,393)**
Transfers to stage 3 (see note l below)	**(73,248)**	**(5)**	**-**	**(73,253)**
At 31 December 2021	**52,705**	**3,112**	**3,251**	**59,068**

	Loans & Advances AED'000 (note 11 (a))	*Off-Balance Sheet AED'000 (note 20)*	*Other financial asssets AED'000 (notes 9 & 12)*	*Total AED'000*
At 1 January	170,527	6,280	1,991	178,798
Provided during the year, net (see note 6)	59,863	4,935	158	64,956
Released during the year	(40,245)	(3,928)	(1,036)	(45,209)
Transfers to stage 3 (see note l below)	(38,174)	(89)	-	(38,263)
At 31 December 2020	151,971	7,198	1,113	160,282

11 LOANS AND ADVANCES, NET (continued)

i) The movement in impairment reserve against specific provision and collective provision is as follows:

	Specific provision AED'000	***Collective provision AED'000***	***Total AED'000***
As at 1 January 2021	**-**	**59,179**	**59,179**
Shortfall transferred from retained earnings	**-**	**68,068**	**68,068**
At 31 December 2021 (see note 33(a))	**-**	**127,247**	**127,247**

	Specific provision AED'000	*Collective provision AED'000*	*Total AED'000*
As at 1 January 2020	-	66,879	66,879
Excess transferred to retained earnings	-	(7,700)	(7,700)
At 31 December 2020 (see note 33(a))	-	59,179	59,179

j) An analysis of changes in the gross carrying amount in relation to loans and advances is as follows:

	2021			
In AED'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January	**9,457,957**	**1,025,109**	**1,890,564**	**12,373,630**
New assets originated	**1,459,300**	**6,849**	**204,609**	**1,670,758**
Assets derecognised or repaid (excluding write offs)	**(2,319,765)**	**(339,958)**	**(48,868)**	**(2,708,591)**
Transfers to Stage1	**230,793**	**(230,793)**	**-**	**-**
Transfers to Stage 2	**(538,249)**	**538,249**	**-**	**-**
Transfers to Stage 3	**(47,409)**	**(102,601)**	**150,010**	**-**
Amounts written off	**-**	**-**	**(177,176)**	**(177,176)**
At 31 December 2021	**8,242,627**	**896,855**	**2,019,139**	**11,158,621**

	2020			
In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January	10,529,950	1,330,387	883,452	12,743,789
New assets originated	1,618,304	39,373	129,407	1,787,084
Assets derecognised or repaid (excluding write offs)	(1,688,905)	(454,340)	(13,832)	(2,157,077)
Transfers to Stage 1	217,480	(217,480)	-	-
Transfers to Stage 2	(657,308)	657,308	-	-
Transfers to Stage 3	(561,564)	(330,139)	891,703	-
Amounts written off	-	-	(166)	(166)
At 31 December 2021	9,457,957	1,025,109	1,890,564	12,373,630

11 LOANS AND ADVANCES, NET (continued)

k) An analysis of movement in the provision for impairment for loans and advances is as follows:

		2021		
In AED'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January	**54,960**	**97,012**	**1,172,087**	**1,324,059**
Net charge for the year	**7,750**	**6,233**	**557,626**	**571,609**
Recoveries from repaid / derecognized facilities	**(34,614)**	**(5,389)**	**(49,377)**	**(89,380)**
Transfers to Stage 1	**1,107**	**(1,107)**	**-**	**-**
Transfers to Stage 2	**(3,116)**	**3,116**	**-**	**-**
Transfers to Stage 3	**(116)**	**(73,131)**	**73,247**	**-**
Adjustments during the period	**-**	**-**	**-**	**-**
Amounts written off	**-**	**-**	**(114,827)**	**(114,827)**
At 31 December 2021	**25,971**	**26,734**	**1,638,756**	**1,691,461**

		2020		
In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January	42,973	127,554	655,193	825,720
Net charge for the year	20,633	39,200	493,153	552,986
Recoveries from repaid / derecognized facilities	(9,256)	(30,960)	(14,292)	(54,508)
Transfers to Stage 1	4,496	(4,496)	-	-
Transfers to Stage 2	(1,455)	1,455	-	-
Transfers to Stage 3	(2,431)	(35,742)	38,173	-
Adjustments during the period	-	-	-	-
Amounts written off	-	-	(140)	(140)
At 31 December 2020	54,960	97,011	1,172,087	1,324,058

l) Set out below is an analysis of the loans and advances portfolio as per internal rating grade:

In AED'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Internal rating grade				
Performing				
1	**1,147**	**-**	**-**	**1,147**
2	**81,649**	**-**	**-**	**81,649**
3	**578,406**	**-**	**-**	**578,406**
4	**4,829,247**	**166,735**	**-**	**4,995,982**
5	**1,218,910**	**270,622**	**-**	**1,489,532**
6	**48,910**	**323,113**	**-**	**372,023**
7	**9**	**88,492**	**-**	**88,501**
Unrated	**1,484,349**	**47,891**	**115,585**	**1,647,825**
Non-performing				
Individually impaired	**-**	**-**	**1,903,556**	**1,903,556**
At 31 December 2021	**8,242,627**	**896,853**	**2,019,141**	**11,158,621**

11 LOANS AND ADVANCES, NET (continued)

l) Set out below is an analysis of the loans and advances portfolio as per internal rating grade: (continued)

In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Internal rating grade				
Performing				
1	-	-	-	-
2	-	-	-	-
3	935,772	88,804	-	1,024,576
4	4,876,803	355,710	-	5,232,513
5	2,135,728	149,087	-	2,284,815
6	40,385	235,368	-	275,753
7	7	155,098	-	155,105
Unrated	1,469,262	41,042	130,545	1,640,849
Non-performing				
Individually impaired	-	-	1,760,019	1,760,019
At 31 December 2020	9,457,957	1,025,109	1,890,564	12,373,630

11 LOANS AND ADVANCES, NET (continued)

m) Set out below is an analysis of the loans and advances portfolio and provision migrations during the year:

	Non-credit impaired				*Credit Impaired*			
	Stage 1		***Stage 2***		***Stage 3***		***Total***	
	Exposure	*Impairment Allowance*	*Exposure*	*Impairment Allowance*	*Exposure*	*Impairment Allowance*	*Exposure*	*Impairment Allowance*
Retail banking loans								
As at 1 January 2021	**1,390,229**	**7,701**	**41,042**	**4,207**	**130,544**	**92,368**	**1,561,815**	**104,276**
Transfers from stage 1 to stage 2	-	-	-	-	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-	-	-	-
Transfers from 1&2 to stage 3	-	-	-	-	-	-	-	-
Transfers from stage 3 to stage 2	-	-	-	-	-	-	-	-
Other movements	**84,659**	**(1,190)**	**6,849**	**1,611**	**19,069**	**7,246**	**110,577**	**7,667**
Written-off	-	-	-	-	**(34,029)**	**(20,476)**	**(34,029)**	**(20,476)**
Total Retail	**1,474,888**	**6,511**	**47,891**	**5,818**	**115,584**	**79,138**	**1,638,363**	**91,467**
Corporate & Institutional Banking loans:								
As at 1 January 2021	**8,067,728**	**47,258**	**984,067**	**92,805**	**1,760,020**	**1,079,719**	**10,811,815**	**1,219,782**
Transfers from stage 1 to stage 2	**(538,248)**	**(3,116)**	**538,248**	**3,116**	-	-	-	-
Transfers from stage 2 to stage 1	**230,793**	**1,107**	**(230,793)**	**(1,107)**	-	-	-	-
Transfers from 1&2 to stage 3	**(47,410)**	**(116)**	**(102,603)**	**(73,131)**	**150,013**	**73,247**	-	-
Transfers from stage 3 to stage 2	-	-	-	-	-	-	-	-
Other movements	**(928,383)**	**(25,673)**	**(339,957)**	**(768)**	**136,670**	**501,004**	**(1,131,670)**	**474,563**
Written-off	-	-	-	-	**(143,147)**	**(94,351)**	**(143,147)**	**(94,351)**
Total Corporate & Institutional Banking	**6,784,480**	**19,460**	**848,962**	**20,915**	**1,903,556**	**1,559,619**	**9,536,998**	**1,599,994**
As at 31 December 2021	**8,259,368**	**25,971**	**896,853**	**26,733**	**2,019,140**	**1,638,757**	**11,175,361**	**1,691,461**

11 LOANS AND ADVANCES, NET (continued)

m) Set out below is an analysis of the loans and advances portfolio and provision migrations during the year: (continued)

	Non-credit impaired				*Credit Impaired*			
	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Exposure	*Impairment Allowance*	*Exposure*	*Impairment Allowance*	*Exposure*	*Impairment Allowance*	*Exposure*	*Impairment Allowance*
Retail banking loans								
As at 1 January 2020	1,433,466	7,208	25,567	4,379	95,995	59,828	1,555,028	71,415
Transfers from stage 1 to stage 2	-	-	-	-	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-	-	-	-
Transfers from 1&2 to stage 3	-	-	-	-	-	-	-	-
Transfers from stage 3 to stage 2	-	-	-	-	-	-	-	-
Other movements	(43,237)	493	15,475	(172)	34,715	32,679	6,953	33,000
Written-off	-	-	-	-	(166)	(139)	(166)	(139)
Total Retail	1,390,229	7,701	41,042	4,207	130,544	92,368	1,561,815	104,276
Corporate & Institutional Banking loans:								
As at 1 January 2020	9,096,484	35,766	1,304,820	123,176	787,457	595,363	11,188,761	754,305
Transfers from stage 1 to stage 2	(657,308)	(1,455)	657,308	1,455	-	-	-	-
Transfers from stage 2 to stage 1	217,480	4,496	(217,480)	(4,496)	-	-	-	-
Transfers from 1&2 to stage 3	(561,564)	(2,431)	(330,139)	(35,742)	891,703	38,173	-	-
Transfers from stage 3 to stage 2	-	-	-	-	-	-	-	-
Other movements	(27,364)	10,882	(430,442)	8,412	80,860	446,183	(376,946)	465,477
Written-off	-	-	-	-	-	-	-	-
Total Corporate & Institutional Banking	8,067,728	47,258	984,067	92,805	1,760,020	1,079,719	10,811,815	1,219,782
As at 31 December 2020	9,457,957	54,959	1,025,109	97,012	1,890,564	1,172,087	12,373,630	1,324,058

11 LOANS AND ADVANCES, NET (continued)

n) The tables below summarise the ageing of stage 2 and stage 3 corporate loans respectively, as follows:

- Stage 2 – loans less than 30 days past due (dpd) and loans greater than 30 dpd irrespective of the criteria that triggered their classification in Stage 2).
- Stage 3 – loans less than 90 dpd and loans greater than 90 dpd, thus presenting the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures are further analysed to indicate those which are no longer credit impaired but in cure period that precedes transfer to stage 2.

In AED'000	***Stage 2***		***Stage3***		***Total***	
31 December 2021	***Gross carrying amount***	***ECL***	***Gross carrying amount***	***ECL***	***Gross carrying amount***	***ECL***
Less than:						
30 dpd (for stage 2)	**803,251**	**17,534**	**-**	**-**	**803,251**	**17,534**
90 dpd (for stage 3)	-	-	-	-	-	-
More than:						
30 dpd (for stage 2)	**93,604**	**9,200**	**-**	**-**	**93,604**	**9,200**
90 dpd (for stage 3)	-	-	**2,019,139**	**1,638,363**	**2,019,139**	**1,638,363**
Total	**896,855**	**26,734**	**2,019,139**	**1,638,363**	**2,915,994**	**1,665,097**
Breakdown of stage 3 exposures:						
No longer impaired but in cure period			-	-		
Other			**2,019,139**	**1,638,363**		
Total			**2,019,139**	**1,638,363**		

In AED'000	*Stage 2*		*Stage3*		*Total*	
31 December 2020	*Gross carrying amount*	*ECL*	*Gross carrying amount*	*ECL*	*Gross carrying amount*	*ECL*
Less than:						
30 dpd (for stage 2)	894,921	86,380	-	-	894,921	86,380
90 dpd (for stage 3)	-	-	373,064	155,087	373,064	155,087
More than:						
30 dpd (for stage 2)	130,188	10,632	-	-	130,188	10,632
90 dpd (for stage 3)	-	-	1,517,500	1,017,000	1,517,500	1,017,000
Total	1,025,109	97,012	1,890,564	1,172,087	2,915,673	1,269,099
Breakdown of stage 3 exposures:						
No longer impaired but in cure period			-	-		
Other			1,890,564	1,172,087		
Total			1,890,564	1,172,087		

11 LOANS AND ADVANCES, NET (continued)

o) Set out below is an analysis of the loans and advances ECL coverage ratio per segment and geographic distribution:

31 December 2021 **In AED '000s**	*Gross carrying amount*				*Allowance for ECL*				*ECL Coverage %*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Loans and advances to customers												
Retail Banking												
Credit Cards	**31,756**	**342**	**9,037**	**41,135**	**2,735**	**-**	**5,502**	**8,237**	**9%**	**0%**	**61%**	**20%**
Housing Loans	**915,760**	**26,913**	**46,521**	**989,194**	**204**	**486**	**23,030**	**23,720**	**0%**	**2%**	**50%**	**2%**
Personal Loans	**475,378**	**19,508**	**57,463**	**552,349**	**3,361**	**5,199**	**48,882**	**57,442**	**1%**	**27%**	**85%**	**10%**
Auto Loans	**39,338**	**1,128**	**2,524**	**42,990**	**211**	**133**	**1,688**	**2,032**	**1%**	**12%**	**67%**	**5%**
Others	**12,656**	**-**	**39**	**12,695**	**-**	**-**	**36**	**36**	**0%**	**0%**	**92%**	**0%**
Total	**1,474,888**	**47,891**	**115,584**	**1,638,363**	**6,511**	**5,818**	**79,138**	**91,467**	**0%**	**12%**	**68%**	**6%**
Corporate and Institutional Banking:												
Emirates												
Governments	**1,095,000**	**-**	**-**	**1,095,000**	**1,415**	**-**	**-**	**1,415**	**0%**	**0%**	**0%**	**0%**
GREs	**100,184**	**-**	**-**	**100,184**	**33**	**-**	**-**	**33**	**0%**	**0%**	**0%**	**0%**
Other Corporates	**4,346,298**	**678,175**	**1,615,828**	**6,640,301**	**15,138**	**18,476**	**1,360,175**	**1,393,789**	**0%**	**3%**	**84%**	**21%**
High Net Worth Individuals	**633,286**	**31,123**	**5,150**	**669,559**	**1,899**	**470**	**4,360**	**6,729**	**0%**	**2%**	**85%**	**1%**
SMEs	**609,712**	**139,664**	**282,578**	**1,031,954**	**975**	**1,969**	**195,084**	**198,028**	**0%**	**1%**	**69%**	**19%**
Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0%**	**0%**	**0%**	**0%**
Total	**6,784,480**	**848,962**	**1,903,556**	**9,536,998**	**19,460**	**20,915**	**1,559,619**	**1,599,994**	**0%**	**2%**	**82%**	**17%**
Grand Total	**8,259,368**	**896,853**	**2,019,140**	**11,175,361**	**25,971**	**26,733**	**1,638,757**	**1,691,461**	**0%**	**3%**	**81%**	**15%**
Per region												
UAE	**8,235,673**	**896,853**	**2,019,140**	**11,151,666**	**25,891**	**26,733**	**1,638,757**	**1,691,381**	**0%**	**3%**	**81%**	**15%**
GCC countries	**23,695**	**-**	**-**	**23,695**	**80**	**-**	**-**	**80**	**0%**	**0%**	**0%**	**0%**
Europe	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0%**	**0%**	**0%**	**0%**
Total	**8,259,368**	**896,853**	**2,019,140**	**11,175,361**	**25,971**	**26,733**	**1,638,757**	**1,691,461**	**0%**	**3%**	**81%**	**15%**

11 LOANS AND ADVANCES, NET (continued)

o) Set out below is an analysis of the loans and advances ECL coverage ratio per segment and geographic distribution: (continued)

31 December 2020

In AED ‘000s	*Gross carrying amount*				*Allowance for ECL*				*ECL Coverage %*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Loans and advances to customers												
Retail Banking												
Credit Cards	29,931	1,139	16,343	47,413	806	265	8,435	9,506	3%	23%	52%	20%
Housing Loans	796,274	27,961	40,039	864,274	329	774	20,322	21,425	0%	3%	51%	2%
Personal Loans	511,768	11,183	70,338	593,289	5,618	3,080	60,343	69,041	1%	28%	86%	12%
Auto Loans	42,413	759	3,812	46,984	948	88	3,258	4,294	2%	12%	85%	9%
Others	9,843	-	12	9,855	-	-	10	10	0%	0%	83%	0%
Total	1,390,229	41,042	130,544	1,561,815	7,701	4,207	92,368	104,276	1%	10%	71%	7%
Corporate and Institutional Banking:												
Emirates Governments	500,000	-	-	500,000	117	-	-	117	0%	0%	0%	0%
GREs	24,641	-	-	24,641	88	-	-	88	0%	0%	0%	0%
Other Corporates	5,734,795	747,744	1,572,086	8,054,625	40,850	86,512	992,258	1,119,620	1%	12%	63%	14%
High Net Worth Individuals	736,653	121,408	4,982	863,043	3,358	1,913	4,450	9,721	0%	2%	89%	1%
SMEs	756,472	109,174	114,496	980,142	2,845	4,380	82,010	89,235	0%	4%	72%	9%
Others	315,167	5,741	68,456	389,364	-	-	1,001	1,001	0%	0%	1%	0%
Total	8,067,728	984,067	1,760,020	10,811,815	47,258	92,805	1,079,719	1,219,782	1%	9%	61%	11%
Grand Total	9,457,957	1,025,109	1,890,564	12,373,630	54,959	97,012	1,172,087	1,324,058	1%	9%	62%	11%
Per region												
UAE	9,400,298	1,025,109	1,890,564	12,373,630	53,480	97,012	1,172,087	1,324,058	1%	9%	62%	11%
GCC countries	45,723	-	-	228	-	-	-	-	0%	0%	0%	0%
Europe	11,936	-	-	-	1,251	-	-	-	10%	0%	0%	0%
Total	9,457,957	1,025,109	1,890,564	12,373,630	54,959	97,012	1,172,087	1,324,058	1%	9%	62%	11%

12 OTHER FINANCIAL ASSETS

The analysis of the Branches' other financial assets as at 31 December is as follows:

	2021 AED'000	*2020 AED'000*
Measured at FVTOCI		
Unquoted equities	**2,641**	2,648
Measured at amortised cost		
Quoted bonds	**1,672,737**	830,482
Measured at amortised cost		
Treasury Bills	**2,288,818**	-
	3,964,196	833,130
Less: ECL collective provision	**(2,956)**	(745)
	3,961,240	832,385

a) An analysis of the movement in the provision for impairment is as follows:

	2021 AED'000	*2020 AED'000*
At 1 January	**745**	1,782
Provided during the year	**2,211**	-
Released during the year	**-**	(1,037)
At 31 December	**2,956**	745

Other financial assets were classified as Stage 1 financial assets throughout the year.

b) By geographical area (Gross):

	2021 AED'000	*2020 AED'000*
Within UAE	**3,031,450**	540,374
Outside UAE	**932,746**	292,756
	3,964,196	833,130
Less: ECL collective provision	**(2,956)**	(745)
	3,961,240	832,385

c) By economic sector:

	2021 AED'000	*2020 AED'000*
Government and public sector	**2,843,632**	18,324
Trade and business sector	**131,179**	2,648
Financial institutions	**989,385**	812,158
	3,964,196	833,130
Less: ECL collective provision	**(2,956)**	(745)
	3,961,240	832,385

12 OTHER FINANCIAL ASSETS (continued)

d) By credit rating (for debt securities) (Gross):

	2021 AED'000	*2020 AED'000*
Rated Aaa to Aa3	**2,508,772**	44,049
Rated A1 to A3	**832,185**	782,777
Rated Baa1 to Baa3	**65,784**	3,656
Rated below Baa3 and unrated - Government	**554,814**	-
	3,961,555	830,482
Less: ECL collective provision	**(2,956)**	(745)
	3,958,599	829,737

The above represents approved rating from External Credit Assessment Institutions (ECAI) as per Basel III Pillar 3 guidelines.

e) Movement in gross carrying value of other financial assets:

31 December 2021	***Measured at amortised cost AED'000***	***Measured at FVTPL AED'000***	***Measured at FVTOCI AED'000***	***Total AED'000***
At 1 January 2021	**830,482**	**-**	**2,648**	**833,130**
Purchases during the year	**10,672,217**	**-**	**-**	**10,672,217**
Matured/disposed during the year	**(7,525,493)**	**-**	**-**	**(7,525,493)**
Change in fair value	**-**	**-**	**(7)**	**(7)**
Accrued interest and amortisation	**(15,651)**	**-**	**-**	**(15,651)**
	3,961,555	**-**	**2,641**	**3,964,196**
Less: ECL collective provision	**(2,956)**	**-**	**-**	**(2,956)**
At 31 December 2021	**3,958,599**	**-**	**2,641**	**3,961,240**

31 December 2020	*Measured at amortised cost AED'000*	*Measured at FVTPL AED'000*	*Measured at FVTOCI AED'000*	*Total AED'000*
At 1 January 2020	1,979,606	108,830	2,606	2,091,042
Purchases during the year	1,407,639	-	-	1,407,639
Matured/disposed during the year	(2,552,853)	(108,830)	-	(2,661,683)
Change in fair value	-	-	42	42
Accrued interest and amortisation	(3,910)	-	-	(3,910)
	830,482	-	2,648	833,130
Less: ECL collective provision	(745)	-	-	(745)
At 31 December 2020	829,737	-	2,648	832,385

13 OTHER ASSETS

	2021 AED'000	*2020 AED'000*
Interest receivable	**41,532**	24,429
Bankers' acceptances (notes 20 and 25(d))	**325,779**	274,471
Derivative financial assets (note 26)	**5,944**	214
Prepayments	**6,439**	7,360
Other receivables	**20,123**	16,422
	399,817	322,896

14 DEFERRED TAX ASSETS

Tax Authorities in UAE review the tax calculation of the Branches on a periodic basis. As a result of the review, Tax Authorities do not allow certain allowance for expected credit losses/impairment against financial assets as tax deductible, based on their assessment. These disallowed amounts create a temporary difference in the tax base resulting in deferred tax assets, which will be utilised when Tax Authorities accept to allow the before mentioned allowances as tax deductible for purpose of taxable profit.

Following is the movement in each of the non-deductible items resulting in temporary differences:

AED'000	***31 December 2021***					*31 December 2020*				
	Impairment allowance for loans and advances to customers (Stage 3)	***Allowance for ECL collective provision (stage 1 & 2)***	***Suspended interest***	***Others***	***Total***	*Impairment allowance for loans and advances to customers (Stage 3)*	*Allowance for ECL collective provision (stage 1 & 2)*	*Suspended interest*	*Others*	*Total*
As at 1 January	**1,143,275**	**160,282**	**197,254**	**1,138**	**1,501,949**	628,821	178,798	151,512	1,138	960,269
Additions	**459,205**	**23,432**	**106,158**	**10,893**	**599,688**	493,153	64,956	79,592	-	637,701
Release	**(49,778)**	**(51,393)**	**(2,492)**	**-**	**(103,663)**	(14,292)	(45,209)	(18,039)	-	(77,540)
Write-offs	**(114,589)**	**-**	**(53,325)**	**-**	**(167,914)**	(2,670)	-	(15,811)	-	(18,481)
Other adjustments	**1,119**	**-**	**(1,119)**	**-**	**-**	-	-	-	-	-
Transfers to/from other stages	**73,253**	**(73,253)**	**-**	**-**	**-**	38,263	(38,263)	-	-	-
As at 31 December	**1,512,485**	**59,068**	**246,476**	**12,031**	**1,830,060**	1,143,275	160,282	197,254	1,138	1,501,949

14 DEFERRED TAX ASSETS (continued)

AED'000	***31 December 2021***					*31 December 2020*				
Deferred tax movement	***Impairment allowance for loans and advances to customers***	***Allowance for ECL collective provision***	***Suspended interest***	***Others***	***Total***	*Impairment allowance for loans and advances to customers*	*Recognition on transition to IFRS 9*	*Suspended interest*	*Others*	*Total*
As at 1 January	**228,658**	**32,056**	**39,451**	**228**	**300,393**	125,766	35,760	30,303	228	192,057
Transferred to statement of income for the year (note 21 (b))	**58,968**	**(5,592)**	**10,069**	**2,178**	**65,623**	95,239	3,949	9,148	-	108,336
Other adjustments	**224**	**-**	**(224)**	**-**	**-**	-	-	-	-	-
Transfers between stages	**14,651**	**(14,651)**	**-**	**-**	**-**	7,653	(7,653)	-	-	-
As at 31 December	**302,501**	**11,813**	**49,296**	**2,406**	**366,016**	228,658	32,056	39,451	228	300,393

The deferred tax assets are calculated using effective tax rate of 20% on the above allowances, which are considered as temporary differences for tax purposes.

15 PROPERTY AND EQUIPMENT

	Land *AED'000*	*Furniture, information systems and vehicles* *AED'000*	*Leasehold improvements* *AED'000*	*Total* *AED'000*
Cost:				
At 1 January 2020	332	25,287	24,112	49,731
Additions	-	1,324	4,754	6,078
Disposals	(332)	(86)	-	(418)
At 31 December 2020	-	26,525	28,866	55,391
Additions	-	1,613	557	2,170
Disposals	-	(334)	-	(334)
At 31 December 2021	-	**27,804**	**29,423**	**57,227**
Depreciation:				
At 1 January 2020	-	17,868	21,176	39,044
Charge for the year	-	3,245	3,131	6,376
Disposals	-	(85)	-	(85)
At 31 December 2020	-	21,028	24,307	45,335
Charge for the year	-	2,793	1,582	4,375
Disposals	-	(334)	-	(334)
At 31 December 2021	-	**23,487**	**25,889**	**49,376**
Net carrying amounts:				
At 31 December 2021	-	**4,317**	**3,534**	**7,851**
At 31 December 2020	-	5,497	4,559	10,056

16 DUE TO BANKS

	2021 ***AED'000***	*2020* *AED'000*
Due to Central Bank – UAE*	**8,099**	162,385
Related parties - abroad	**47,954**	67,539
Banks abroad	**16,031**	15,696
	72,084	245,620

* This includes an amount of AED Nil (2020: AED 156,683 thousand) (Note 8a) representing repurchase agreements with CBUAE (zero cost facilities) for which CDs with the same amount are pledged as collateral.

The above balance is classified as follows:

	2021 ***AED'000***	*2020* *AED'000*
Time deposits	-	1,774
Current accounts	**72,084**	87,163
Repos against CDs	-	156,683
	72,084	245,620

17 DUE TO HEAD OFFICE AND ITS BRANCHES ABROAD

	2021	*2020*
	AED'000	*AED'000*
Time deposits	**75,000**	-
Current accounts	**46,035**	135,941
	121,035	135,941

18 CUSTOMERS' DEPOSITS

	2021	*2020*
	AED'000	*AED'000*
Time deposits	**6,748,639**	8,025,834
Current accounts	**5,508,251**	5,043,956
Saving accounts	**1,195,626**	882,377
Call deposits	**292,157**	269,508
	13,744,673	14,221,675

19 SECURITY DEPOSITS FROM CUSTOMERS

	2021	*2020*
	AED'000	*AED'000*
Security deposits against direct facilities	**951,615**	989,584
Security deposits against indirect facilities	**258,795**	259,364
Other security deposits	**688**	549
	1,211,098	1,249,497

20 OTHER LIABILITIES

	2021	*2020*
	AED'000	*AED'000*
Interest payable	**37,615**	53,419
Bankers' acceptances (notes 13 and 25d)	**325,779**	274,471
Derivative financial liabilities (note 26)	**8**	1,336
Collected bills	**102,030**	30,515
Other payable	**35,146**	70,206
Unearned income	**10,613**	12,079
ECL collective provisions for off-balance sheet (note 11h)	**3,112**	7,198
ECL specific provisions for off-balance sheet (note 25f)	**181**	176
	514,484	449,400

21 PROVISIONS

	2021 AED'000	*2020 AED'000*
Income tax (see notes a, b and c)	**13,191**	68,898
Employees' end of service benefits (see note d)	**16,914**	16,292
	30,105	85,190

a) Movements in the provision for income tax is as follows:

	2021 AED'000	*2020 AED'000*
At 1 January	**68,898**	84,464
Charge for the year	**13,193**	69,432
Payments made during the year	**(68,900)**	(84,998)
At 31 December	**13,191**	68,898

b) Taxation is provided at 20% (2020: 20%) on the profit, adjusted for taxation purposes, attributable to the operations of the Branches in each of the respective Emirates in which the Branches operate, where tax is applicable. The Branches have filed annually the tax return for Dubai, Abu Dhabi, Sharjah, and Ras Al Khaimah Branches upto 31 December 2020 and settled tax due. The tax assessments up to 31 December 2020 have been agreed with the taxation authorities for Dubai & Sharjah and up to 31 December 2018 have been agreed with the taxation authority of Ras Al Khaimah. Tax assessed by the tax authorities for the prior assessment years was within the amount of tax provision maintained by the Branches. However, to date, the tax authorities for Abu Dhabi Branches have not raised final tax assessments.

The components of income tax expense for the year ended 31 December are:

	2021 AED'000	*2020 AED'000*
Current income tax at 20%	**15,176**	68,898
Prior year income tax adjustments	**(1,985)**	534
Total income tax	**13,191**	69,432
Deferred tax		
Relating to origination and reversal of temporary differences (see note 14)	**(65,623)**	(108,336)
Total income tax reversal (at effective tax rate of 19.68% (2020: 19.22%))	**(52,431)**	(38,904)

21 PROVISIONS (continued)

c) Reconciliation between the taxation expenses and accounting profit multiplied by the Branches' statutory tax rate is as follows:

	2021 AED'000	*2020 AED'000*
Net loss for the year before taxation	**(256,295)**	(212,686)
Less: Provisions for impairment and IIS on loans disallowed in the previous years written back/off during the year upon recoveries/write offs	**(253,437)**	(96,020)
Add: Items that are not deductible in determining taxable profit	**592,694**	653,201
Less: Tax credit relating to previous year	**-**	-
Other adjustments	**(7,078)**	-
Net taxable profit	**75,884**	344,495

d) Movement in the provision for employees' end of service benefits is as follows:

	2021 AED'000	*2020 AED'000*
At 1 January	**16,292**	14,755
Charge for the year	**2,699**	3,070
Payments made during the year	**(2,077)**	(1,533)
At 31 December	**16,914**	16,292

22 SUBORDINATED LOAN

Subordinated loan represents a long-term loan provided by Head Office to support the Branches' capital requirements. The details of subordinated loan are as follows:

				31 December	
	Grant date	***Maturity date***	***USD'000***	***2021 AED'000***	*2020 AED'000*
Subordinated loan	30 September 2008	30 September 2023	102,000	**374,595**	374,595

During 2017, the Head Office extended the maturity of the subordinated loan by one year till 30 September 2023. The average interest rate on subordinated loan during the year was 1.17% (2020: 1.5% per annum), calculated based on 3 months LIBOR rate +1%.

23 DESIGNATED SHARE CAPITAL

	2021 AED'000	*2020 AED'000*
Designated capital	**620,704**	620,704

24 RESERVES

a) Statutory reserve

In accordance with the UAE Company's Law and Regulations, the Branches have established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equalled 50% of the designated share capital. No transfers to statutory reserve were made during 2021 and 2020 as the statutory reserve had reached the limit of 50% of designated share capital. The statutory reserve is not available for distribution except under the circumstances stipulated by the relevant law.

b) Other reserve

The general reserve is established in accordance with the Head Office instructions and can be used for the purposes determined by the Head Office.

c) Impairment reserve

The impairment reserve was created in compliance with the Guidance note on implementation of IFRS 9 issued by the Central Bank of United Arab Emirates (CB UAE). The guidance note requires the Bank to maintain the impairment reserve in equity for an amount of shortfall in provision for expected credit losses as calculated under IFRS 9 compared to the amount of general provision if calculated as of 31 December 2021 per requirements of circular 28/2010 of CB UAE. The Bank assessed such shortfall to be AED 127,247 thousand (2020: AED 59,179 thousand), which is retained as impairment reserve as of 31 December 2021. The impairment reserve is not available for payment of dividend.

25 CONTINGENT LIABILITIES AND COMMITMENTS

In order to meet the financial needs of customers, the Branches enter into various revocable and irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Although these obligations may not be recognised on the statement of financial position, they contain credit risk and are therefore part of the overall risk of the Branches.

By virtue of issued letters of credit and guarantees, the Branches enter into commitments to make payments on behalf of their customers concerning certain business activities mainly for import and export purposes. These letters of credit and guarantees contain credit risk similar to those associated with loans.

a) Contractual commitments are set out by category in the following table. The amounts reflected in the table represent the maximum loss that can be recognised as of the reporting date if counterparties fail to meet the contractual terms.

	2021 AED'000	*2020 AED'000*
Contingent liabilities:		
Guarantees	**5,684,250**	6,345,714
Letters of credit	**481,672**	393,635
Total (see note c)	**6,165,922**	6,739,349

	2021 AED'000	*2020 AED'000*
Foreign currency forward contracts	**2,060,209**	1,114,785
Interest rate and cross currency swap contracts	**1,835,496**	385,688
Options	**3,275**	-
Total	**3,898,980**	1,500,473

25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

b) At any time the Branches have outstanding commitments to extend credit. These commitments are in the form of approved loans facilities. The amounts reflected in the table below for commitments assume that amounts are fully made available.

	2021 AED'000	*2020 AED'000*
Loan commitments*	**2,565,904**	2,242,694
Capital contracts commitments	**1,768**	374
Total	**2,567,672**	2,243,068

* For the year ended 31 December 2021, an amount of AED 83 million (2020: AED 285 million) represent irrevocable loan commitments.

c) The maturity profile of the Branches' contingent liabilities were as follows:

31 December 2021	***Less than 1 year AED'000***	***More than 1 year AED'000***	***Total AED'000***
Guarantees	**687,815**	**4,996,435**	**5,684,250**
Letters of credit	**481,672**	**-**	**481,672**
Total	**1,169,487**	**4,996,435**	**6,165,922**

31 December 2020	*Less than 1 year AED'000*	*More than 1 year AED'000*	*Total AED'000*
Guarantees	779,304	5,566,410	6,345,714
Letters of credit	390,932	2,703	393,635
Total	1,170,236	5,569,113	6,739,349

d) Acceptances are recognised on balance sheet with a corresponding liability. Accordingly, these are not contingent liabilities (see notes 13 and 20).

e) An analysis of changes in the gross balance of off-balance sheet exposures (including acceptances) is as follows:

	2021			
In AED'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January	**8,922,655**	**123,760**	**210,099**	**9,256,514**
Additions during the year	**2,064,380**	**13,720**	**50,523**	**2,128,623**
Repaid / derecognized facilities	**(2,003,101)**	**(224,843)**	**(99,588)**	**(2,327,532)**
Transfers to Stage 1	**32,311**	**(32,311)**	**-**	**-**
Transfers to Stage 2	**(114,914)**	**114,914**	**-**	**-**
Transfers to Stage 3	**(3,524)**	**-**	**3,524**	**-**
Adjustments during the period	**(65,201)**	**65,201**	**-**	**-**
At 31 December 2021	**8,832,606**	**60,441**	**164,558**	**9,057,605**

25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

e) An analysis of changes in the gross balance of off-balance sheet exposures (including acceptances) is as follows (continued):

	2020			
In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January	10,540,550	101,191	88,702	10,730,443
Additions during the year	1,661,345	34,071	-	1,695,416
Repaid / derecognized facilities	(2,923,461)	(173,844)	(72,040)	(3,169,345)
Transfers to Stage 1	9,058	(9,058)	-	-
Transfers to Stage 2	(173,037)	173,037	-	-
Transfers to Stage 3	(191,800)	(1,637)	193,437	-
Adjustments during the period	-	-	-	-
At 31 December 2020	8,922,655	123,760	210,099	9,256,514

f) An analysis of changes in the provision for impairment of off-balance sheet exposures is as follows:

	2021			
In AED'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January	**6,658**	**540**	**176**	**7,374**
Net charge for the year	**865**	**56**	**400**	**1,321**
Recoveries during the year	**(4,488)**	**(513)**	**(401)**	**(5,402)**
Transfers to Stage 2	**(27)**	**27**	**-**	**-**
Transfers to Stage 3	**(6)**	**-**	**6**	**-**
At 31 December 2021	**3,002**	**110**	**181**	**3,293**

	2020			
In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January	5,623	657	86	6,366
Net charge for the year	4,439	497	-	4,936
Recoveries during the year	(3,352)	(576)	-	(3,928)
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(8)	8	-	-
Transfers to Stage 3	(45)	(45)	90	-
At 31 December 2020	6,658	540	176	7,374

25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Internal rating grade				
Performing				
1	**12,634**	**-**	**-**	**12,634**
2	**-**	**-**	**-**	**-**
3	**1,208,296**	**19,537**	**-**	**1,227,833**
4	**4,511,438**	**10,593**	**-**	**4,522,031**
5	**1,432,972**	**21,627**	**-**	**1,454,599**
6	**99,702**	**8,684**	**-**	**108,386**
7	**48,051**	**-**	**-**	**48,051**
Unrated	**1,519,513**	**-**	**-**	**1,519,513**
Non-performing				
Individually impaired	**-**	**-**	**164,558**	**164,558**
At 31 December 2021	**8,832,606**	**60,441**	**164,558**	**9,057,605**

In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Internal rating grade				
Performing				
1	14,146	-	-	14,146
2	-	-	-	-
3	1,419,455	3,890	-	1,423,345
4	4,681,020	31,257	-	4,712,277
5	1,134,017	16,781	-	1,150,798
6	69,813	42,000	-	111,813
7	95,445	26,561	-	122,006
Unrated	1,508,759	3,271	-	1,512,030
Non-performing				
Individually impaired	-	-	210,099	210,099
At 31 December 2020	8,922,655	123,760	210,099	9,256,514

26 DERIVATIVES

In the ordinary course of business, the Branches enter 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, futures, swaps and options. During the year, the Branches entered into forward foreign exchange and swaps (cross currency and interest rate).

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

26 DERIVATIVES (continued)

	Positive fair value AED'000 (note 13)	*Negative fair value AED'000*	*Notional amount AED'000*	*Notional amounts by term to maturity* Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000
Foreign exchange forward contracts	**3,447**	**-**	**2,060,209**	**988,033**	**1,072,176**	**-**
Cross currency & interest rate swaps	**2,213**	**-**	**1,115,496**	**7,346**	**165,280**	**942,870**
Interest rate swaps	**284**		**720,000**	**-**	**120,000**	**600,000**
Options	**-**	**(8)**	**3,275**	**3,275**	**-**	**-**
At 31 December 2021	**5,944**	**(8)**	**3,898,980**	**998,654**	**1,357,456**	**1,542,870**
Foreign exchange forward contracts	214	-	1,114,785	1,103,998	10,787	-
Cross currency & interest rate swaps	-	(1,336)	385,688	123,448	52,888	209,352
At 31 December 2020	214	(1,336)	1,500,473	1,227,446	63,675	209,352

31 December 2021
In AED'000

	Carrying value assets	***Carrying value liabilities***	***Notional amount***
Derivatives held for trading			
Foreign exchange contracts	**1,031,910**	**1,028,299**	**2,060,209**
Interest rate swaps	**360,000**	**360,000**	**720,000**
Trading	**1,639**	**1,636**	**3,275**
	1,393,549	**1,389,935**	**2,783,484**
Derivatives used as fair value hedges			
Interest rate swaps	**258,544**	**258,544**	**517,088**
Cross-currency interest rate swaps	**299,184**	**299,224**	**598,408**
	557,728	**557,768**	**1,115,496**
Total derivative financial instruments	**1,951,277**	**1,947,703**	**3,898,980**

31 December 2020
In AED '000s

	Carrying value assets	*Carrying value liabilities*	*Notional amount*
Derivatives held for trading			
Foreign exchange contracts	557,555	557,230	1,114,785
	557,555	557,230	1,114,785
Derivatives used as fair value hedges			
Interest rate swaps	18,363	18,363	36,726
Cross-currency interest rate swaps	174,493	174,469	348,962
	192,856	192,832	385,688
Total derivative financial instruments	750,411	750,062	1,500,473

27 CASH AND CASH EQUIVALENTS

	2021 AED'000	*2020 AED'000*
Cash and balances with the Central Bank of UAE (see note 8)	**2,161,184**	3,367,297
Due from banks (see note 9)	**1,621,594**	2,860,242
Due from the Head Office and its branches abroad (see note 10)	**186,558**	285,176
Due to banks (see note 16)	**(72,084)**	(245,620)
Due to Head Office and its branches abroad (see note 17)	**(121,035)**	(135,941)
	3,776,217	6,131,154
Less: ECL collective provision (see note 9)	**(294)**	(367)
	3,775,923	6,130,787
Less: Statutory deposits with Central Bank of UAE (see note 8)	**(664,737)**	(786,936)
	3,111,186	5,343,851

28 RELATED PARTY TRANSACTIONS AND BALANCES

The Branches enter into transactions with parties that fall within the definition of a related party in accordance with International Accounting Standard 24: Related Party Disclosures. Related parties comprise the Head Office and its branches abroad. Pricing policies terms and conditions of these transactions are approved by the Branches' management.

Details of outstanding balances due from/due to related parties are set out in notes 9, 10, 16, 17 and 22.

The above-mentioned outstanding balances arose from the ordinary course of business. There have been no guarantees provided or received for any related party receivables or payables. Outstanding balances at year end are unsecured. For the year ended 31 December 2021, the Branches have not made any provision for doubtful debts relating to amounts owed by related parties (2020: nil).

a) The following table shows the transactions with related parties for the relevant financial year:

	2021 AED'000	*2020 AED'000*
Interest income		
Head Office and branches abroad	**588**	1,677
Other related parties	**2,646**	3,660
	3,234	5,337
Interest expense		
Head Office and branches abroad	**7**	91
Other related parties	**1,847**	706
	1,854	797

28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

a) The following table shows the transactions with related parties for the relevant financial year: (continued)

	2021 AED'000	*2020 AED'000*
Commission income		
Other related parties	**936**	745
Head Office charges (see note 7)	**30,104**	36,283
Services expenses (see note 7a)	**22,983**	23,665
IT services related expenses (see note 7b)	**10,632**	11,584
Acceptances	**4,051**	773
Contingent liabilities		
Letters of credit	**14,506**	4,531
Guarantees	**54,133**	59,088
	68,639	63,619

b) Compensation of key management personnel is as follows:

	2021 AED'000	*2020 AED'000*
Salaries, bonuses and other benefits	**12,181**	11,852

29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The table below sets out the Branches' classification of each class of financial assets and liabilities and their carrying amounts as at 31 December:

31 December 2021	***Financial assets at FVTPL AED'000***	***Financial assets at FVTOCI AED'000***	***Financial assets at amortised cost AED'000***	***Other financial liabilities at amortised cost AED'000***	***Financial liabilities at FVTPL AED'000***	***Total AED'000***
Financial assets						
Cash and balances with the Central Bank of UAE	**-**	**-**	**2,161,184**	**-**	**-**	**2,161,184**
Due from banks	**-**	**-**	**1,621,300**	**-**	**-**	**1,621,300**
Due from the Head Office and branches abroad	**-**	**-**	**186,558**	**-**	**-**	**186,558**
Loans and advances, net	**-**	**-**	**9,211,200**	**-**	**-**	**9,211,200**
Other financial assets	**-**	**2,606**	**3,958,634**	**-**	**-**	**3,961,240**
Other assets	**5,944**	**-**	**387,434**	**-**	**-**	**393,378**
Total financial assets	**5,944**	**2,606**	**17,526,310**	**-**	**-**	**17,534,860**

29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2021	***Financial assets at FVTPL AED'000***	***Financial assets at FVTOCI AED'000***	***Financial assets at amortised cost AED'000***	***Other financial liabilities at amortised cost AED'000***	***Financial liabilities at FVTPL AED'000***	***Total AED'000***
Financial liabilities						
Due to banks	-	-	-	**72,084**	-	**72,084**
Due to the Head Office and branches abroad	-	-	-	**121,035**	-	**121,035**
Customers' deposits	-	-	-	**13,744,673**	-	**13,744,673**
Security deposits from Customers	-	-	-	**1,211,098**	-	**1,211,098**
Other liabilities	-	-	-	**514,476**	**8**	**514,484**
Subordinated loan	-	-	-	**374,595**	-	**374,595**
Lease contract liability	-	-	-	**19,418**	-	**19,418**
Total financial liabilities	-	-	-	**16,057,379**	**8**	**16,057,387**

31 December 2020	*Financial assets at FVTPL AED'000*	*Financial assets at FVTOCI AED'000*	*Financial assets at amortised cost AED'000*	*Other financial liabilities at amortised cost AED'000*	*Financial liabilities at FVTPL AED'000*	*Total AED'000*
Financial assets						
Cash and balances with the Central Bank of UAE	-	-	3,367,297	-	-	3,367,297
Due from banks	-	-	2,859,875	-	-	2,859,875
Due from the Head Office and branches abroad	-	-	285,176	-	-	285,176
Loans and advances, net	-	-	10,835,118	-	-	10,835,118
Other financial assets	-	2,606	829,779	-	-	832,385
Other assets	214	-	315,322	-	-	315,536
Total financial assets	214	2,606	18,492,567	-	-	18,495,387
Financial liabilities						
Due to banks	-	-	-	245,620	-	245,620
Due to the Head Office and branches abroad	-	-	-	135,941	-	135,941
Customers' deposits	-	-	-	14,221,675	-	14,221,675
Security deposits from Customers	-	-	-	1,249,497	-	1,249,497
Other liabilities	-	-	-	448,064	1,336	449,400
Subordinated loan	-	-	-	374,595	-	374,595
Lease contract liability	-	-	-	23,579	-	23,579
Total financial liabilities	-	-	-	16,698,971	1,336	16,700,307

30 CONCENTRATIONS OF ASSETS AND LIABILITIES

	31 December 2021			*31 December 2020*		
	Assets AED'000	***Liabilities and Head Office equity AED'000***	***Off-balance sheet items AED'000***	*Assets AED'000*	*Liabilities and Head Office equity AED'000*	*Off-balance sheet items AED'000*
Geographic regions						
United Arab Emirates	**15,156,010**	**14,389,330**	**10,036,118**	16,486,298	15,079,595	8,844,061
Middle East and other countries	**2,783,272**	**1,698,338**	**2,594,688**	2,354,860	1,706,079	1,638,455
Total	**17,939,282**	**16,087,668**	**12,630,806**	18,841,158	16,785,674	10,482,516
Economic sectors						
Government and Public Sector	**5,646,369**	**120,443**	**102,015**	3,891,945	253,823	-
Trading and commercial	**6,373,223**	**6,797,277**	**8,307,923**	8,747,549	7,792,629	8,435,940
Retail	**1,638,363**	**8,038,049**	**-**	1,561,815	7,424,721	-
Financial institutions	**3,483,528**	**287,050**	**4,220,868**	3,978,549	249,691	2,046,576
Others	**797,799**	**844,849**	**-**	661,300	1,064,810	-
Total	**17,939,282**	**16,087,668**	**12,630,806**	18,841,158	16,785,674	10,482,516

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments held at fair value through profit and loss

Investments held for trading or designated at fair value through profit and loss represent loans and advances that provide the Branches with opportunity for returns through interest income, trading gains and capital appreciation. Included in these investments are unlisted loans and advances for which the fair values are derived from external valuation performed based on pricing done from an independent source adjusted for any additional consideration by the Bank's risk management team.

Unquoted investments held at fair value through other comprehensive income

The financial statements include holdings in unquoted securities amounting to AED 2.64 million (2020: AED 2.65 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

Fair value of financial instruments carried at amortised cost

Except as stated below, the management consider the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements to approximate their fair values:

	Carrying amount AED'000	***Fair value AED'000***
2021		
Financial assets at amortised cost (Quoted bonds, gross – note 12)	**3,961,555**	**3,968,522**
2020		
Financial assets at amortised cost (Quoted bonds, gross – note 12)	830,482	833,558

The fair value for other financial assets measured at amortised cost is based on market prices.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements recognised in the statement of financial position
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. They are ranked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2021	***Level 1 AED'000***	***Level 2 AED'000***	***Level 3 AED'000***	***Total AED'000***
Financial assets at FVTPL				
- Derivative financial assets	**-**	**5,944**	**-**	**5,944**
Financial assets at FVTOCI				
- Unquoted equity instrument	**-**	**-**	**2,641**	**2,641**
Financial liabilities at FVTPL				
Derivative financial liabilities	**-**	**8**	**-**	**8**

31 December 2020	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
Financial assets at FVTPL				
- Derivative financial assets	-	214	-	214
Financial assets at FVTOCI				
- Unquoted equity instrument	-	-	2,648	2,648
Financial liabilities at FVTPL				
Derivative financial liabilities	-	1,336	-	1,336

a) There were no transfers between Level 2 and Level 3 during the current year.

b) The fair value of all other financial assets and liabilities which are carried at amortized cost approximate their carrying value as at the balance sheet date and would qualify for a level 2 disclosure under IFRS.

32 CAPITAL MANAGEMENT

a) Regulatory capital

The Central Bank of UAE (CB UAE) sets, supervises and monitors capital requirements for the Branches as a whole.

Effective from 2017, the capital is computed using the Basel III framework of the Basel Committee on Banking Supervision (‘Basel Committee’), after applying the amendments advised by the CB UAE, within national discretion. The Basel III framework, like Basel II, is structured around three ‘pillars’: minimum capital requirements, supervisory review process and market discipline.

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

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

CCB is required to be kept at 2.5% of the Capital base. CCyB is in effect and is not applicable on the Bank.

Regulatory Capital
The Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 (‘T2’), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under ‘CBUAE’ guidelines.

- AT1 capital comprises eligible non-common equity capital instruments.

- T2 capital comprises qualifying subordinated debt and undisclosed reserve

The Branches’ RWA are weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The Branches are following the standardized measurement approach for credit, market and operational risk, as per Pillar 1 of Basel III.

	2021 AED’000	*2020 AED’000*
Tier 1 Capital		
Designated share capital	**620,704**	620,704
Statutory reserve	**310,352**	310,352
General reserve	**23,000**	23,000
Retained earnings	**769,608**	1,041,542
Accumulated other comprehensive income	**316**	319
	1,723,980	1,995,917
Deductions from Tier 1	**(199,366)**	(107,177)
Total Tier 1 capital [A]	**1,524,614**	1,888,740

32 CAPITAL MANAGEMENT (continued)

a) Regulatory capital (continued)

	2021 AED'000	*2020 AED'000*
Tier 2 Capital		
Qualifying subordinated liabilities after amortization (subordinated loan) (see note 22)	**131,105**	205,818
Provision for expected credit losses (stage 1 and 2)/general provision, including impairment reserve (up to 1.25% of credit risk weighted assets)	**155,262**	182,885
Total Tier 2 capital [B]	**286,367**	388,703
Total regulatory capital [C = A + B]	**1,810,981**	2,277,443

	2021 AED'000	*2020 AED'000*
Credit Risk	**12,420,985**	14,630,763
Market Risk	**12,135**	5,306
Operational Risk	**1,151,295**	1,189,539
Total risk-weighted assets [D]	**13,584,415**	15,825,608
Total capital ratio	**13.33%**	14.39%
Tier 1 ratio	**11.22%**	11.93%
CET1 ratio	**11.22%**	11.93%

In *AED '000*	***Actual 2021***	***Min. Required 2021***	*Actual 2020*	*Min. Required 2020*
Tier 1 capital	**1,524,614**	**1,494,286**	1,888,740	1,740,817
Other Tier 2 capital instruments	**286,367**	**271,688**	388,703	316,512
Total capital	**1,810,981**	**1,765,974**	2,277,443	2,057,329

a) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for these operations and activities, by finance department and risk management of the Branches, and is subject to review by the Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Branches to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Branches' longer-term strategic objectives. The Branches' policies in respect of capital management and allocation are reviewed regularly by the Head Office.

33 RISK MANAGEMENT

The Branches' management has set up a strong risk management infrastructure supported by adoption of best practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

a) Credit risk management
b) Liquidity risk management
c) Market risk
   (i) Trading book
   (ii) Non-trading book
   (iii) Interest rate risk management
   (iv) Foreign currency risk management
d) Operational risk management

The Branches' management has overall responsibility for the oversight of the risk management frame work. It has established detailed policies and procedures in this regard along with high powered senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Branches.

The Credit Policy Committee, Assets and Liabilities Committee and Investment Committee work under the mandate of the management to set up risk limits and manage the overall risk in the Branches. These committees approve risk management policies of the Branches developed by the Risk Management group.

The Head Office Audit, Risk and Compliance Committee (ARCC) is an independent Branch which is responsible to review the risk policies, risk exposures and the risk managing and monitoring framework.

a) Credit risk management

Risk management policies relating to credit are reviewed and approved by the Branches' Credit Policy Committee (CPC) based on policies established in the Credit Policy Manual. Credit and Marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Branches further limit risk through diversification of their assets by industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Examination teams from the Risk Management Department, facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Branches' CPC and are monitored by the Credit Risk Management Division. CPC is responsible for setting credit policy of the Branches. It also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality.

Different credit underwriting procedures are followed for retail and corporate/institutional lending as described below.

(i) Retail lending

Each retail credit application is considered for approval according to a product program, which is in accordance with guidelines set out in the product policy approved by the Branches' CPC. All approval authorities are delegated by the CPC or by the Head Office. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs.

Each product program contains detailed credit criteria (such as customer demographics, income eligibility, etc) and regulatory, compliance and documentation requirements, as well as other requirements.

Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where CPC approval of the specific credit application is necessary).

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(ii) Corporate lending
All credit applications for corporate lending are subject to the Branches' credit policies, underwriting standards and industry caps (if any) and to regulatory requirements.

The Branches do not lend to companies operating in industries that are considered by the Branches inherently risky and where industry knowledge specialised is required. In addition, the Branches set credit limits for all customers based on an evaluation of their credit worthiness.

All credit lines and facilities extended by the Branches are made subject to prior approval pursuant to a set of delegated credit authority limits under full supervision by CPC or Head Office.

The Branches have established limits for dealings with foreign financial institutions in order to mitigate risk. Individual country limits are defined based on a detailed credit policy defining acceptable country credit risk exposure and evaluating and controlling cross border risk. These limits are regularly reviewed by the Branches' credit risk management and periodically by the CPC.

(iii) Credit review procedures and loan classification
The Branches' Credit Review Division (the CRD) subjects the Branches' risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the UAE and Branches' internal policies in order to assist in the early identification of accrual and potential performance problems. The CRD validates the risk ratings of all commercial customers, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Branches.

All commercial/institutional loan facilities of Branches are assigned one of ten risk ratings of the performing grades where grades 1-7 are for performing loans depending on their risk, with more severely classified exposures graded 8-10 for impaired loans. The Branches' internal rating system, which has been developed using historical loss data and customer behavioral scores, is also continually updated and strengthened in order to provide a statistically validated underpinning to customer ratings consistent with Basel III IRB guidelines.

Specific allowance for impairment of classified assets is made based on recoverability of the outstanding balance and credit risk ratings of the assets.

The Branches write off retail unpaid advances when evidences for being uncollectable are established, approval is passed based on study cases and the management approval on case-by-case basis.

The Branches also comply with IFRS, in accordance with which they assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan using original effective interest rate. As required by Central Bank of the UAE guidelines, the Branches take the higher of the loan loss provisions required under IFRS and Central Bank of UAE regulations.

(iv) Impaired loans and advances
Impaired loans and advances for which the Branches determine that it is probable that they will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 8, 9 or 10 in the Branches' internal credit risk grading system which are classified as Stage 3 under IFRS 9.

(v) Past due but not impaired loans
Loans and advances where contractual interest or principal payments are past due but the Branches believe that impairment is not appropriate on the basis of the level of security/ collateral available and/or the stage of collection of amounts owed to the Branches.

(vi) Allowances for impairment
The Branches establish an allowance for impairment losses that represents their estimate of expected credit losses in its financial assets. The main components of this allowance are a specific loss component that relates to individually significant exposures (stage 3), expected credit losses on unimpaired financial assets (stage 1 and 2), a collective loan loss allowance established for a group of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(vii) Write-off policy
The Branches write off a loan (and any related allowances for impairment losses) when the Branches' credit administration determines that the loans are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

In certain cases, the Branches continue to carry classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to statement of comprehensive income. Accounts are written off only when all legal and other avenues for recovery or settlement are exhausted.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	*Due from banks**		*Loans and advances*		*Investments in securities and other assets*	
	2021 AED'000	*2020 AED'000*	***2021 AED'000***	*2020 AED'000*	***2021 AED'000***	*2020 AED'000*
Stage 3						
Impaired and not past due	-	-	-	-	-	-
Gross amount						
Substandard	-	-	**66,554**	352,584	-	-
Doubtful	-	-	**7,494**	519,829	-	-
Loss	-	-	**1,945,091**	1,018,151	-	-
Gross amount (note 11(d))	-	-	**2,019,139**	1,890,564	-	-
Interest suspended	-	-	**(254,639)**	(213,084)	-	-
Allowance for specific impairment	-	-	**(1,638,756)**	(1,172,087)	-	-
Net exposure	-	-	**125,744**	505,393	-	-
Stage 2						
Gross amount	-	-	**896,855**	1,025,109	-	-
	-	-	**896,855**	1,025,109	-	-
Interest suspended	-	-	**(5)**	-	-	-
ECL allowance for collective impairment	-	-	**(26,734)**	(97,011)	-	-
Total	-	-	**870,116**	928,098	-	-
Stage 1						
Gross amount	**6,506,648**	6,512,715	**8,242,627**	9,457,957	**3,964,196**	833,130
Interest suspended	-	-	**(1,316)**	(1,370)	-	-
ECL allowance for collective impairment	**(294)**	(367)	**(25,971)**	(54,960)	**(2,956)**	(745)
	6,506,354	6,512,348	**8,215,340**	9,401,627	**3,961,240**	832,385
Carrying amount	**6,506,354**	6,512,348	**9,211,200**	10,835,118	**3,961,240**	832,385

*Including cash and balances with Central Bank of UAE and due from the head office and its branches abroad.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

The following tables outline the impact of multiple scenarios on the allowance. This table shows both the contribution to total ECL of each probability weighted scenario in addition to the total incremental effect on ECL of applying multiple economic scenarios compared to the ECL that would have resulted from applying a 100% weighting to the base case scenario:

31 December 2021 **In AED '000s**	*Due from Banks*	*Debt instruments at FVOCI*	*Debt instruments at amortised cost*	*Corporate lending*	*Small & Medium business lending*	*Consumer lending*	*Retail mortgages*	*Financial guarantees*	*Letters of credit*	*Undrawn commitments to lend*	*Total*
Upside (20%)	**59**	**-**	**474**	**6,207**	**514**	**-**	**-**	**64**	**55**	**335**	**7,708**
Base case (45%)	**132**	**-**	**1,139**	**15,097**	**1,276**	**-**	**-**	**157**	**124**	**855**	**18,780**
Downside (35%)	**103**	**-**	**1,342**	**15,922**	**1,360**	**-**	**-**	**184**	**102**	**1,236**	**20,249**
Total Corporate and Institutional Banking	**294**	**-**	**2,955**	**37,226**	**3,150**	**-**	**-**	**405**	**281**	**2,426**	**46,737**
Upside (30%)	**-**	**-**	**-**	**-**	**-**	**2,492**	**182**	**-**	**-**	**-**	**2,674**
Base case (40%)	**-**	**-**	**-**	**-**	**-**	**4,156**	**268**	**-**	**-**	**-**	**4,424**
Downside (30%)	**-**	**-**	**-**	**-**	**-**	**4,991**	**241**	**-**	**-**	**-**	**5,232**
Total Consumer Lending	**-**	**-**	**-**	**-**	**-**	**11,639**	**691**	**-**	**-**	**-**	**12,330**
Grand Total	**294**	**-**	**2,955**	**37,226**	**3,150**	**11,639**	**691**	**405**	**281**	**2,426**	**59,067**
Effect of multiple economic scenarios	**162**	**-**	**1,816**	**22,129**	**1,874**	**7,483**	**423**	**248**	**157**	**1,571**	**35,863**

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

31 December 2020 In AED '000s	*Due from Banks*	*Debt instruments at FVOCI*	*Debt instruments at amortised cost*	*Corporate lending*	*Small & Medium business lending*	*Consumer lending*	*Retail mortgages*	*Financial guarantees*	*Letters of credit*	*Undrawn commitments to lend*	*Total*
Upside (15%)	55	-	89	6,267	10,701	-	-	139	103	444	17,798
Base case (35%)	128	-	220	16,691	25,760	-	-	379	256	1,221	44,655
Downside (20%)	73	-	164	14,317	16,474	-	-	429	181	1,116	32,754
Severe Downside (30%)	111	-	273	24,077	25,778	-	-	785	286	1,857	53,169
Total Corporate and Institutional Banking	367	-	746	61,352	78,713	-	-	1,732	826	4,638	148,376
Upside (30%)	-	-	-	-	-	2,252	293	-	-	-	2,545
Base case (40%)	-	-	-	-	-	3,817	429	-	-	-	4,246
Downside (30%)	-	-	-	-	-	4,736	380	-	-	-	5,117
Total Consumer Lending	-	-	-	-	-	10,805	1,103	-	-	-	11,908
Grand Total	367	-	746	61,352	78,713	10,805	1,102	1,732	826	4,638	160,282
Effect of multiple economic scenarios	239	-	525	44,661	52,952	6,989	674	1,353	570	3,417	111,380

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

This table shows both the contribution to total ECL of each probability weighted scenario in addition to the total incremental effect on ECL of applying multiple economic scenarios compared to the ECL that would have resulted from applying a 100% weighting to the base case scenario.

The following tables outline the impact on ECL from applying a 100% weighting to each scenario:

31 December 2021 **In AED '000s**	***Due from Banks***	***Debt instruments at FVOCI***	***Debt instruments at amortised cost***	***Corporate lending***	***Small business lending***	***Consumer lending***	***Retail mortgages***	***Financial guarantees***	***Letters of credit***	***Undrawn commitments to lend***	***Total***
Gross exposure	**1,621,594**	**-**	**-**	**8,303,878**	**1,216,379**	**649,169**	**989,194**	**5,684,250**	**481,672**	**2,891,683**	**21,837,819**
ECL											
Corporate and Institutional Banking											
Upside (20%)	**295**	**-**	**2,372**	**31,034**	**2,568**	**-**	**-**	**319**	**274**	**1,675**	**51,381**
Base case (45%)	**295**	**-**	**2,532**	**33,548**	**2,835**	**-**	**-**	**349**	**277**	**1,900**	**53,661**
Downside (35%)	**295**	**-**	**3,834**	**45,490**	**3,887**	**-**	**-**	**524**	**290**	**3,532**	**101,243**
Consumer Lending											
Upside (30%)	**-**	**-**	**-**	**-**	**-**	**8,307**	**605**	**-**	**-**	**-**	**8,912**
Base case (40%)	**-**	**-**	**-**	**-**	**-**	**10,391**	**671**	**-**	**-**	**-**	**11,062**
Downside (30%)	**-**	**-**	**-**	**-**	**-**	**16,638**	**802**	**-**	**-**	**-**	**17,440**
Proportion of ECL in stage 2 (%) Corporate and Institutional Banking											
Upside (20%)	**0%**	**0%**	**0%**	**11%**	**14%**	**0%**	**0%**	**2%**	**2%**	**1%**	**7%**
Base case (45%)	**0%**	**0%**	**0%**	**25%**	**31%**	**0%**	**0%**	**4%**	**4%**	**1%**	**17%**
Downside (35%)	**0%**	**0%**	**0%**	**16%**	**22%**	**0%**	**0%**	**3%**	**3%**	**1%**	**8%**
Consumer Lending											
Upside (30%)	**0%**	**0%**	**0%**	**0%**	**0%**	**52%**	**74%**	**0%**	**0%**	**0%**	**53%**
Base case (40%)	**0%**	**0%**	**0%**	**0%**	**0%**	**50%**	**71%**	**0%**	**0%**	**0%**	**51%**
Downside (30%)	**0%**	**0%**	**0%**	**0%**	**0%**	**39%**	**67%**	**0%**	**0%**	**0%**	**41%**

Under current and forecasted economic conditions stage 3 instruments are not expected to be materially sensitive to changes in macroeconomic assumptions and therefore have not been included in this sensitivity analysis. Instead ECL on stage 3 instruments is more sensitive to idiosyncratic obligor-specific factors and recovery strategies that are independent of macroeconomic factors.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

The following tables outline the impact on ECL from applying a 100% weighting to each scenario:

31 December 2020

In AED '000s	*Due from Banks*	*Debt instruments at FVOCI*	*Debt instruments at amortised cost*	*Corporate lending*	*Small business lending*	*Consumer lending*	*Retail mortgages*	*Financial guarantees*	*Letters of credit*	*Undrawn commitments to lend*	*Total*
Gross exposure	2,860,242	-	830,482	9,475,662	1,336,153	697,541	864,274	6,345,714	393,635	2,242,694	25,046,397
ECL											
Corporate and Institutional Banking											
Upside (15%)	366	-	590	41,780	71,338	-	-	929	686	2,957	118,647
Base case (35%)	366	-	629	47,689	73,599	-	-	1,084	732	3,488	127,589
Downside (20%)	367	-	819	71,585	82,368	-	-	2,144	903	5,579	163,765
Severe Downside (30%)	367	-	909	80,258	85,926	-	-	2,615	955	6,192	177,222
Consumer Lending											
Upside (30%)	-	-	-	-	-	7,507	977	-	-	-	8,484
Base case (40%)	-	-	-	-	-	9,542	1,073	-	-	-	10,615
Downside (30%)	-	-	-	-	-	15,788	1,268	-	-	-	17,056
Proportion of ECL in stage 2 (%)											
Corporate and Institutional Banking											
Upside (15%)	-	-	-	29%	97%	-	-	10%	8%	10%	69%
Base case (35%)	-	-	-	29%	97%	-	-	9%	8%	9%	67%
Downside (20%)	-	-	-	28%	95%	-	-	6%	8%	7%	60%
Severe Downside (30%)	-	-	-	28%	95%	-	-	5%	8%	7%	59%
Consumer Lending											
Upside (30%)	-	-	-	-	-	41%	74%	-	-	-	45%
Base case (40%)	-	-	-	-	-	39%	71%	-	-	-	43%
Downside (30%)	-	-	-	-	-	21%	66%	-	-	-	25%

Under current and forecasted economic conditions stage 3 instruments are not expected to be materially sensitive to changes in macroeconomic assumptions and therefore have not been included in this sensitivity analysis. Instead ECL on stage 3 instruments is more sensitive to idiosyncratic obligor-specific factors and recovery strategies that are independent of macroeconomic factors.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Impact on modelled ECL allowance
The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post-model adjustments will be applied for the foreseeable future.

Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2021 are set out in the below table:

31 December 2021	***Modelled ECL***	***Post-model adjustments***	***Management overlays***	***Total ECL***	***Adjustments as a % of total ECL***
Corporate and Institutional Banking					
Federal Government	-	-	-	-	-
Emirates Governments	**1,415**	-	-	**1,415**	-
GREs (Gov ownership >50%)	**33**	-	-	**33**	-
Other Corporates	**1,389,160**	-	**4,629**	**1,393,789**	**0.33%**
High Net Worth Individuals	**6,729**	-	-	**6,729**	-
Small & Medium Entities	**198,028**	-	-	**198,028**	-
Others	-	-	-	-	-
Total	**1,595,365**	-	**4,629**	**1,599,994**	**0.29%**
Consumer Lending					
Credit Cards	**8,237**	-	-	**8,237**	-
Housing Loans	**23,720**	-	-	**23,720**	-
Personal Loans	**57,442**	-	-	**57,442**	-
Auto Loans	**2,032**	-	-	**2,032**	-
Others	**36**	-	-	**36**	-
	91,467	-	-	**91,467**	-
Total	**1,686,832**	-	**4,629**	**1,691,461**	**0.27%**

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

31 December 2020	*Modelled ECL*	*Post-model adjustments*	*Management overlays*	*Total ECL*	*Adjustments as a % of total ECL*
Corporate and Institutional Banking					
Federal Government	-	-	-	-	-
Emirates Governments	117	-	-	117	-
GREs (Gov ownership >50%)	89	-	-	89	-
Other Corporates	1,070,407	-	49,213	1,119,620	4.4%
High Net Worth Individuals	9,721	-	-	9,721	-
Small & Medium Entities	89,235	-	-	89,235	-
Others	1,001	-	-	1,001	-
Total	1,170,570	-	49,213	1,219,783	4.0%
Consumer Lending					
Credit Cards	9,506	-	-	9,506	-
Housing Loans	21,425	-	-	21,425	-
Personal Loans	69,041	-	-	69,041	-
Auto Loans	4,294	-	-	4,294	-
Others	9	-	-	9	-
	104,275	-	-	104,275	-
Total	1,274,845	-	49,213	1,324,058	3.7%

Post-model adjustments
Post-model adjustments (both positive and negative) represent adjustments in relation to data and model limitations as a result of the Covid-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level.

Management overlays
Management overlays reflect a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level and the significant uncertainty as a consequence of the Covid-19 pandemic. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes / segments, such as energy, aviation and hospitality.

Additional information and sensitivity analysis in respect of the inputs to the ECL model under multiple economic scenarios is provided in Note 33(a).

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Set out below is an analysis of the overall provision movement during the year

AED'000	***31 December 2021***				*31 December 2020*			
	Collective 12-month ECL	***Lifetime ECL not credit-impaired***	***Lifetime ECL credit-impaired***	***Total***	*Collective 12-month ECL*	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	*Total*
As at 1 January	**62,729**	**97,553**	**1,172,263**	**1,332,545**	50,585	128,211	655,279	834,077
Allowances for impairment made during the year	**14,199**	**9,233**	**558,026**	**581,458**	25,263	39,693	493,153	558,109
Write back/ recoveries made during the year	**(42,547)**	**(8,846)**	**(49,778)**	**(101,171)**	(13,678)	(31,531)	(14,292)	(59,501)
Amounts written-off during the year	**-**	**-**	**(114,827)**	**(114,827)**	-	-	(140)	(140)
Transfers to Stage 1	**1,108**	**(1,108)**	**-**	**-**	4,498	(4,498)	-	-
Transfers to Stage 2	**(3,143)**	**3,143**	**-**	**-**	(1,463)	1,463	-	-
Transfers to Stage 3	**(122)**	**(73,131)**	**73,253**	**-**	(2,476)	(35,787)	38,263	-
Other adjustments	**-**	**-**	**-**	**-**	-	-	-	-
As at 31 December	**32,224**	**26,844**	**1,638,937**	**1,698,005**	62,729	97,553	1,172,263	1,332,545

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Impairment reserve under the Central Bank of UAE (CBUAE) guidance
The CBUAE issued its IFRS 9 guidance on 30 April 2020 via Notice No. CBUAE/BSD/2019/458 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 CBUAE and IFRS 9 is as follows:

	2021 ***AED'000***	*2020* *AED'000*
Impairment reserve: General		
Minimum required by General provisions under Circular 28/2010 of CBUAE	**186,315**	219,461
Less: Expected credit loss (Stage 1 & 2) (note 11 (h))	**(59,068)**	(160,282)
Collective provision maintained as the impairment reserve* (note 11 (i))	**127,247**	59,179
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**1,638,756**	1,172,087
Less: Stage 3 provisions under IFRS 9 (note 11 (g))	**(1,638,756)**	(1,172,087)
Specific provision transferred to the impairment reserve*	**-**	-
Total provision maintained as the impairment reserve	**127,247**	59,179

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

(viii) Collaterals held (Corporate)

The Branches hold collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and subsequently are reviewed periodically and specifically when the loan is individually assessed as impaired. For all tangible securities with the exception of real estate, collaterals are reviewed at least once a year. In the case of real estate property, collaterals are reviewed every three years or when there is material adverse changes in the real estate markets that may affect the value and liquidity of the real estate markets or financial condition of the borrowers and/or material changes in the terms of the facility. When the facilities are classified as non-performing, the property is evaluated by an independent valuer, who is a member of the approved panel. In the case of cash, stocks, shares and bonds, the valuation is performed weekly. Collaterals generally are not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

(ix) Collaterals held (Retail)

The Branches hold collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collaterals generally are not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collaterals usually are not held against investment in securities.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

At 31 December, the fair values of collaterals held were as follows:

	2021 AED'000	*2020 AED'000*
Against individually assessed loans and advances		
Property	**2,200,929**	2,653,863
Equipment and vehicles	**168,515**	257,087
Cash	**478,516**	464,556
Others	**386,195**	485,952
	3,234,155	3,861,458
Against collectively assessed loans and advances		
Property	**16,649**	6,988
Cash	**93,554**	108,296
	110,203	115,284
Total	**3,344,358**	3,976,742

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

The tables below summarise the Bank's collateral for loans and advances:

31 December 2021	*Gross carrying amount*			*Collateral*			*Net exposure*		
In AED '000s	*Total*	*Stage 2*	*Stage 3*	*Total*	*Stage 2*	*Stage 3*	*Total*	*Stage 2*	*Stage 3*
Retail Banking									
Credit Cards	41,135	342	9,037	-	-	-	41,135	342	9,037
Housing Loans	989,194	26,913	46,521	16,649	-	16,649	972,545	26,913	29,872
Personal Loans	552,349	19,508	57,463	93,554	-	-	458,795	19,508	57,463
Auto Loans	42,990	1,128	2,524	-	-	-	42,990	1,128	2,524
Others	12,695	-	39	-	-	-	12,695	-	39
Total	1,638,363	47,891	115,584	110,203	-	16,649	1,528,160	47,891	98,935
Corporate & Institutional Banking									
Federal Government	-	-	-	-	-	-	-	-	-
Emirates Governments	1,095,000	-	-	-	-	-	1,095,000	-	-
GREs (Gov ownership >50%)	100,184	-	-	-	-	-	100,184	-	-
Corporate with Govt ownership <50%	-	-	-	-	-	-	-	-	-
Other Corporates	6,640,301	678,175	1,615,828	2,167,090	388,153	259,821	4,473,211	290,022	1,356,007
High Net Worth Individuals	669,559	31,123	5,150	618,401	31,123	-	51,158	-	5,150
SMEs	1,015,214	139,666	282,577	448,664	116,840	2,935	566,550	22,826	279,642
Banks	-	-	-	-	-	-	-	-	-
NBFI	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total	9,520,258	848,964	1,903,555	3,234,155	536,116	262,756	6,286,103	312,848	1,640,799
Grand Total	11,158,621	896,855	2,019,139	3,344,358	536,116	279,405	7,814,263	360,739	1,739,734

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

31 December 2020	*Gross carrying amount*			*Collateral*			*Net exposure*		
In AED '000s	*Total*	*Stage 2*	*Stage 3*	*Total*	*Stage 2*	*Stage 3*	*Total*	*Stage 2*	*Stage 3*
Retail Banking									
Credit Cards	47,413	1,139	16,343	-	-	-	47,413	1,139	16,343
Housing Loans	864,274	27,961	40,039	6,988	-	6,988	857,286	27,961	33,051
Personal Loans	593,289	11,183	70,338	108,296	-	-	484,993	11,183	70,338
Auto Loans	46,984	759	3,812	-	-	-	46,984	759	3,812
Others	9,856	-	12	-	-	-	9,856	-	12
Total	1,561,816	41,042	130,544	115,284	-	6,988	1,446,532	41,042	123,556
Corporate & Institutional Banking									
Federal Government	-	-	-	-	-	-	-	-	-
Emirates Governments	500,000	-	-	-	-	-	500,000	-	-
GREs (Gov ownership >50%)	24,641	-	-	3,977	-	-	20,664	-	-
Corporate with Govt ownership <50%	-	-	-	-	-	-	-	-	-
Other Corporates	8,054,625	747,744	1,572,086	2,664,560	250,922	327,033	5,390,065	496,822	1,245,053
High Net Worth Individuals	863,043	121,408	4,982	751,816	121,408	-	111,227	-	4,982
SMEs	980,142	109,174	114,496	441,105	95,752	12,764	539,037	13,422	101,732
Banks	-	-	-	-	-	-	-	-	-
NBFI	-	-	-	-	-	-	-	-	-
Others	389,363	5,741	68,456	-	-	-	389,363	5,741	68,456
Total	10,811,814	984,067	1,760,020	3,861,458	468,082	339,797	6,950,356	515,985	1,420,223
Grand Total	12,373,630	1,025,109	1,890,564	3,976,742	468,082	346,785	8,396,888	557,027	1,543,779

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(x) Geographical concentration
The distributions by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

	U.A.E. AED'000	***Total AED'000***
2021		
Impaired loans – Gross (see note 33 (a))	**2,019,139**	**2,019,139**
Interest suspended	**255,960**	**255,960**
Specific provision (Stage 3)	**1,638,756**	**1,638,756**
Expected cedit losses (Stage 1 and 2)	**52,705**	**52,705**

	U.A.E. AED'000	*Total AED'000*
2020		
Impaired loans – Gross (see note 33 (a))	1,890,564	1,890,564
Interest suspended	214,454	214,454
Specific provision (Stage 3)	1,172,087	1,172,087
Expected cedit losses (Stage 1 and 2)	151,971	151,971

(xi) Concentration of credit risk by industry
The following table breaks down the Bank's main credit exposures on loans and advances, due from other banks and due from related parties and off balance sheet items categorised by industry as of 31 December 2021 and 2020.

For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position. For off-balance sheet assets, the exposures set out below are based on gross carrying amounts before Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM)s.

	On balance sheet items					
31 December 2021	***Loans and advances AED'000***	***Amounts due from other banks and group entities AED'000***	***Other financial assets at amortised cost AED'000***	***Total funded AED'000***	***Off balance sheet items AED'000***	***Total AED'000***
Mining and manufacturing	**1,503,403**	**-**	**-**	**1,503,403**	**1,622,175**	**3,125,578**
Construction	**1,535,132**	**-**	**-**	**1,535,132**	**3,489,852**	**5,024,984**
Real Estate	**1,310,332**	**-**	**-**	**1,310,332**	**122,796**	**1,433,128**
Telecommunication and transportation	**511,710**	**-**	**-**	**511,710**	**320,179**	**831,889**
Financial institutions	**9,449**	**3,969,337**	**3,961,555**	**7,940,341**	**3,475,751**	**11,416,092**
Governmental	**806,650**	**-**	**-**	**806,650**	**-**	**806,650**
Individuals	**1,638,363**	**-**	**-**	**1,638,363**	**-**	**1,638,363**
Services	**3,843,582**	**-**	**-**	**3,843,582**	**3,600,053**	**7,443,635**
	11,158,621	**3,969,337**	**3,961,555**	**19,089,513**	**12,630,806**	**31,720,319**

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(xi) Concentration of credit risk by industry (continued)

31 December 2020	*On balance sheet items* Loans and advances AED'000	*Amounts due from other banks and group entities AED'000*	*Other financial assets at amortised cost AED'000*	*Total funded AED'000*	*Off balance sheet items AED'000*	*Total AED'000*
Mining and manufacturing	1,935,173	-	-	1,935,173	1,451,177	3,386,350
Construction	1,904,643	-	-	1,904,643	3,930,044	5,834,687
Real Estate	1,787,324	-	-	1,787,324	121,397	1,908,721
Telecommunication and transportation	578,969	-	-	578,969	94,422	673,391
Financial institutions	79,030	6,512,715	830,482	7,422,227	1,511,276	8,933,503
Governmental	500,000	-	-	500,000	-	500,000
Individuals	1,561,815	-	-	1,561,815	-	1,561,815
Services	4,026,669	-	-	4,026,669	3,374,200	7,400,869
	12,373,630	6,512,715	830,482	19,716,820	10,482,516	30,199,336

The analysis of the Bank's portfolio stage wise is given below:

31 December 2021 ***In AED'000***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Due from Central Bank	**2,161,185**	**-**	**-**	**2,161,185**
Debt instruments at amortised cost	**3,961,555**	**-**	**-**	**3,961,555**
Due from banks	**1,621,594**	**-**	**-**	**1,621,594**
Due from the Head Office and branches abroad	**186,558**	**-**	**-**	**186,558**
Loans and advances	**8,242,627**	**896,853**	**2,019,141**	**11,158,621**
Corporate lending	**6,000,517**	**688,621**	**1,614,740**	**8,303,878**
Small & Medium Entities	**767,222**	**160,341**	**288,816**	**1,216,379**
Consumer lending	**559,128**	**20,978**	**69,064**	**649,170**
Residential mortgages	**915,760**	**26,913**	**46,521**	**989,194**
Financial guarantees	**5,475,868**	**43,824**	**164,558**	**5,684,250**
Letters of credit	**476,758**	**4,914**	**-**	**481,672**
Undrawn commitments to lend	**2,558,429**	**7,476**	**-**	**2,565,905**
Derivative contracts	**3,898,980**	**-**	**-**	**3,898,980**
	28,583,554	**953,067**	**2,183,699**	**31,720,320**

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(xi) Concentration of credit risk by industry (continued)

31 December 2021 *In AED'000*	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Per industry segment (*)				
Industry and mining	**2,670,410**	**185,893**	**269,275**	**3,125,578**
Construction	**4,207,473**	**45,884**	**771,627**	**5,024,984**
Real estate	**1,400,586**	**32,542**	**-**	**1,433,128**
Telecommunication and transportation	**388,937**	**258,451**	**184,501**	**831,889**
Financial institutions	**11,416,092**	**-**	**-**	**11,416,092**
Governmental	**806,650**	**-**	**-**	**806,650**
Individuals	**1,474,887**	**47,891**	**115,585**	**1,638,363**
Services	**6,218,519**	**382,406**	**842,711**	**7,443,636**
	28,583,554	**953,067**	**2,183,699**	**31,720,320**
Per region				
UAE	**22,583,222**	**953,067**	**2,183,699**	**25,719,988**
GCC countries	**3,989,459**	**-**	**-**	**3,989,459**
Other Arab countries	**461,782**	**-**	**-**	**461,782**
Asia	**450,219**	**-**	**-**	**450,219**
Europe	**353,163**	**-**	**-**	**353,163**
Africa	**92,896**	**-**	**-**	**92,896**
America	**406,980**	**-**	**-**	**406,980**
Other	**245,833**	**-**	**-**	**245,833**
	28,583,554	**953,067**	**2,183,699**	**31,720,320**

(*) Includes financial assets measured at FVOCI and also financial assets measured amortised cost.

The analysis of the Bank's portfolio stage wise is given below:

31 December 2020 *In AED'000*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Due from Central Bank	3,367,297	-	-	3,367,297
Debt instruments at amortised cost	830,482	-	-	830,482
Due from banks	2,860,242	-	-	2,860,242
Due from the Head Office and branches abroad	285,176	-	-	285,176
Loans and advances	9,457,957	1,025,109	1,890,564	12,373,630
Corporate lending	7,311,255	874,893	1,645,524	9,831,672
Small & Medium Entities	756,472	109,174	114,496	980,142
Consumer lending	593,956	13,081	90,505	697,542
Residential mortgages	796,274	27,961	40,039	864,274
Financial guarantees	5,994,423	141,192	210,099	6,345,714
Letters of credit	387,595	6,040	-	393,635
Undrawn commitments to lend	2,223,167	19,527	-	2,242,694
Derivative contracts	1,500,473	-	-	1,500,473
	26,906,812	1,191,868	2,100,663	30,199,343

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(xi) Concentration of credit risk by industry (continued)

31 December 2020 *In AED'000*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Per industry segment (*)				
Industry and mining	2,901,503	302,270	182,575	3,386,348
Construction	4,964,039	115,559	755,096	5,834,694
Real estate	1,728,971	153,852	25,898	1,908,721
Telecommunication and transportation	392,672	99,957	180,762	673,391
Financial institutions	8,933,504	-	-	8,933,504
Governmental	500,000	-	-	500,000
Individuals	1,390,229	41,042	130,545	1,561,816
Services	6,095,894	479,188	825,787	7,400,869
	26,906,812	1,191,868	2,100,663	30,199,343
Per region				
UAE	22,952,533	1,191,868	2,100,663	26,245,064
GCC countries	1,050,736	-	-	1,050,736
Other Arab countries	559,110	-	-	559,110
Asia	448,376	-	-	448,376
Europe	1,549,736	-	-	1,549,736
Africa	23,028	-	-	23,028
America	294,096	-	-	294,096
Other	29,197	-	-	29,197
	26,906,812	1,191,868	2,100,663	30,199,343

(*) Includes financial assets measured at FVOCI and also financial assets measured amortised cost.

Covid-19 and Expected Credit Loss (ECL)
The existence of novel coronavirus (Covid-19) was confirmed in early 2020, causing disruptions to businesses and economic activity. In response, governments and central banks launched economic support and relief measures (including payment deferrals) to minimize the impact on individuals and corporates.

The Bank has a dedicated IFRS 9 governance process established to review and approve IFRS 9 Stage migrations, management overlays to ECL estimates, and macro-economic scenarios and weightings. These will be reassessed going forward as per the regulations and guidelinese of the Central Bank of United Arab Emirates.

Significant Increase in Credit Risk (SICR)
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.

During 2020 and 2021, the Bank initiated a program of payment relief to support its impacted customers either by deferring interest/principal for a period or through adjustment of monthly installments. The Bank believes that the extension of 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.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Significant Increase in Credit Risk (SICR) (continued)
As per the disclosure requirements of the Central Bank of UAE in the context of Covid-19, for the UAE operations, the Bank has divided its customers benefitting from payment deferrals into two groups (Group 1 and Group 2). Customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues caused by the Covid-19 crisis, have been retained in the same Stage as Q1 2021 and categorised in Group 1.

Customers expected to be significantly impacted by Covid-19 in the long term and that are expected to face substantial deterioration in their creditworthiness have been migrated to Stage 2 and categorised in Group 2. In exceptional circumstances, Stage 3 migration may have also been triggered where a customer's business, income streams and interest servicing capacity were expected to be permanently impaired. Such customers have also been categorised in Group 2 with ECL overlay.

The accounting impact of the extension / restructuring of credit facilities due to Covid-19 has been assessed and has been treated as per the requirements of IFRS 9 for modification of terms of arrangement.

Forward Looking Information
In light of the current uncertain economic environment, the Bank has assessed a range of possible macro-economic scenarios and associated weights, and analysed their impact on ECL estimates. During 2020, due to developments and abnormal situation resulted from Covid-19, an additional downside scenario was used by the management for calculating the ECL for the year ended 31 December 2020, which has been waived for 2021. During 2021, the Bank used macro-economic forecasts in 2021 using baseline, upside and downside, scenarios with 45%, 20%, 35% weightings respectively for Corporate & Institutional Banking and treasury portfolio while using baseline, upside, and downside, scenarios with 40%, 30%, and 30% weightings respectively for retail portfolio. The Bank has also applied portfolio-level ECL adjustments to Corporate & Institutional Banking exposures based upon affected geographies and sectors, as well as to retail customers availing deferrals or adjustments to monthly installments 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 and other economic disruptions.

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.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Analysis of customers benefiting from payment deferrals since inception

Deferral amount and outstanding balances of deferral customers

The table below contains analysis of the deferral amount, outstanding balances and ECL of customers benefiting from deferrals since inception:

Clients benefiting from deferrals in 2021 (TESS clients + non-TESS clients)

For the year ended 31 December 2021		***[AED '000s]***	***Number of clients deferred***	***Payment deferrals***	***Exposure***	***Impairment Allowance***
Segment	**Stage**	**Group**				
Corporate & Institutional banking	Stage 1	Group 1	40	308,907	1,515,072	19,826
		Group 2	15	53,792	202,838	334
			55	**362,699**	**1,717,910**	**20,160**
	Stage 2	Group 1	4	22,905	63,784	1,050
		Group 2	14	61,093	248,229	4,220
			18	**83,998**	**312,013**	**5,270**
Total CIB deferrals since inception			**73**	**446,697**	**2,029,923**	**25,430**
Less: Transfers to Stage 3			(1)	(14,013)	(62,046)	(15,143)
Total CIB deferrals since inception, net of transfers to stage 3			**72**	**432,684**	**1,967,877**	**10,287**
Consumer banking	Stage 1	Group 1	435	11,616	113,004	1,364
		Group 2	-	-	-	-
			435	**11,616**	**113,004**	**1,364**
	Stage 2	Group 1	-	-	-	-
		Group 2	-	-	-	-
			-	-	-	-
Total Consumer Banking			**435**	**11,616**	**113,004**	**1,364**

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Analysis of customers benefiting from payment deferrals since inception (continued)
Deferral amount and outstanding balances of deferral customers (continued)

For the year ended 31 December 2020		*[AED '000s]*	*Number of clients deferred*	*Payment deferrals*	*Exposure*	*Impairment Allowance*
Segment	Stage	Group				
Corporate & Institutional banking	Stage 1	Group 1	42	351,127	1,887,552	6,835
		Group 2	20	66,323	580,000	2,129
			62	417,450	2,467,522	8,964
	Stage 2	Group 1	2	12,276	41,026	142
		Group 2	15	148,594	390,940	6,209
			17	160,870	431,966	6,351
Total CIB deferrals since inception			79	578,320	2,899,518	15,315
Less: Transfers to Stage 3			(2)	(10,611)	(338,805)	-
Total CIB deferrals since inception, net of transfers to stage 3			77	567,709	2,560,713	15,315
Consumer banking	Stage 1	Group 1	613	9,915	241,756	1,885
		Group 2	-	-	-	-
			613	9,915	241,756	1,885
	Stage 2	Group 1	-	-	-	-
		Group 2	-	-	-	-
			-	-	-	-
Total Consumer Banking			613	9,915	241,756	1,885

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Deferral amount and outstanding balances of deferral customers (stock)
The table below contains analysis of the deferral amount and outstanding balances of customers benefiting from deferrals (TESS+Non-TESS):

AED'000	*Corporate and Institutional banking*	*Retail banking*	*Total*
31 December 2021			
Deferral amount			
Deferrals rolled over from 2020	**256,007**	**950**	**256,957**
Deferrals since the beginning of 2021	**190,690**	**11,617**	**202,307**
Less: Transferred to stage 3*	**(14,013)**	**-**	**(14,013)**
Deferrals since the beginning of 2021, net transfers to Stage 3	**432,684**	**12,567**	**445,251**
Less: Repayments made during the period – for rolled over accounts	**(241,994)**	**(950)**	**(242,944)**
Less: Repayments made during the period – new deferral requests	**(190,690)**	**(10,908)**	**(201,598)**
Payment Deferrals as at 31 December	**-**	**709**	**709**

** Customers that were benefitting from deferrals at inception and were transferred to stage 3 during the year are no longer eligible for deferrals.*

Exposures (Gross)			
Loans and receivables as at 31 December 2021	**1,967,877**	**113,004**	**2,080,881**
	1,967,877	**113,004**	**2,080,881**
No. of customers rolled over from 2020	**44**	**133**	**177**
No. of customers since 2021 - New Deferral Requests	**29**	**435**	**464**
Less: Number of customers Transferred to stage 3	**(1)**	**-**	**(1)**
Number of customers since 2021, net of transfers to stage 3	**72**	**568**	**640**
Less: No. of customers Repaid - rolled over from 2020	**(43)**	**(133)**	**(176)**
Less: No. of customers Repaid - new deferrals	**(29)**	**(340)**	**(369)**
Number of customers outstanding (stock)	**-**	**95**	**95**

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Deferral amount and outstanding balances of deferral customers (stock) (continued)

AED'000	*Corporate and Institutional banking*	*Retail banking*	*Total*
31 December 2020			
Deferral amount			
Payment Deferrals since inception	578,320	9,915	588,235
Less: Transferred to stage 3*	(10,611)	-	(10,611)
Payment Deferrals since inception, net of transfers to Stage 3	567,709	9,915	577,624
Less: Repayments made during the period	(311,702)	(8,965)	(320,667)
Payment Deferrals as at 31 December	256,007	950	256,957

** Customers that were benefitting from deferrals at inception and were transferred to stage 3 during the year are no longer eligible for deferrals.*

Exposures (Gross)			
Loans and receivables as at 31 December 2020	2,560,713	241,756	2,802,469
	2,560,713	241,756	2,802,469
Number of customers since inception of deferrals	79	613	692
Less: Number of customers Transferred to stage 3	(2)	-	(2)
Number of customers since inception, net of transfers to stage 3	77	613	690
Less: Number of customers Repaid	(33)	(480)	(513)
Number of customers outstanding (stock)	44	133	177

Zero Cost Funding under the CBUAE TESS program are not availed by the Bank as of 31 December 2021 (Dec 2020: AED 156,683 million) which was fully utilised to provide payment relief to the impacted customers. The Bank has repaid the Zero Cost Funding facility by full as of the year ended 31 December 2021.

As per the requirements of the Central Bank of UAE, the Group has divided its customers benefitting from payment deferrals into two groups as follows:

Group 1: includes those customers that are not expected to face substantial changes in their creditworthiness, beyond liquidity issues and are temporarily and mildly impacted by the Covid-19 crisis.

For these customers, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers are subject to ongoing monitoring for any changes in their creditworthiness for the appropriateness of their grouping and IFRS 9 staging.

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Deferral amount and outstanding balances of deferral customers (stock) (continued)
Group 2: includes those customers that are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals.

For these customers, there is sufficient deterioration in credit risk to trigger IFRS 9 stage migration. The Bank continues to monitor the creditworthiness of these customers, particularly indications of potential inability to pay any of their obligations as and when they become due.

The impact of Covid-19 crisis continues to filter through into the real economy. In view of this, the Bank has taken a proactive approach and on an ongoing basis for all customers, the Bank continues to consider the severity and extent of potential Covid-19 impact on economic sectors and outlook, cash flow, financial strength, agility and change in risk profile along with the past track record and ongoing adaptation. Accordingly, all staging and grouping decisions are subject to regular review to ensure these reflect an accurate view of the Bank's assessment of the customers' creditworthiness, staging and grouping as of the reporting date.

Outstanding balances and related ECL of deferral customers (stock)
The table below is an analysis of outstanding balances and related ECL of customers that are benefiting from payment deferrals:

AED'000	*Loans and advances*	*Total*
31 December 2021		
Corporate and Institutional banking		
Group 1		
Exposures	**1,516,810**	**1,516,810**
Less: Expected credit losses	**(5,733)**	**(5,733)**
	1,511,077	**1,511,077**
Group 2		
Exposures	**451,067**	**451,067**
Less: Expected credit losses	**(4,554)**	**(4,554)**
	446,513	**446,513**
Retail banking		
Group 1		
Exposures	**113,004**	**113,004**
Less: Expected credit losses	**(1,364)**	**(1,364)**
	111,640	**111,640**
Group 2		
Exposures	**-**	**-**
Less: Expected credit losses	**-**	**-**
	-	**-**

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Outstanding balances and related ECL of deferral customers (stock) (continued)

AED'000	*Loans and advances*	*Total*
31 December 2020		
Corporate and Institutional banking		
Group 1		
Exposures	1,928,578	1,928,578
Less: Expected credit losses	(6,977)	(6,977)
	1,921,601	1,921,601
Group 2		
Exposures	632,135	632,135
Less: Expected credit losses	(8,338)	(8,338)
	623,797	623,797
Retail banking		
Group 1		
Exposures	241,756	241,756
Less: Expected credit losses	(1,885)	(1,885)
	239,871	239,871
Group 2		
Exposures	-	-
Less: Expected credit losses	-	-
	-	-

Gross Exposure stage migrations of deferral customers

Below is an analysis of Stage migrations since 31 December 2020 of customers benefiting from payment deferrals:

	Loans and advances			
AED'000	*12-month ECL*	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired**	*Total*
Corporate and Institutional banking				
EAD as at 1 January 2021	**2,221,905**	**476,123**	**-**	**2,698,028**
Transferred from 12-month ECL	**(26,678)**	**26,678**	**-**	**-**
Transferred from Lifetime ECL not credit-impaired	**8,434**	**(8,434)**	**-**	**-**
Transferred from Lifetime ECL credit-impaired	**(14,650)**	**-**	**14,650**	**-**
Other movements – net	**(533,147)**	**(182,354)**	**47,396**	**(668,105)**
EAD as at 31 December 2021	**1,655,864**	**312,013**	**62,046**	**2,029,923**

** Customers that were benefitting from deferrals at inception and were transferred to stage 3 during the year are no longer eligible for deferrals.*

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Gross Exposure stage migrations of deferral customers

AED'000	*Loans and advances* 12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired**	*Total*
Retail banking				
EAD as at 1 January 2021	**241,756**	**-**	**-**	**241,756**
Transferred from 12-month ECL	**-**	**-**	**-**	**-**
Transferred from Lifetime ECL not credit-impaired	**-**	**-**	**-**	**-**
Transferred from Lifetime ECL credit-impaired	**-**	**-**	**-**	**-**
Other movements – net	**(128,752)**	**-**	**-**	**(128,752)**
EAD as at 31 December 2021	**113,004**	**-**	**-**	**113,004**

ECL Stage migrations of deferral customers

Below is an analysis of Stage migrations since 31 December 2020 of customers benefiting from payment deferrals:

AED'000	*Loans and advances* 12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired**	*Total*
Corporate and Institutional banking				
ECL as at 1 January 2021	**16,017**	**4,797**	**-**	**20,814**
Transferred from 12-month ECL	**(1,209)**	**1,209**	**-**	**-**
Transferred from Lifetime ECL not credit-impaired	**22**	**(22)**	**-**	**-**
Transferred from Lifetime ECL credit-impaired	**(120)**	**-**	**120**	**-**
Other movements – net	**(9,693)**	**(714)**	**15,027**	**4,620**
ECL as at 31 December 2021	**5,017**	**5,270**	**15,147**	**25,434**

** Customers that were benefitting from deferrals at inception and were transferred to stage 3 during the year are no longer eligible for deferrals.*

Retail banking				
ECL as at 1 January 2021	**1,885**	**-**	**-**	**1,885**
Transferred from 12-month ECL	**-**	**-**	**-**	**-**
Transferred from Lifetime ECL not credit-impaired	**-**	**-**	**-**	**-**
Transferred from Lifetime ECL credit-impaired	**-**	**-**	**-**	**-**
Other movements – net	**(521)**	**-**	**-**	**(521)**
ECL as at 31 December 2021	**1,364**	**-**	**-**	**1,364**

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Change in ECL allowance by industry sector for Corporate and Institutional banking deferral customers
Below is an analysis of change in ECL allowance by industry sector since 31 December 2020 on Corporate and Institutional banking customers benefiting from payment deferrals:

	Loans and advances AED'000
ECL allowance as at 1 January 2021	**20,814**
Add: Net charge during the year:	
Industry and mining	**6,654**
Construction	**(409)**
Real estate	**(842)**
Telecommunication and Transportation	**169**
Financial institutions	**-**
Governmental	**-**
Services	**(952)**
Net charge	**4,620**
*Less: Transfers to Stage 3**	**(15,147)**
ECL allowance as at 31 December 2021	**10,287**

** Customers that were benefitting from deferrals at inception and were transferred to stage 3 during the year are no longer eligible for deferrals.*

Change in ECL allowance by products for Retail banking customers
Below is an analysis of change in ECL allowance by products since 31 December 2020 on Retail banking customers benefiting from payment deferrals:

	Loans and advances AED'000
ECL allowance as at 1 January 2021	**1,885**
Add: Net charge during the year:	
Credit Cards	**-**
Personal loans	**(11)**
Housing loans	**(431)**
Auto loans	**(79)**
Others	**-**
Net charge	**(521)**
ECL allowance as at 31 December 2021	**1,364**

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Gross Exposure stage migrations of deferral customers
Below is an analysis of Stage migrations since 31 December 2019 of customers benefiting from payment deferrals:

	Loans and advances			
AED'000	*12-month ECL*	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired**	*Total*
Corporate and Institutional banking				
EAD as at 1 January 2020	2,805,320	168,391	-	2,973,711
Transferred from 12-month ECL	26,649	(26,649)	-	-
Transferred from Lifetime ECL not credit-impaired	(407,289)	407,289	-	-
Transferred from Lifetime ECL credit-impaired	(269,581)	-	269,581	-
Other movements – net	(26,352)	(117,065)	69,224	(74,193)
EAD as at 31 December 2020	2,128,747	431,966	338,805	2,899,518

** Customers that were benefitting from deferrals at inception and were transferred to stage 3 during the year are no longer eligible for deferrals.*

Retail banking				
EAD as at 1 January 2020	84,768	-	-	84,768
Transferred from 12-month ECL	-	-	-	-
Transferred from Lifetime ECL not credit-impaired	-	-	-	-
Transferred from Lifetime ECL credit-impaired	-	-	-	-
Other movements – net	156,988	-	-	156,988
EAD as at 31 December 2020	241,756	-	-	241,756

ECL Stage migrations of deferral customers
Below is an analysis of Stage migrations since 31 December 2019 of customers benefiting from payment deferrals:

	Loans and advances			
AED'000	*12-month ECL*	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired**	*Total*
Corporate and Institutional banking				
ECL as at 1 January 2020	8,464	2,967	-	11,431
Transferred from 12-month ECL	(739)	739	-	-
Transferred from Lifetime ECL not credit-impaired	432	(432)	-	-
Transferred from Lifetime ECL credit-impaired	(1,161)	-	1,161	-
Other movements – net	1,968	3,077	109,823	114,868
ECL as at 31 December 2020	8,964	6,351	110,984	126,299

** Customers that were benefitting from deferrals at inception and were transferred to stage 3 during the year are no longer eligible for deferrals.*

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

ECL Stage migrations of deferral customers (continued)
Below is an analysis of Stage migrations since 31 December 2019 of customers benefiting from payment deferrals:

	Loans and advances			
AED'000	*12-month ECL*	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired**	*Total*
Retail banking				
ECL as at 1 January 2020	433	-	-	433
Transferred from 12-month ECL	-	-	-	-
Transferred from Lifetime ECL not credit-impaired	-	-	-	-
Transferred from Lifetime ECL credit-impaired	-	-	-	-
Other movements – net	1,452	-	-	1,452
ECL as at 31 December 2020	1,885	-	-	1,885

Change in ECL allowance by industry sector for Corporate and Institutional banking deferral customers
Below is an analysis of change in ECL allowance by industry sector since 31 December 2019 on Corporate and Institutional banking customers benefiting from payment deferrals:

	Loans and advances AED'000
ECL allowance as at 1 January 2020	11,431
Add: Net charge during the year:	
Industry and mining	186
Construction	42
Real estate	507
Telecommunication and Transportation	44
Financial institutions	-
Governmental	-
Services	4,266
Net charge	5,045
*Less: Transfers to Stage 3**	(1,161)
ECL allowance as at 31 December 2020	15,315

** Customers that were benefitting from deferrals at inception and were transferred to stage 3 during the year are no longer eligible for deferrals.*

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

Change in ECL allowance by products for Retail banking customers (continued)
Below is an analysis of change in ECL allowance by products since 31 December 2019 on Retail banking customers benefiting from payment deferrals:

	Loans and advances AED'000
ECL allowance as at 1 January 2020	433
Add: Net charge during the year:	
Credit Cards	-
Personal loans	42
Housing loans	1,362
Auto loans	84
Others	-
Net charge	1,488
ECL allowance as at 31 December 2020	1,921

b) Liquidity risk management

Liquidity risk is the risk that the Branches will encounter difficulties in meeting obligations from its financial liabilities at a point of time.

The Branches manage liquidity to ensure, as far as possible, that they will always have sufficient liquidity to meet their liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branches' reputation.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Branches as a whole.

When a branch is subject to a liquidity limit imposed by its local regulator, the branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance with local regulatory limits on a daily basis.

The liquidity position is monitored daily and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

ALCO has a broad range of authority delegated by the Head Office to manage the Branches' asset and liability structure and funding strategy. ALCO meets on a monthly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rates and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCO formulates liquidity risk management guidelines for the Branches' operation. The Branches use interest rates stimulation forms to measure and monitor interest rate sensitivity and prospective fluctuation.

The key measure used by the Branches for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as cash and cash equivalents and investment in an active and liquid market less any deposits from banks, debit notes issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Branches' compliance with the liquidity limit established by the Branches' lead regulator. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Utilization of funds to stable resources and stress testing of liquid funds vs unexpected withdrawal of liabilities. For all the measures, benchmarks are set and reviewed by ALCO on regular basis.

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

The residual maturities of assets, liabilities and Head Office equity as at 31 December is as follows:

31 December 2021	*Within 3 months AED'000*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*No fixed maturity AED'000*	*Total AED'000*
Assets						
Cash and balances with Central Bank of UAE	**1,380,000**	**-**	**-**	**-**	**781,184**	**2,161,184**
Deposits and balances due from banks	**837,427**	**-**	**-**	**-**	**783,873**	**1,621,300**
Deposits and balances due from Head Office and branches abroad	**138,320**	**-**	**-**	**-**	**48,238**	**186,558**
Loans and advances, net	**3,546,638**	**702,581**	**743,347**	**4,218,634**	**-**	**9,211,200**
Other financial assets	**1,961,460**	**871,984**	**132,218**	**994,117**	**1,461**	**3,961,240**
Other assets	**-**	**-**	**-**	**-**	**399,817**	**399,817**
Right-of-use assets	**-**	**-**	**-**	**24,116**	**-**	**24,116**
Deferred tax assets	**-**	**-**	**-**	**-**	**366,016**	**366,016**
Property and equipment	**-**	**-**	**-**	**-**	**7,851**	**7,851**
Total assets	**7,863,845**	**1,574,565**	**875,565**	**5,236,867**	**2,388,440**	**17,939,282**
Liabilities and Head Office equity						
Due to banks	**-**	**-**	**-**	**-**	**72,084**	**72,084**
Due to Head Office and branches abroad	**75,000**	**-**	**-**	**-**	**46,035**	**121,035**
Customers' deposits	**4,699,506**	**1,376,311**	**1,960,830**	**237,921**	**5,470,105**	**13,744,673**
Security deposits from customers	**618,778**	**207,638**	**263,004**	**121,678**	**-**	**1,211,098**
Other liabilities	**-**	**-**	**-**	**-**	**514,660**	**514,660**
Lease liability	**2,886**	**2,886**	**5,772**	**7,874**		**19,418**
Provisions	**-**	**-**	**-**	**-**	**30,105**	**30,105**
Subordinated loan	**-**	**-**	**-**	**374,595**	**-**	**374,595**
Head Office equity	**-**	**-**	**-**	**-**	**1,851,614**	**1,851,614**
Total liabilities and Head Office equity	**5,396,170**	**1,586,835**	**2,229,606**	**742,068**	**7,984,603**	**17,939,282**

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

31 December 2020	*Within 3 months AED'000*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*No fixed maturity AED'000*	*Total AED'000*
Assets						
Cash and balances with Central Bank of UAE	2,500,000	-	-	-	867,297	3,367,297
Deposits and balances due from banks	2,079,625	-	-	-	780,250	2,859,875
Deposits and balances due from Head Office and branches abroad	231,354	-	-	-	53,822	285,176
Loans and advances, net	4,729,521	794,583	722,400	4,588,614	-	10,835,118
Other financial assets	311,748	301,510	92,676	123,803	2,648	832,385
Other assets	-	-	-	-	322,896	322,896
Right-of-use assets	-	-	-	27,962	-	27,962
Deferred tax assets	-	-	-	-	300,393	300,393
Property and equipment	-	-	-	-	10,056	10,056
Total assets	9,852,248	1,096,093	815,076	4,740,379	2,337,362	18,841,158
Liabilities and Head Office equity						
Due to banks	158,457	-	-	-	87,163	245,620
Due to Head Office and branches abroad	-	-	-	-	135,941	135,941
Customers' deposits	5,138,033	1,583,598	2,144,543	365,881	4,989,620	14,221,675
Security deposits from customers	606,745	295,922	204,203	142,627	-	1,249,497
Other liabilities	-	-	-	-	449,577	449,577
Lease liability	3,020	3,020	6,040	11,499	-	23,579
Provisions	-	-	-	-	85,190	85,190
Subordinated loan	-	-	-	374,595	-	374,595
Head Office equity	-	-	-	-	2,055,484	2,055,484
Total liabilities and Head Office equity	5,906,255	1,882,540	2,354,786	894,602	7,802,975	18,841,158

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

The tables below show undiscounted contractual cash flows on the Branches' financial liabilities:

31 December 2021	***Within 3 months AED'00***	***3 to 6 months AED'000***	***6 to 12 months AED'000***	***Over 1 year AED'000***	***No fixed maturity AED'000***	***Total AED'000***
Due to banks	**-**	**-**	**-**	**-**	**72,084**	**72,084**
Due to Head Office and branches abroad	**75,001**	**-**	**-**	**-**	**46,036**	**121,037**
Customers' deposits	**4,791,419**	**1,403,229**	**1,999,180**	**242,574**	**5,577,089**	**14,013,491**
Security deposits from customers	**632,420**	**212,215**	**268,802**	**124,361**	**-**	**1,237,798**
Other liabilities	**-**	**-**	**-**	**-**	**477,045**	**477,045**
Lease liability	**2,948**	**2,948**	**5,897**	**7,625**	**-**	**19,418**
Subordinated loan	**-**	**-**	**-**	**375,664**	**-**	**375,664**
Total financial liabilities	**5,501,788**	**1,618,392**	**2,273,879**	**750,224**	**6,172,254**	**16,316,537**

31 December 2020	*Within 3 months AED'00*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*No fixed maturity AED'000*	*Total AED'000*
Due to banks	158,457	-	-	-	87,163	245,620
Due to Head Office and branches abroad	-	-	-	-	135,941	135,941
Customers' deposits	5,272,407	1,625,014	2,200,629	375,450	5,120,113	14,593,613
Security deposits from customers	629,463	307,002	211,849	147,967	-	1,296,281
Other liabilities	-	-	-	-	396,158	396,158
Lease liability	2,998	2,998	5,996	12,134	-	24,126
Subordinated loan	-	-	-	387,360	-	387,360
Total financial liabilities	6,063,325	1,935,014	2,418,474	922,911	5,739,375	17,079,099

33 RISK MANAGEMENT (continued)

c) Market risk management

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and bonds and shares prices. The Branches classify exposures to market risk into either trading or non-trading or banking books.

(i) Market risk - trading books

The Branches have set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Branches periodically assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

The Branches are exposed to fluctuations in equity price risk. The table summarises the impact on profit and loss and equity from changes in prices by +/-10%. The below analysis assumes that all equities move in parallel.

	2021 ***AED'000***	*2020* *AED'000*
Other financial assets measured at FVTPL	**-**	-
Other financial assets measured at FVTOCI	**264**	265
	264	265

(ii) Market risk - non-trading or banking books

Market risk on non-trading or banking positions mainly arises from the interest rate and foreign currency exposures.

(iii) Market risk - interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Branches are exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Branches use simulation-modeling tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by ALCO. Since most of the Branches' assets and liabilities are at floating rates, deposits and loans generally reprice simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Branches' assets and liabilities are repriced during the year, thereby further limiting interest rate risk.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branches' statement of comprehensive income or equity. The sensitivity of the 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 reporting date, including the effect of hedging instruments. The sensitivity of equity is analyzed by maturity of the assets or swaps. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities.

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

(iii) Market risk - interest rate risk management (continued)

The interest rate risk as at 31 December is as follows:

31 December 2021	*Less than 3 months AED'000*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*Non-interest sensitive AED'000*	*Total AED'000*
Assets						
Cash and balances with Central Bank	**1,380,001**	**-**	**-**	**-**	**781,183**	**2,161,184**
Deposits due from banks	**837,427**	**-**	**-**	**-**	**783,873**	**1,621,300**
Deposits and balances due from Head Office and branches abroad	**138,320**	**-**	**-**	**-**	**48,238**	**186,558**
Loans and advances, net	**7,566,016**	**138,386**	**132,443**	**1,374,355**	**-**	**9,211,200**
Other financial assets	**1,961,458**	**871,984**	**132,218**	**994,119**	**1,461**	**3,961,240**
Other assets	**-**	**-**	**-**	**-**	**399,817**	**399,817**
Right-of-use assets	**-**	**-**	**-**	**-**	**24,116**	**24,116**
Deferred tax assets	**-**	**-**	**-**	**-**	**366,016**	**366,016**
Property and equipment	**-**	**-**	**-**	**-**	**7,851**	**7,851**
Total assets	**11,883,222**	**1,010,370**	**264,661**	**2,368,474**	**2,412,555**	**17,939,282**
Customers' deposits	**4,924,246**	**1,313,231**	**1,761,915**	**275,176**	**5,470,105**	**13,744,673**
Security deposits from customers	**252,415**	**295,728**	**247,244**	**124,153**	**291,558**	**1,211,098**
Deposits and balances due to banks	**-**	**-**	**-**	**-**	**72,084**	**72,084**
Deposits and balances due to Head Office and branches abroad	**75,000**	**-**	**-**	**-**	**46,035**	**121,035**
Other liabilities	**-**	**-**	**-**	**-**	**514,660**	**514,660**
Lease liability	**2,886**	**2,886**	**5,772**	**7,874**	**-**	**19,418**
Provisions	**-**	**-**	**-**	**-**	**30,105**	**30,105**
Subordinated loan	**-**	**374,595**	**-**		**-**	**374,595**
Head Office equity	**-**	**-**	**-**	**-**	**1,851,614**	**1,851,614**
Total liabilities and Head Office equity	**5,254,547**	**1,986,440**	**2,014,931**	**407,203**	**8,276,161**	**17,939,282**
On Balance Sheet gap	**6,628,675**	**(976,070)**	**(1,750,270)**	**1,961,271**	**(5,863,606)**	**-**
Cumulative interest rate sensitivity gap	**6,628,675**	**5,652,605**	**3,902,335**	**5,863,606**	**-**	**-**

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

(iii) Market risk - interest rate risk management (continued)

31 December 2020	*Less than 3 months AED'000*	*3 to 6 months AED'000*	*6 to 12 months AED'000*	*Over 1 year AED'000*	*Non-interest sensitive AED'000*	*Total AED'000*
Assets						
Cash and balances with Central Bank	2,500,000	-	-	-	867,297	3,367,297
Deposits due from banks	2,079,625	-	-	-	780,250	2,859,875
Deposits and balances due from Head Office and branches abroad	231,354	-	-	-	53,822	285,176
Loans and advances, net	9,266,907	156,287	156,295	1,255,629	-	10,835,118
Other financial assets	651,303	26,449	92,676	59,309	2,648	832,385
Other assets	-	-	-	-	322,896	322,896
Right-of-use assets	-	-	-	-	27,962	27,962
Deferred tax assets	-	-	-	-	300,393	300,393
Property and equipment	-	-	-	-	10,056	10,056
Total assets	14,729,189	182,736	248,971	1,314,938	2,365,324	18,841,158
Customers' deposits	5,171,969	1,705,776	1,920,403	433,908	4,989,619	14,221,675
Security deposits from customers	343,591	268,102	198,630	152,412	286,762	1,249,497
Deposits and balances due to banks	1,774	-	-	-	243,846	245,620
Deposits and balances due to Head Office and branches abroad	-	-	-	-	135,941	135,941
Other liabilities	-	-	-	-	449,577	449,577
Lease liability	3,020	3,020	6,040	11,499	-	23,579
Provisions	-	-	-	-	85,190	85,190
Subordinated loan	-	374,595	-	-	-	374,595
Head Office equity	-	-	-	-	2,055,484	2,055,484
Total liabilities and Head Office equity	5,520,354	2,351,493	2,125,073	597,819	8,246,419	18,841,158
On Balance Sheet gap	9,208,835	(2,168,757)	(1,876,102)	717,119	(5,881,095)	-
Cumulative interest rate sensitivity gap	9,208,835	7,040,078	5,163,976	5,881,095	-	-

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

(iii) Market risk - interest rate risk management (continued)
The impact of 1% sudden movement in benchmark interest rate on net interest income over a 12 month period as on 31 December 2021 would have been an/(a) increase/decrease in net interest income by AED 2.8 million (2020: AED 3.7 million).

The average effective interest rate on bank placements was 1.16% (2020: 0.46%) certificates of deposits with central bank was 0.12% (2020: 0.46%), on loans and advances 3.16% (2020: 4.23%), on customer's deposits 0.64% (2020: 1.23%) and on bank borrowings 0.16% (2020: 0.47%).

(iv) IBOR Reforms
A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative risk-free rates (referred to as 'IBOR reform'). The Bank has exposure to interbank offered rates (IBORs) on its financial instruments which will be replaced at the transition date and as part of these market-wide initiatives.

LIBOR referenced in Bank contracts will be replaced by the following overnight Risk-Free Rates (RFR), as per market best practice:

Currency	*IBOR*	*Alternative Reference Rate*	*Transition Date*
USD	USD LIBOR (3/6 Months)	Secured Overnight Financing Rate (SOFR)	June 2023
GBP	GBP LIBOR	Sterling Overnight Index Average (SONIA)	January 2022
EUR	EURIBOR / EUR LIBOR	Euro Short-Term Rate (€STR)	January 2022
JPY	JPY LIBOR	Tokyo Overnight Average Rate (TONAR)	January 2022

Financial assets:
The Bank's IBOR exposures on floating-rate loans and advances are covered in the following table:

Currency	***2021*** ***AED'000***	*2020* *AED'000*
USD	**761,893**	851,809
EUR	**8,313**	11,786
JPY	**1,116**	21,217
	771,322	884,812

The Bank expects that retail products will be amended in a uniform way. However, the Bank expects to participate in bilateral negotiations with the counterparties in its bespoke products, such as Concentration of credit risk by industry issued to corporates. The Bank expects to begin amending the contractual terms of its existing floating-rate assets in 2022; however, the exact timing will vary depending on the extent to which standardized language can be applied across certain loan types and the extent of bilateral negotiations between the Bank and loan counterparties.

Financial liabilities:
The Bank has floating-rate liabilities indexed to IBORs of AED 374,595 thousand denominated in USD.

Following the decision by global regulators to phase out LIBOR rates and replace them with alternative reference rates, to be applied to loans and other banking products. Arab Bank formed the LIBOR Succession Committee to manage this transition.

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

(iv) IBOR Reforms (continued)
The following table shows the bank's assets, liabilities and derivatives linked to LIBOR whose maturity date is later than 31 December 2021.

	Financial assets other than derivatives at purchasing value AED'000	***Financial liabilities other than derivatives at purchasing value AED'000***	***Notional value of derivatives AED'000***
31 December 2021			
USD LIBOR (1 month)	**470,975**	**-**	**-**
USD LIBOR (3 month)	**150,329**	**374,595**	**646,156**
USD LIBOR (6 month)	**136,254**	**-**	**-**
Others	**13,764**	**-**	**-**
Total	**771,322**	**374,595**	**646,156**

	Financial assets other than derivatives at purchasing value AED'000	*Financial liabilities other than derivatives at purchasing value AED'000*	*Notional value of derivatives AED'000*
31 December 2020			
USD LIBOR (1 month)	202,975	-	-
USD LIBOR (3 month)	360,985	374,595	165,793
USD LIBOR (6 month)	221,810	-	-
Others	99,042	-	-
Total	884,812	374,595	165,793

The impact of changing interest rates is managed by the bank on an ongoing basis, as well as carefully hedging the effects of such change.

The average remaining period to maturity of the hedging instruments of the bank's assets and liabilities for contracts maturing after 31 December 2021 is 2.8 years (2020: 1.8 years).

33 RISK MANAGEMENT (continued)

d) Foreign currency risk management

Foreign currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The management has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The Branches' assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. The Branches manage exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its reporting and cash flows. The management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Branches' net material risks from foreign currencies are as follows:

	2021 ***AED'000***	*2020* *AED'000*
USD	**4,606**	6,323
Sterling Pounds	**(1,052)**	523
Euro	**2,355**	38
Japanese Yen	**1,980**	383
Qatari Riyal	**595**	770
Other	**(5,144)**	5,482
Net risk	**3,340**	13,519

The Branches' management sets policies and limits for foreign currencies transactions and periodically monitors foreign currency risks.

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as fair value hedges). A positive effect shows a potential increase in income statement or equity; whereas a negative effect shows a potential net reduction in income statement or equity.

Currency exposure as at 31 December:

31 December 2021	***Increase/decrease of 5%***	***Effect on profit***
		AED'000
Sterling Pounds	**±5%**	**(5)**
Japanese Yen	**±5%**	**19**
Euro	**±5%**	**35**
Others	**±5%**	**(30)**

31 December 2020	*Increase/decrease of 5%*	*Effect on profit*
		AED'000
Sterling Pounds	±5%	(5)
Japanese Yen	±5%	32
Euro	±5%	55
Others	±5%	(33)

34 LEASES

The Bank has lease contracts for branches and ATM locations used in its operations. Leases of branches generally have lease terms between 3 and 5 years, while ATM locations generally have shorter lease terms between 1 and 2 years. The Bank's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options, which are further discussed below.

The Bank also has certain leases for ATM locations with lease terms of 12 months or less and with low value. The Bank applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	2021 AED'000	*2020 AED'000*
Right-of-use assets		
As at 1 January (modified retrospective approach) (Note 2)	**27,962**	44,358
Lease modification adjustments	**-**	(3,973)
Post modification balance	**27,962**	40,385
Additions	**6,832**	-
Depreciation expense	**(10,678)**	(12,423)
As at 31 December	**24,116**	27,962

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2021 AED'000	*2020 AED'000*
Lease Liabilities		
As at 1 January (modified retrospective approach) (Note 2)	**23,579**	38,368
Lease modification adjustments:	**-**	(3,973)
Post modification balance	**23,579**	34,395
Additions	**6,792**	-
Accretion of interest	**303**	808
Payments during the year	**(11,256)**	(11,624)
As at 31 December	**19,418**	23,579

The maturity analysis of lease liabilities are disclosed under Liquidity risk management note.

The following are the amounts recognised in profit or loss:

	2021 AED'000	*2020 AED'000*
Depreciation expense of right-of-use assets	**10,678**	12,423
Interest expense on lease liabilities	**303**	808
Expense relating to leases of short-term and low-value assets (included in rent expenses)	**8,506**	8,771
Total amount recognised in profit or loss	**19,487**	22,002

The Bank had total cash outflows for leases of AED 10,953 thousand in 2021 (AED 10,816 thousand in 2020).

The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.