ANNUAL REPORT 2021

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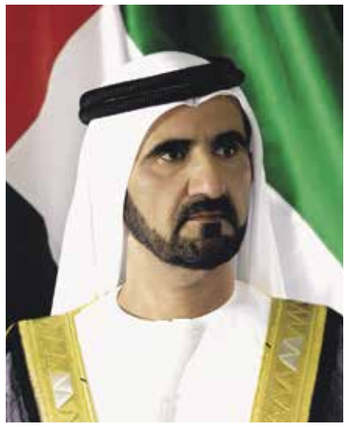
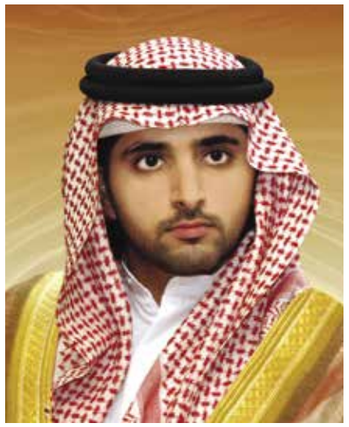
بنك دبي التجاري
Commercial Bank of Dubai

His Highness
Sheikh Khalifa bin Zayed Al Nahyan
President of the UAE
Ruler of Abu Dhabi



His Highness
Sheikh Mohammed bin Rashid Al Maktoum
Vice President and Prime Minister of the UAE
Ruler of Dubai



His Highness
Sheikh Hamdan bin Mohammed bin Rashid Al Maktoum
Crown Prince of Dubai

His Highness
Sheikh Maktoum bin Mohammed bin Rashid Al Maktoum
Deputy Ruler of Dubai, Deputy Prime Minister and Minister of Finance

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Our Purpose

To back the Nation's Ambitions.

Our Vision

To be the best bank for our customers.

Winning together through our values

- Collaboration
- Ownership
- Delivery
- Excellence

Chairman's Message

> "As the world emerges from the pandemic, CBD remains well-positioned for further growth and success in the future"

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present you with the annual report and audited financial statements of the Commercial Bank of Dubai for the financial year ended 31 December 2021.

The 2021 year has proved to be another challenging and volatile period that has necessitated innovation, dexterity and above all else inspiring leadership. We can all be extremely proud of the manner in which the pandemic has been managed, positioning the country for a successful future. With this context in mind I am delighted to announce that 2021 was another year of solid achievement at CBD where we posted a record net profit underpinned by strong asset growth.

Whilst the external environment was uncertain at times and business conditions mixed, CBD delivered a record net profit of AED 1,451 million for the full year ended 31 December 2021. The bank reached AED 114 billion in assets driven by strong growth in loans which increased 17.3 per cent compared to 2020. Customers' deposits increased by 18.6 per cent to AED 82.7 billion and total shareholders' equity increased by 4.7 per cent to AED 13.6 billion. Operating income for the year amounted to AED 3,183 million, an increase of 6.9 per cent, attributable to higher Net Interest Income (NII) and improved fee and commission income. The cost-to-income ratio remained market leading at 27.2 per cent

The bank continued to strengthen provision buffers with an additional impairment allowance totaling AED 867 million. The bank's liquidity and adequacy position remained robust with the advances to stable resources ratio at 88.00 per cent as at 31 December 2021, the capital adequacy ratio (CAR) at 15.82 per cent, Tier 1 ratio at 14.66 per cent and the Common Equity Tier 1 (CET1) ratio at 12.13 per cent.

Throughout 2021, CBD continued on our digital transformation journey, launching a wide range of advanced banking products and solutions. Digital transformation at CBD bolstered our position in providing banking solutions with the customer in mind. The bank's digital focus was widely recognized with multiple industry accolades, including "Best Digital Transformation 2021" by MEA Finance Magazine, "Most innovative Bank of the Year" by Entrepreneur Middle East, "Best Robo Advisory Investment Solution" for our CBD Investr app by MEA Finance 2021, and "Outstanding Digital Transformation in Trade Finance" award from The Digital Banker. These digital innovations with an unrelenting focus on supporting our customers have enabled the bank to successfully increase market share across all segments, with market leading returns.

> "Digital transformation at CBD bolstered our position in providing banking solution with the customers in mind"

The 2021 year witnessed the UAE's golden jubilee celebrations, marking a unique journey over the first 50 years of history and in outlining the plan for the next 50 years, to provide the best quality of life for current and future generations. The UAE has proactively orientated towards diversifying the economy into future growth sectors launching a national strategy. As part of this strategy, the UAE has in hand an economic plan for all vital sectors, outlined in the UAE National Agenda 2021 and in preparation for the UAE Centennial 2071, all of which are aimed at achieving economic diversification delivering a positive lifestyle impact for all.

Throughout the 50-year journey, the UAE national economy has established a leading global economic model. The economy has transformed rapidly from one based on the pearl and spice trade in the middle of the past century through to the discovery of oil in the sixties and seventies to what is now a broad based economy encompassing space, technology, artificial intelligence and one that is strong enough to reach Mars!

The UAE has made many notable steps that have contributed to stimulating economic growth, leveraging strengths and competitive advantages, pushing sustainable industry forward. On the back of sustained economic performance, strong leadership and an ability to effectively navigate regional and global challenges, the country has strengthened its regional and global position.

The year witnessed the launch of Expo 2020 Dubai, in which the UAE dazzled the world, organizing the best edition ever for this remarkable international event, which further enhanced the UAE's reputation, hosting a major event to the highest international standards. With the participation of 192 countries, Expo 2020 Dubai succeeded in mobilizing the world's positive energies to confront the challenges imposed by the pandemic.

The UAE's economic activity improved in 2021 as the country continued to be at the forefront of containing the spread of Covid-19, maintaining a global lead in terms of number of tests conducted, vaccine rollouts, and the overall management of the pandemic.

Importantly, the domestic banking sector continued to support UAE economic development through the efficient facilitation of funding, helping to support businesses grow the national economy. The Central Bank of the UAE (CBUAE) outlined that Gross Domestic Product (GDP) is expected to grow by 4.2 per cent in 2022 with the non-oil component growing by 3.9 per cent.

As the world emerges from the pandemic, CBD remains well-positioned for further growth and success in the future. We will continue to create a high-quality banking experience with leading financial performance that increases shareholder value. I am confident that through the efforts of our board, management team, and staff, we will continue to exceed our goals and move CBD forward in the years ahead.

In conclusion, on behalf of the Board, I would like to offer our sincere appreciation and gratitude to the UAE's leadership for their outstanding response during the pandemic, and to all who served on the front lines to protect us during this extremely challenging period. I would also thank our shareholders, management team, employees, and valued customers for their trust, and continued support, throughout 2021.

Best Regards,

H.E. Humaid Mohammad Al Qutami
Chairman

Letter from the Chief Executive Officer

> **“We delivered a record net profit, a record cash dividend, a record balance sheet size, and market leading Return-on-Equity and Cost-to-Income ratios”**

Dear Shareholders,

The year 2021 has been a remarkable, challenging and ultimately positive one following from the unprecedented year we witnessed in 2020. Owing to the wise leadership of the government of the UAE, the domestic recovery far outpaced that in the rest of the world. The year started well, as we saw recovery of the local economy taking hold across all sectors of the local economy, with the tourism and real estate sectors delivering a particularly strong performance. Despite the occasional hurdle on the back of constraints across the supply chain and new COVID-19 variants, this recovery essentially continued throughout the year, with economic conditions at the end of 2021 approaching pre-COVID levels.

Against this backdrop of economic recovery, your Bank has performed well. We continued on our growth trajectory, backing our customers' ambitions in all segments of the economy. Despite increased competition on the back of excess market liquidity, we delivered a record net profit, a record cash dividend, a record balance sheet size, and market leading Return-on-Equity and Cost-to-Income ratios. Revenues and operating profits grew by 7% year-on-year, whilst both net loans and total assets grew in excess of 17%, which is well above the market. We maintained our prudent approach towards provisioning for non-performing loans. However, in light of the improved economic situation, impairments decreased by 17.5% year-on-year.

All of our efforts resulted in an operating profit of 2.32 billion Dirham, up by 7% compared to 2020 and a net profit of AED 1.45 billion, higher by 30% compared to 2020. The net profit of 1.45 billion was a record for your Bank, and has enabled us to propose a record cash dividend of 25.88% on par value, which equates to a 50% payout ratio.

The proposed dividend payout was enabled by our strong capital position, which continues to be well above the regulatory thresholds as set by the Central Bank of the UAE.

> **“The solid financial performance is reflective of the great contribution by all of our employees”**

The solid financial performance is reflective of the great contribution by all of our employees, who, throughout the year, continued to focus on our customers, supporting them as business conditions rebounded, and backing them in achieving their ambitions. This was visible in a multitude of ways, including us supporting many residents in realizing their dream of owning a house and providing security for their future, through us originating record levels of retail mortgages, where we were consistently among the leaders in the market. To support our corporate customers, we launched an Asset Backed Lending product, helping them to further invest in their equipment, machinery and fleet base. We expanded our Supply Chain Financing (SCF) proposition, supporting our customers along their full value chain in a time of massive disruption to global and local supply chains. Our SCF product is provided on a globally leading digital platform, offering a prime example of our continued focus on being Default Digital. Also for our corporate clients we launched iServe, a digital self-service portal, which enhances customer experience through shorter turn-around times, increased transparency and real time communication with our employees offering specialized support. In line with the UAE's vision to further grow the important segment of Small and Medium-Sized Enterprises (SMEs), we have partnered with a range of authorities including Dubai Economy, Jebel Ali Free Zone, Dubai Multi Commodities Centre and the Abu Dhabi Department for Economic Development to provide instant banking services for their new or existing licensed entities.

In the Retail Banking space, we significantly expanded our digital, 'Direct From Customer' offering, comprising Digi accounts, Digi loans, and virtual cards. This digital offering has been well received by the market, as evident by a close to doubling of our retail customer base over 2021. We expanded the corridors open for instant remittances, building on our award-winning partnership with NOW Money, a Dubai-based fintech specialized in servicing the lower-income customer segment.

We expanded CBD Investr, and now offer a wide range of self-directed investment opportunities. This complements the Robo Advisory service we launched in 2020, and was a first for the Middle East at the time of launch.

At the end of the year, CBD opened its Digital Lab at the DIFC Innovation Hub. This marked the first initiative by any UAE bank to establish a R&D facility in the region's leading innovation center. The launch of the Lab demonstrates the Bank's commitment to the initiatives of the UAE government to be one of the world's most innovative nations. The Lab will enable innovation, offering new products to our customer base, and continually improve the customer experience.

Last, but definitely not least, your Bank is proud that it continued to invest in attracting, developing and retaining its talent. In 2021, a record number of talented UAE nationals joined our Tumoo7 management development programme. We provided a record number of training opportunities, with over 100 of our UAEN employees enrolling in focused learning and development programmes. We will continue to focus on talent development as the main building block for our high performance culture.

As a result of the exemplary leadership of the UAE, we can look forward to a very positive 2022. Your bank will continue to deliver on its financial targets in a reliable and sustainable way, in full compliance with all applicable rules and regulations. We will continue our accelerated journey towards being `Default Digital', and we will continue to develop and support our talent.

As always, I would like to thank the Board of Directors for their unwavering support. I would also like to thank all the members of the CBD team for another great performance in 2021. Above all else, I would like to thank our customers for their continuing partnership and their trust in us.

Dr. Bernd van Linder
Chief Executive Officer of Commercial Bank of Dubai PSC

Shareholding structure as 31 December 2021

- Investment Corporation of Dubai - 20%
- Al Futtaim Private Co. - 10.51%
- Orient Insurance P.J.S.C. - 8.84%
- Abdulla Hamad Al Futtaim - 6.95%
- Ghobash Trading and Investment Co LTD - 6.37%
- Abdul Wahed Al Rostamani AWR Group LLC – 6.61%
- Al Majid Investments - 5%
- General Public - 35.72%

H.E. Humaid Mohammad Obaid Yousuf Al Qutami
Non-Executive Chairman - Independent

H.E. Al Qutami joined CBD's Board of Directors in March, 2015. He is the Chairman of the Federal Authority for Government Human Resources, Chairman of the Board of Trustees of Hamdan Bin Rashid Al Maktoum Award for Distinguished Academic Performance, Chairman of the Board of Trustees of the Sharjah Voluntary Work award and Chairman of the Board of Directors for Emirates Transport and Services Corporation. He was until January 2021 the Director General of Dubai Health Authority. Prior to which he has held the position of UAE's Minister of Education, the UAE Minister of Health amongst many high other profile positions. H.E. Al Qutami holds a Master's Degree in Administration from the Western Michigan University, USA.

CBD Committee Membership:

None

H.E. Sultan Al Mansoori
Non-Executive Vice Chairman - Independent

H.E. Al Mansoori joined CBD's Board of Directors in March 2021. He is the Chairman of the Supreme Committee for Consumer Protection , Chairman of the Coordinating and Economic Cooperation Committee, Chairman of the National Committee for the Follow-up Program of Investment Climate, Chairman of the UAE international Investors Council, Chairman of The UAE SME Council Chairman of the insurance Authority, Chairman of the Federal Civil Aviation Authority, Chairman of The Dubai Islamic Economy Development Centre, Chairman of The Emirates Authority For Standardization & Metrology, Chairman of CSR UAE Fund Board of Trustees, Member of Education and Human Resources Council, Member of the Ministerial Committee for Legislation, Member of the National Committee on Population Composition, Member of the Committee of Finance and Economy. H.E. Al Mansoori holds a Bachelor's degree in Industrial Engineering from Arizona State University, USA and a diploma in Computer System Analysis from Institute of Computer Technology, Los Angeles, California, USA.

CBD Committee Membership:

- Chairman of the Board Executive Committee

Ahmad Abdulkarim Julfar
Non-Executive Director - Independent

Mr. Ahmad Abdulkarim Julfar joined CBD's Board of Directors in March 2018. He has been also Director of Emirates Integrated Telecommunications Company PJSC since March 2018. Mr. Julfar served as Group Chief Executive Officer of Etisalat from July 2011 to March 2016. He served as a Director of The National Bank of Ras Al-Khaimah (P.S.C.) until March 2018. He has held a range of senior positions including Chairman of the Board of Directors for Thuraya Group and Etisalat Services Holding, as well as Deputy Chair of the GSM Association. He was named Telecom Leader of the Year in 2014 by the Mobile World Congress and CEO of the Year (Telecom) 2013 by CEO Middle East. In 2004, he was one of the first graduates of the Sheikh Mohammed Bin Rashid Al Maktoum Establishment for Young Business Leaders. He has received degrees in Civil Engineering and Computer Science from the Gonzaga University in Washington, USA.

CBD Committee Membership:

- Chairman of the Nomination and Remuneration Committee
- Member of the Board Executive Committee

Abdullah Salim Obaid Alturifi Al Shamsi
Non-Executive Director - Independent

Mr. Alturifi joined CBD's Board of Directors in March 2018. Mr. Alturifi is the Chairman of the Sharjah Social Security Fund and Chairman of the Board of Trustees of the Sharjah Award for Doctoral Dissertations in Management Science. He is also member of the Board of Directors of the Business Company of the American University of Sharjah. He was the Chief Executive Officer of the Securities and Commodities Authority ("SCA") from 2003 to 2015. He was also the Chairman of Trustee of the SCA training center. He was appointed in 2007 until 2010 as the Secretary General of the Union of Arab Securities Commissions. He was also Board member of the Emirates Industrial Bank in 2010-2011. He is the founder and first director of the Hamriyyah Industrial Free Zone, and Vice Chairman of the Board of Director of Depa PLC in 2018.

Mr. Alturifi holds a Bachelor of Business Administration and Political Science from the UAE University and the Honorary Fellowship of the Institute of Securities and Investment (CISI) in London.

CBD Committee Membership:

- Member of the Audit Committee
- Member of the Risk and Compliance Committee

Abdulla Saif Obaid Al Hathboor
Non-Executive Director - Non-Independent

Mr. Al Hathboor joined joined CBD's Board of Directors in March 2008. He is the Chairman and Managing Director of Al Hathboor Group LLC, a Board member of Best food Company and Al Jadeed/ Dubai Automatic Bakeries, Emirates Institute of Banking & Finance and Dubai Municipality Rent Committee. Mr. Al Hathboor holds a Bachelor's degree in Accounting & Business Administration from the Al Ain University, UAE.

CBD Committee Membership:

- Member of the the Risk and Compliance Committee
- Member of the Nomination and Remuneration Committee

Abdul Wahed Mohamed Al Fahim
Non-Executive Director - Independent

Mr. Al Fahim joined CBD's Board of Directors in March 2018. He is board member of EGA since 2014. He also acts as Chairman of NASDAQ Dubai Limited and serves as a board member of DUBAL Holding LLC, Emirates Development Bank. Mr. Al Fahim has over 25 years of banking and finance experience with the Emirates NBD Group having served as a board member of both Emirates NBD Capital and Emirates NBD Asset Management. Mr. Al Fahim served as General Manager of both the Corporate and Wholesale Banking divisions of Emirates NBD Bank before his appointment as Group Deputy Chief Executive Officer of the Bank in 2009.

Mr. Al Fahim holds a Bachelor's degree in Business Administration Management from St. Edward's University.

CBD Committee Membership:

- Chairman of the Risk and Compliance Committee
- Member of the Board Executive Committee

Ali Fardan Ali Al Fardan
Non-Executive Director - Independent

Mr. Al Fardan joined joined CBD's Board of Directors in March 2011. He is currently member of the Board of Directors of Dubai Investment PJSC and Al Mal Capital. He is the Chairman of Al Fardan Holdings LLC, Chairman of The First Investor LLC, Managing Director of Al Fardan Real Estate, Chairman of Carlton Hospitality and Management, and the Vice Chairman of Naif Marine Co. PJSC.

Mr. Ali Fardan holds a Bachelor of Science (Major in Information System) from the Metropolitan State College, USA.

CBD Committee Membership:

- Member of the Audit Committee
- Member of the Nomination and Remuneration Committee

Buti Saeed Al Ghandi
Non-Executive Director - Independent

Mr. Al Ghandi joined CBD's Board of Directors in March in 2015. Mr. Al Ghandi serves as the Managing Director of Al Ghandi Investment Co. and as Chairman of the Board of Emirates Investment and Development Company PSC. He is also the Managing Director of Meethaq Employment Agency, Chancellor of the Canadian University of Dubai and Vice Chairman of Dubai World Trade Centre. He holds directorships on the Board of the Dubai Chamber of Commerce. He was member of the Board of Zakat Fund and served as a Director of Union National Bank PJSC, Oman Insurance Company, Dubai Islamic Bank and Union National Bank in Egypt. Mr. Al Ghandi holds a Bachelor's Degree in Business Administration & Finance from George Washington University, USA.

CBD Committee Membership:

- Member of the Board Executive Committee
- Member of the Nomination and Remuneration Committee

Hamad Omar Al Futtaim
Non-Executive Director - Independent

Mr. Hamad Al Futtaim CBD's Board of Directors in March 2021. He is the Managing Director of Al Futtaim Logistics and Director of Business Transformation of Al Futtaim Group.
Mr. Al Futtaim holds a B.S. in Business Administration from the University of Northeastern, Boston, USA.

Khalid Abdulwahid Hassan Al Rostamani
Non-Executive Director - Non-Independent

Mr. Khalid Abdulwahid Hassan Al Rostamani joined CBD's Board of Directors in March 2008. He served as Deputy Chairman to the Board of Commercial Bank of Dubai from 2012 until 2015.

Mr. Al Rostamani is the Chairman of the AW Rostamani Group of Companies and a Founder and Chairman of BCD Travel, Transport and Freight Forwarding. He also a Board member of Dubai Insurance Company (P.S.C.) and Etisalat.

Mr. Al Rostamani holds a Bachelor's degree in Finance from the George Washington University, USA.

CBD Committee Membership:

- Member of the Board Executive Committee

H.H. Sheikh Maktoum Hasher Maktoum Juma Al Maktoum
Non-Executive Director - Independent

H.H. Sheikh Maktoum Hasher Al Maktoum joined CBD's Board of Directors in March, 2015. He founded A1 Grand Prix Limited in 2001 and served as its Chairman and President. He is currently the Chief Executive Officer of Al Fajer Properties LLC. He served as an Executive Chairman of SHUAA Capital PSC from April 2012 to February 2015. He served as an Executive Chairman of Gulf Finance Corporation PJSC. He serves as the Chairman of Dubai International Holding Company. He is also a Founding Investor of Virgin Megastores in the UAE. He has been recognised for his leadership qualities on a number of occasions, including being named "Chief Executive Officer of the Year" by Chief Executive Officer Middle East in 2009 and "Young Global Leader of 2007" by the World Economic Forum. He graduated with a Bachelor of Science degree in Business Administration and Finance from Boston University, USA

CBD Committee Membership:

- Chairman of the Audit Committee

Executive Committee

Dr. Bernd van Linder
Chief Executive Officer

Mr. Darren Clarke
Chief Financial Officer

Mr. Fahad Al Muhairi
General Manager
Institutional Banking

Mr. Ali Imran
Chief Operating Officer

Mr. Othman Bin Hendi
Chief Customer Officer

Mr. Abdul Rahim Al Nimer
General Manager
Corporate Banking

Mr. Alan Grieve
Chief Risk Officer

Mr. Amit Malhotra
General Manager
Personal Banking Group

Mr. Mark Zanelli
General Manager
Treasury, Asset & Liability Management

Board of Directors' Report

Dear Shareholders,

On behalf of Commercial Bank of Dubai (CBD), we have the pleasure of presenting our report together with the audited consolidated financial statements for the year ended 31 December 2021.

The audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the United Arab Emirates.

FINANCIAL HIGHLIGHTS

CBD has delivered a record full year performance on the back of the improving external environment, strengthening business sentiment assisted by Expo 2020 and contained pandemic impacts due to the good measures taken by the UAE Government, the Government of Dubai and the Central Bank of the UAE. The strong operating performance was primarily driven by improved net interest income, stable non funded income and lower expected credit losses. The bank remains well capitalized with all liquidity ratios comfortably above the minimum levels prescribed by the UAE Central Bank. The economic outlook and business confidence for 2022 remains positive for further performance improvements in the year ahead and beyond.

Net Profit of AED 1,451 million for the full year was 29.5% up against the prior year on the back of strong lending supported by improved operating performance coupled with lower expected credit losses.

Operating Income for the full year of 2021 amounted to AED 3,183 million, an increase of 6.9%, attributable to higher Net Interest Income (NII) by 10.1% as a result of higher volumes and lower funding costs, and a 1.2% increase in Other Operating Income (OOI) from increased business activities.

Operating Expenses were AED 865 million, up 7.2% compared to the full year 2020. The bank continues to invest in and expand seamless digital solutions for our customers. This resulted in an improved customer experience as well as increased efficiency. The cost to income ratio remains market leading at 27.2%.

Operating Profit grew by 6.8% to AED 2,318 million.

Impairment Allowances were lower with additional net impairment provisions of AED 867 million during the year in line with the bank's prudent provisioning policy as compared to AED 1,051 million for the full year of 2020.

(AED Million)

Income Statement	2021	2020	YoY Var
Net interest income	2,078	1,887	10.1%
Other operating income	1,105	1,092	1.2%
Total Income	**3,183**	**2,978**	6.9%
Operating Expenses	865	807	7.2%
Operating Profit	**2,318**	**2,171**	6.8%
Net impairment allowances	867	1,051	(17.5%)
Net profit	**1,451**	**1,120**	29.5%

Asset quality the non-performing loan (NPL) ratio increased to 6.95%, up from 6.77% at the end of 2020, with coverage inclusive of collateral at 119.5% up from 110.2% in 2020.

Total assets were AED 114.2 billion as at 31 December 2021, an increase of 17.3% compared to AED 97.4 billion as at 31 December 2020.

Net loans and advances were AED 76.4 billion as at 31 December 2021, registering an increase of 17.1% compared to AED 65.3 billion as at 31 December 2020.

Customers' deposits were AED 82.7 billion as at 31 December 2021, representing an increase of 18.6% compared to AED 69.8 billion as at 31 December 2020. Low cost current and savings accounts (CASA) constitute 45.2% of the total deposit base, while the financing-to-deposits ratio stood at 92.4%.

Balance Sheet (AED Million)	2021	2020	YoY Var
Gross loans and advances	80,465	69,049	16.5%
Allowances of impairment	4,024	3,761	7.0%
Net loans and advances	**76,441**	**65,289**	17.1%
Total Assets	114,213	97,362	17.3%
Customer deposits	82,722	69,751	18.6%
Total Equity	13,567	12,954	4.7%

The bank's liquidity position remained robust with the advances to stable resources ratio at 88.00% as at 31 December 2021 (31 December 2020: 86.33%), compared to the UAE Central Bank limit of 100%.

CBD's **capital ratios** remained strong with the capital adequacy ratio (CAR) and Tier 1 ratio at 15.82% and 14.66%, respectively, while the Common Equity Tier 1 (CET1) ratio stood at 12.13%. All capital ratios were significantly above the minimum regulatory thresholds mandated by the UAE Central Bank.

Key ratios %	2021	2020	YoY Var (bps)
Return on equity	13.22	10.69	253
Return on assets	1.37	1.21	16
Cost to income ratio	27.18	27.11	7
Capital adequacy ratio	15.82	16.65	(83)
Non-performing loans (NPL)	6.95	6.77	18
Provision Coverage	62.59	69.70	(711)
Financing-to-deposit ratio	92.41	93.60	(119)
Advances to stable resources	88.00	86.33	167
Tier 1 ratio	14.66	15.50	(84)
CET 1 ratio	12.13	12.71	(58)

The Shareholders have approved a 25.88% cash dividend for the year, which is equivalent to 50% of net profit.

Board of Directors' Report

STRATEGY

CBD's vision is driven by our purpose 'To back the nation's ambitions'.

During the year, driven by strong growth in loans, the bank's total assets reached a record of AED 114 billion. Loan growth was broad-based covering all the sectors of the UAE economy, with retail mortgages recording outstanding growth. The bank delivered commendable net profit growth driven by higher net interest income as loans volumes increased and cost of funds declined.

The bank continued to support its franchise customers within Institutional and Corporate banking, further deepening these relationships, a strategic priority for the bank. During the year the bank increased its product offering with the launch of Asset Backed Lending and deepened extension of Supply Chain Financing.

In 2021, the bank further delivered on its Default Digital agenda, one of the core strategic pillars, with the launch of CBD Investr, the first Robo-Advisory app in the UAE. The bank also opened the CBD Digital Lab at the Dubai International Finance Centre, becoming the first bank to establish such a facility. The Lab will foster innovation and create a collaborative ecosystem between the bank and FinTechs.

The bank continued to invest in people in 2021 with a focus on Emiratisation and high performance. During the year, the bank welcomed 40 UAE National Graduates as part of its Tumoo7 program. In Q1 2021, a vaccination clinic was set up at the bank, offering vaccines to employees and their dependents.

In 2022, the bank expects to continue to grow market share within its core business segments, increasing the number of customers and depth of activity with existing customers. Within the retail business, the bank expects to continue growing predominantly in selected market segments with a focus on mortgages and investment solutions, enabled by market leading digital offerings.

CBD's strong set of core values, Collaboration, Ownership, Delivery and Excellence (CODE) are embedded in its culture and will guide the bank now and in the years ahead.

MARKET OVERVIEW

The Global Economic Outlook for 2022 has been impacted by the COVID-19 Omicron variant, however, more recent indicators inform that the associated economic impact could be limited and short-lived. The International Monetary Fund has projected a 4.4% growth in global output for 2022. GDP growth will be moderated by high and sustained inflation, causing most Central Banks to increase record low interest rates and tighten other monetary settings. The Federal Reserve has indicated a series of interest rate increases throughout 2022. Financial markets have already priced in a number of interest rates with major global stock and bond markets reflecting higher forward looking interest rates. Geopolitical events present further uncertain risks to global growth and stability, potentially feeding into commodity and currency volatility with the possibility of further economic contagion.

The IMF has revised its 2022 outlook for the Middle East from 4.1% to 4.3% GDP growth, on the back of higher oil prices and high vaccination rates, particularly in the Gulf countries, which will minimise the severity of the pandemic and reduce the need for frequent lockdowns.

Locally in the UAE, the IMF projects the economy to grow by 3.0% in 2022, driven by strong vaccination rates, higher oil prices and increasing oil production, which will assist the government fiscal position and drive real GDP growth. The US Energy Information Administration has forecast Brent oil to average $75/b in 2022 and $68/b in 2023, with risk to the upside, which would imply prices comfortably above the fiscal breakeven price for the UAE. The recent corporate income tax policy announcements are not anticipated to impact economic growth or business confidence.

Dubai's economy grew by 6.3% in the first three quarters of 2021, helped by a strong recovery in the real estate and the tourism sectors. Apartment and villa volumes and prices in Dubai recorded strong growth in 2021 supported by increased consumer sentiment and low interest rates. The hospitality and tourism sector benefitted from various global sporting fixtures and EXPO 2020, with additional tail winds projected from the football World Cup that will be hosted in Qatar later during the year. Other factors such as continued structural reforms, including longer term residency visas and 100% foreign ownership of onshore companies, among others, will help boost investment and drive growth over the medium term.

While the outlook for 2022 remains mostly positive, medium term risks to the UAE economy include slowing global growth, contagion from geo-political events, any resurgence in the virus via a newer variant, increased interest rates raising borrowing costs, and a stronger US dollar.

WHOLESALE BANKING GROUP (WBG)

The Wholesale Banking Group (WBG) comprises of the relationship management team for our mid-size and large corporate customers, family offices as well as institutional customers. In order to deliver the planned growth in a sustainable and diversified manner, the bank was able to leverage the product and digital capability as well as the established coverage teams to deliver strong performance.

The WBG team achieved excellent progress in 2021 across most performance units. This was facilitated by our focus on large corporates and in segments covering manufacturing, real estate, financial institutions and government related entities.

The Syndications and Debt Capital Markets team played a significant role in diversifying our business and in contributing to the overall WBG year-on-year growth. The contribution increased significantly in both the number and volume of transactions, in comparison to previous years.

CBD introduced iServe, a new digital self-service portal that empowers our WBG customers with the convenience of on-demand support. Through this portal, our customers can enjoy quicker turnaround times, enhanced transparency on request status, and real time communications.

The launch of the CBD Digital Lab provided an outstanding example of our commitment to support the UAE Government's initiative to be one of the world's most innovative nations. This spirit of creativity also reaffirms our efforts to expand infrastructure in financial technology, unlock innovation opportunities, and introduce new and innovative financial products to the market.

The Group won several awards in 2021, a testament to the bank's focus on the 'Default Digital' journey:

- "Best New Application of Technology in Supply Chain Finance" by Global Finance.
- The MEA Finance Awards - Best Commercial Bank, and Best Digital Transformation Implementation

PERSONAL BANKING ("PBG")

PBG contributed a net profit of AED 495 million for 2021, a growth of 36% year on year. The achievement was delivered through a broad based focus on revenue growth, continued digitization and efficiency and overall improved asset quality. PBG witnessed a solid increase in operating profit as a result of increased volumes, digital transformation and sound credit risk management. Non-funded income growth was robust, driven by investment fees, foreign exchange (FX) and credit card spend.

The accelerated loan growth was mainly driven by a market leading performance on mortgages and an increase in credit cards volumes in part via a portfolio acquisition. Steady growth in liabilities across individual and SME's translated into an asset-to-liability ratio of 42% by the end of 2021. The secured lending portfolio exhibited strong growth through strategic alliances with key partners and new product offerings. The personal loan portfolio remained stable with a continued focus on return for risk.

The strategic focus in 2021 was on digital transformation whereby CBD enhanced its capabilities to provide customers with contactless banking solutions thereby migrating more transactions from branches to alternative digital platforms. The business also successfully on-boarded more than one hundred thousand individual customers across products, including the CBD Digi account, virtual cards and Digi loans and introduced new corridors for instant remittances which resulted in significant transaction growth in 2021. The business also successfully launched digital account opening capabilities for SME clients and instant digital pre-approval capabilities for mortgage customers.

As part of the ongoing efforts to support the UAE economy and back the businesses operating in the country, CBD partnered with various government licensing authorities including the Dubai Economy (DE), Jebel Ali Free Zone (JAFZA), Dubai Multi Commodities Centre (DMCC), Department Economic Development Abu Dhabi (ADDED) to provide banking services to their licensed companies.

The Group won several awards in 2021, a testament to the innovative products and services offered by the bank:

- "Best Innovation Processes" Award & "Best Customer Experience" Award for CBD Digi account – Transformers Award
- Best Innovation in Retail Banking for the CBD Digi Account and Best Mobile Banking Services for the CBD Mobile App - MEA Finance Banking Technology Awards
- Most Innovative Bank of the Year at the Leaders in FinTech Awards ME - The Entrepreneur magazine
- Excellence in Innovation - Retail Banking Award – Finnovex Awards

CBD AL ISLAMI

CBD Al Islami continued to support customers extending sharia compliant products. During the year, the business continued its journey to provide a full range of Sharia compliant products and services, which includes Islamic Asset Backed Financing (ABF) and Supply Chain Finance (SCF), thereby providing effective and efficient banking products for corporate counterparties involved in working capital transactions.

On the Sharia compliance aspects, CBD aligned the Islamic window organization structure with the three lines of defence as mandated by Sharia governance framework and implemented regulatory requirements to comply with the standard for Financial Institutions housing an Islamic Window, as issued by the CBUAE.

TREASURY

For the majority of the year, against the continuing backdrop of COVID and the uncertain financial markets, global central banks maintained their highly accommodative liquidity stance. This followed on from 2020 continued to drive the cost of funds lower and once again left investors looking for higher yielding investment opportunities. These lower market rates also had another significant positive impact on the realized gains from the bank's Investment Portfolio.

During the year, CBD Treasury further expanded foreign exchange, risk management and investment solution capabilities, broadening the product range to an increased number of customers meeting their risk management and investment needs. Treasury also continued its investments in digitalization, expanding remittance services, launching a collateralized FX platform and CBDInvestr – a platform for automatic investing and self-investing.

A key point of inflection was evident in the second half of the year when fears over inflation led to a change in the US interest rate outlook and following Fed direction, rate hike expectations started to build sharply for 2022 and beyond. Coupled with this was this start of the LIBOR transition journey and the bank has been working to prepare customers, employees and systems for these changes. Stock markets remained resilient in the face of the rate outlook and the strong domestic economy, together with increased new equity issuances led to increased client participation in equities, both locally and internationally.

SUPPORT FUNCTIONS

During 2021 the bank was able to continue to address COVID-19 related challenges without disruption to customer servicing, whilst at the same time continuing to deliver on the digital transformation agenda, completing more than 53 transformation projects and over 200 significant enhancements to existing platforms throughout the year.

CBD has positioned itself to automate instant pre-approval mortgage issuance. Our new partnerships with the DED and Norblock have also allowed us to offer instant accounts to entities licensed by DE (Dubai Economy). The bank worked towards enabling strategic partnerships and ecosystems with Samsung and Emaar, and had successfully enabled the migration of a large credit card portfolio.

We continue the implementation of our payments hub solution on the Cloud, with inward payments now being fully handled by the new platform resulting in a significant growth in our ability to process STP payments.

CBD has implemented robotics based automation in the areas of customer transactions, cheque processing and signature verification.

The Group's achievements have continued to be widely recognized by multiple industry accolades, including:

- "Best Digital Transformation 2021" by MEA Finance Magazine.
- "Most innovative Bank of the Year" by Entrepreneur Middle East.
- "Best Digital Transformation Implementation" award for CBD's Direct from Customer initiative, and "Best Robo Advisory Implement Solution" for CBD Investr app by MEA Finance 2021 Awards
- "Outstanding Digital Transformation in Trade Finance" Award during the 2021 Middle East & Africa Innovation Awards event, organized by 'The Digital Banker'.

PEOPLE

CBD continued to invest in attracting, retaining and developing talent to build a sustainable, high performance culture. Our people were supported through a year of ongoing business transformation, bringing about positive organizational change.

Emiratization efforts have continued as a strategy priority for the bank, investing in specific programs such as the Tumoo7 management training program and the UAEN Accelerator program. The bank was proud to hire a record 40 UAEN fresh graduates in 2021.

The bank's employee engagement score remained strong and at the global financial services benchmark. The survey results outlined employee's positive sentiment about Leadership, Prospects, and Feeling Connected, Valued and Trusted by the organization. Insights from the results have allowed us to celebrate where we excel as an organization and challenged us to re-think how we work to ensure that we are always making the best decisions for our customers, our employees and our business. CBD was declared a winner in the category of 'Employee Engagement Champion - Private Sector' at LinkedIn Talent Awards. This category is to recognize companies who created a culture of continuous feedback and growth to improve employee engagement and well-being.

The bank has continued to keep the health and wellbeing of its employees as a top priority throughout the pandemic, conducting a 'Physical Wellbeing' focus month offering online fitness sessions for employees and their families and online education sessions related to fitness and health. CBD conducted a "Deskercise" activity for the first time to bring physical fitness to the Head Office.

A renewed focus was placed on learning and development (L&D) as employees returned to the office in full as the pandemic began to subside. Across the bank tailored L&D programs were developed for Wholesale Banking, Compliance, System and Operations, Finance, Legal and Treasury, ensuring employees are equipped with the relevant skills and capabilities to perform their roles. CBD's Digital Library (in partnership with Open Sesame) provided a wide range of courses such as Health & Well Being, IT, and "Top Picks of the Month" to promote specific topics each month covering a wide range of soft skills training.

Nearly 102 of our UAE National employees enrolled in high quality professional certification programs and used EIBFS (Emirates Institute for Banking and Financial Studies) certified programs relevant to their positions. EIBFS continued to be a valued L&D partner to the bank and participation increased 17% from 2020.

There was a continued focus on strengthening gender diversity and female empowerment. The UAEN Women Leadership development program provided a group of mid-career female employees with a supportive community dedicated to engagement, leadership development, and career growth.

The bank continued to foster a work environment where employees are recognized for driving high performance and displaying behaviours that align with its culture, demonstrating Collaboration, Ownership, Delivery, and Excellence (CODE). SPOT Awards were introduced enabling Line Managers to nominate their employees instantaneously for displaying customer excellence and process enhancements.

CORPORATE SOCIAL RESPONSIBILITY ("CSR")

CBD remains committed to its role in the community as a responsible corporate citizen underpinned by our belief that businesses must operate ethically and with integrity. Our core pillars for CSR are unchanged and we continue to identify areas where the bank can contribute to society in the fields of Health, Education, Financial Literacy and Charity and volunteer programs.

On the occasion of marking Zayed Humanitarian Day following the legacy of the late Sheikh Zayed, CBD donated to 31 charitable, educational, research and training and rehabilitation centres for people of determination across UAE.

CBD was engaged in various charitable activities and sponsorships, which is in line with the CSR framework. The bank supports the involvement of its employees in such activities through volunteering programs. The bank encouraged its employees to spend quality time with the students of Al Noor Training Centre and learn more about their achievements and life at the centre.

The "Back to School" program has been operating at CBD for the past five years to support those less fortunate than us in providing items for their children's educational well-being and happiness at the start of the new academic year. For 2021, the initiative was held from the 22nd of August until the 5th of September 2021. The bank's staff, families and friends in affiliation with UAE Red Crescent have donated boxes of essential items along with 20 Dubai Library distributor vouchers for this year's initiative.

CBD continued its 26 year old partnership with Jabel Ali horse race course and sponsored 8 races in 2021 as part of CBD's support to UAE Culture and sports heritage.

During 2021, CBD staff joined the October Breast Cancer Awareness month campaign to raise awareness and understanding about breast cancer risks, early signs and symptoms. Overall breast health awareness is an important part of a public health approach for breast cancer.

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KPMG

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Independent auditors' report

To the Shareholders of Commercial Bank of Dubai PSC

Report on the Audit of the Group Consolidated Financial Statements

Opinion

We have audited the Group consolidated financial statements of Commercial Bank of Dubai PSC ("the Bank") and its subsidiaries ("the Group"), which comprise the Group consolidated statement of financial position as at 31 December 2021, the Group consolidated statements of profit or loss, other comprehensive income, changes in equity, and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Group consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances and Islamic financing

See Note 9 and 35 (b) to the Group consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The Group recognized allowances for credit losses on its Group consolidated financial statements using expected credit loss ("ECL") models. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL. Qualitative adjustments or overlays may also be recorded by the Group using credit judgement where the inputs, assumptions and / or modelling techniques do not capture all relevant risk factors. Furthermore, and where applicable, the COVID-19 pandemic continues to pose challenges to businesses thus increasing the level of judgment needed in determining the ECL. This is considered a key audit matter, as the determination of ECL involves significant management judgement, use of complex models and this has a material impact on the consolidated financial statements of the Group.	Our audit procedures in this area include the following, among others: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, and our business understanding. • Obtaining an understanding of the ECL accounting estimate including, but not limited to, obtaining information about the entity's control environment in relation to the estimate, obtaining an understanding of the process by which the estimate is developed, understanding the methods, assumptions and data used to develop the accounting estimate. • Updating our understanding of the ECL end-to-end processes, including assessing the design, implementation, and operating effectiveness of selected relevant controls.

Key Audit Matters (continued)

Impairment of loans and advances and Islamic financing (continued)

See Note 9 and 35 (b) to the Group consolidated financial statements (continued)

The key audit matter	How the matter was addressed in our audit
	• Involving our Financial Risk Management ("FRM") specialists to assess the reasonableness and appropriateness of the methodology and assumptions as applicable, used in various components of ECL modelling and governance over the application of expert credit judgment to determine the ECL. This included, where applicable, challenging key assumptions / judgments, relating to significant increase in credit risk ("SICR"), definition of default, probability of default, recovery rates, use of macro-economic variables and probability weighted outcomes to check that the ECL amounts recorded are reflective of underlying credit quality and macroeconomic trends including the impact of COVID-19, as applicable. • Testing the completeness and accuracy of the data used within the ECL calculation. • Involving our Information Technology ("IT") specialists to test the relevant general IT and application controls over key systems used in the ECL process. • Re-performing key aspects of the Group's SICR determinations and selecting samples of Loans and advances and Islamic financing to determine whether a SICR event was appropriately identified including assessing the additional judgements made for the borrowers who have been granted payment deferrals. • Evaluating the reasonableness of and testing a sample of post model adjustments and management overlays that continue to exist on account of COVID-19, as applicable.

Key Audit Matters (continued)

Impairment of loans and advances and Islamic financing (continued)

See Note 9 and 35 (b) to the Group consolidated financial statements (continued)

The key audit matter	How the matter was addressed in our audit
	• Involving our valuation specialists on a sample basis to assess the reasonableness of the valuation of real estate collaterals held by the Group, relating to the determination of ECL, including the impact of the COVID-19 pandemic, as applicable. • Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades, including staging, assessing the financial performance of the borrower, source of repayment and future cash flows of the borrower, and as necessary, challenging the appropriateness of the ECL calculation for a sample of borrowers. • Assessing the adequacy of the Group's disclosures by reference to the requirements of the relevant accounting standards.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the Group consolidated financial statements and our auditors' report thereon ('the Annual Report'). We obtained Board of Directors' report prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of the auditors' report.

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

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

When we read the Annual Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

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Commercial Bank of Dubai PSC
Independent Auditors' Report
31 December 2021

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Group consolidated financial statements in accordance with IFRS and their preparation 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 Group consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Group consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group consolidated 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 Group consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Group consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the Group consolidated financial statements, including the disclosures, and whether the Group consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii) the Group consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended);

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors' report is consistent with the books of account of the Group;

v) as disclosed in note 10 to the Group consolidated financial statements, the Group has purchased shares during the year ended 31 December 2021;

vi) note 33 to the Group consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No.(2) of 2015 (as amended) or in respect of the Bank, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2021; and

Report of the Auditors to the Shareholders (continued)

Commercial Bank of Dubai PSC
Independent Auditors' Report
31 December 2021

Report on Other Legal and Regulatory Requirements (continued)

viii) note 25 to the Group consolidated financial statements discloses the social contributions made during the year ended 31 December 2021.

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018 (as amended), we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates

Date: 09 FEB 2022

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Group Consolidated statement of financial position
As at 31 December 2021

	Notes	2021 AED'000	2020 AED'000
ASSETS			
Cash and balances with Central Bank	7	**14,667,589**	13,162,743
Due from banks, net	8	**3,154,599**	4,218,894
Loans and advances and Islamic financing, net	9	**76,441,385**	65,288,572
Investment securities	10	**8,991,321**	5,262,597
Investment in an associate	11	**95,051**	88,514
Investment properties, net	12	**191,406**	191,469
Property and equipment	13	**309,425**	290,025
Bankers acceptances		**7,341,210**	5,972,327
Other assets, net	14	**3,020,610**	2,886,419
TOTAL ASSETS		**114,212,596**	97,361,560
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**6,120,214**	4,782,749
Customer deposits and Islamic customer deposits	16	**82,721,669**	69,750,833
Notes and medium term borrowings	17	**2,584,490**	1,764,059
Due for trade acceptances		**7,341,210**	5,972,327
Other liabilities	18	**1,877,799**	2,137,857
TOTAL LIABILITIES		**100,645,382**	84,407,825
EQUITY			
Share capital	19.1	**2,802,734**	2,802,734
Tier 1 capital notes	19.2	**2,203,800**	2,203,800
Legal and statutory reserve	19.3	**1,401,447**	1,401,367
General reserve	19.4	**1,328,025**	1,328,025
Capital reserve	19.5	**38,638**	38,638
Fair value reserve	19.6	**(61,174)**	65,547
Retained earnings		**5,853,744**	5,113,624
TOTAL EQUITY		**13,567,214**	12,953,735
TOTAL LIABILITIES AND EQUITY		**114,212,596**	97,361,560

To the best of our knowledge, the Group's consolidated financial information presented fairly in all material respects the financial condition, results of operation and cash flows of the Group as of, and for, the years present herein.

These Group's consolidated financial statement were approved and authorized for issue by the Board of Directors on 9 February 2022.

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.
The report of the Auditors is set out on pages 27 to 33.

H.E. Humaid Al Qutami
Chairman

Dr. Bernd van Linder
Chief Executive Officer

Group Consolidated statement of profit or loss
For the year ended 31 December 2021

	Notes	2021 AED'000	2020 AED'000
Interest income and income from Islamic financing	20	**2,689,147**	2,865,360
Interest expense and distributions to Islamic depositors	21	**(611,258)**	(978,807)
Net interest income and net income from Islamic financing		**2,077,889**	1,886,553
Net fees and commission income	22	**742,422**	651,283
Net gains from foreign exchange and derivatives		**229,060**	221,669
Net gains from investments at fair value through profit or loss	23	**3,452**	24,626
Net gains from sale of debt investments at fair value through other comprehensive income	10	**52,994**	137,637
Share of gain of an associate	11	**11,529**	5,991
Dividend income		**2,925**	2,786
Other income	24	**62,727**	47,651
Total operating income		**3,182,998**	2,978,196
(Charge) / reversal of impairment allowance on due from banks		**(632)**	1,709
Impairment allowance on loans and advances and Islamic financing		**(900,897)**	(1,064,893)
Recoveries of loans and advances and Islamic financing		**74,881**	23,846
Reversal of impairment allowance on investment securities		**102**	5,620
Impairment allowance on other assets	14	**(40,872)**	(17,074)
Total net income		**2,315,580**	1,927,404
Staff and other expenses	25	**(835,413)**	(779,422)
Depreciation and amortisation	12&13	**(29,645)**	(27,884)
Total operating expenses		**(865,058)**	(807,306)
Net profit for the year		**1,450,522**	1,120,098
Basic and diluted earnings per share	27	**AED 0.47**	AED 0.40

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.
The report of the Auditors is set out on pages 27 to 33.

Group Consolidated statement of other comprehensive income
For the year ended 31 December 2021

	Note	2021 AED'000	2020 AED'000
Net profit for the year		**1,450,522**	1,120,098
Items that will not be reclassified to profit or loss:			
Revaluation (loss) / gain on equity investments held at fair value through other comprehensive income		**(17,717)**	23,079
Actuarial loss on retirement benefits obligations		**(2,367)**	(2,916)
Items that may be subsequently reclassified to profit or loss:			
Changes in fair value of effective portion of cash flow hedge		**4,773**	(3,723)
Changes in fair value reserve of an associate		**(396)**	367
Changes in investments held at fair value through other comprehensive income:			
Realised gain on sale of debt investments	10	**(52,994)**	(137,637)
Revaluation (loss) / gain on debt investments		**(58,020)**	137,923
Net change in investments held at fair value through other comprehensive income		**(111,014)**	286
Other comprehensive (loss) / income for the year		**(126,721)**	17,093
Total comprehensive income for the year		**1,323,801**	1,137,191

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.
The report of the Auditors is set out on pages 27 to 33.

Group Consolidated statement of changes in equity
For the year ended 31 December 2021

	Share capital AED'000	Tier 1 capital notes AED'000	Legal and statutory reserve AED'000	General reserve AED'000	Capital reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balances as at 1 January 2020	2,802,734	-	1,401,367	1,328,025	38,638	48,454	4,597,352	10,216,570
Transactions with shareholders, recorded directly in equity								
Tier 1 capital notes issued during the year (note 19.2)	-	2,203,800	-	-	-	-	-	2,203,800
Tier 1 capital notes transaction cost	-	-	-	-	-	-	(7,950)	(7,950)
Cash dividend paid for 2019 (20.7%)	-	-	-	-	-	-	(580,166)	(580,166)
Directors' remuneration paid for 2019	-	-	-	-	-	-	(15,400)	(15,400)
Share of Directors' remuneration of an associate (note 11)	-	-	-	-	-	-	(310)	(310)
Other comprehensive income								
Net profit for the year	-	-	-	-	-	-	1,120,098	1,120,098
Other comprehensive income for the year	-	-	-	-	-	17,093	-	17,093
Total other comprehensive income	-	-	-	-	-	17,093	1,120,098	1,137,191
Balances as at 31 December 2020	2,802,734	2,203,800	1,401,367	1,328,025	38,638	65,547	5,113,624	12,953,735
Transactions with shareholders, recorded directly in equity								
Interest on Tier 1 capital notes	**-**	**-**	**-**	**-**	**-**	**-**	**(132,228)**	**(132,228)**
Tier 1 capital notes transaction cost	**-**	**-**	**-**	**-**	**-**	**-**	**(1,543)**	**(1,543)**
Cash dividend paid for 2020 (20%)	**-**	**-**	**-**	**-**	**-**	**-**	**(560,547)**	**(560,547)**
Directors' remuneration paid for 2020	**-**	**-**	**-**	**-**	**-**	**-**	**(15,400)**	**(15,400)**
Transfer to legal and statutory reserve	**-**	**-**	**80**	**-**	**-**	**-**	**(80)**	**-**
Share of Directors' remuneration of an associate (note 11)	**-**	**-**	**-**	**-**	**-**	**-**	**(604)**	**(604)**
Other comprehensive income								
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**1 ,450,522**	**1,450,522**
Other comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(126,721)**	**-**	**(126,721)**
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(126,721)**	**1,450,522**	**1,323,801**
Balances as at 31 December 2021	**2,802,734**	**2,203,800**	**1,401,447**	**1,328,025**	**38,638**	**(61,174)**	**5,853,744**	**13,567,214**

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.
The report of the Auditors is set out on pages 27 to 33.

	Notes	2021 AED'000	2020 AED'000
OPERATING ACTIVITIES			
Net profit for the year		**1,450,522**	1,120,098
Adjustments for non-cash and other items:			
Depreciation and amortisation	12 & 13	**29,645**	27,884
Property and equipment write off		**-**	(2,625)
Amortisation of premium / discount on investments		**35,416**	30,275
Amortisation of transaction cost on notes and medium term borrowings		**1,034**	2,187
Loss / (gain) on foreign exchange translation		**26,234**	(29,467)
Unrealized gain on investments at fair value through profit or loss		**-**	(22,578)
Realised gains on sale of investments		**(55,911)**	(138,838)
Net unrealised gain on derivatives		**(30,290)**	(7,233)
Reversal of impairment allowance on investment securities		**(102)**	(5,620)
Share of profit of an associate	11	**(11,529)**	(5,991)
Dividend income		**(2,925)**	(2,786)
Impairment allowance on loans and advances and Islamic financing		**900,897**	1,064,893
Charge / (reversal) of impairment allowance on due from banks		**632**	(1,709)
Impairment allowance on other assets	14	**40,872**	17,074
Loss / (gain) on disposal of property and equipment and investment properties		**38**	(15,647)
		2,384,533	2,029,917
(Increase) / decrease in statutory reserve with the UAE Central Bank		**(595,414)**	1,293,029
Decrease in negotiable UAE Central Bank certificate of deposits with original maturity of more than three months		**350,000**	2,050,000
(Increase) / decrease in due from banks with original maturity of more than three months		**(394,781)**	19,743
Increase in loans and advances and Islamic financing		**(12,053,710)**	(6,172,655)
Increase in other assets		**(383,211)**	(1,163,672)
Increase in due to banks with original maturity of more than three months		**1,227,206**	883,180
Increase in customer deposits and Islamic customer deposits		**12,970,836**	6,416,500
Decrease in other liabilities		**(14,874)**	(26,420)
Directors' remuneration paid		**(15,400)**	(15,400)
Net cash flow from operating activities		**3,475,185**	5,314,222
INVESTING ACTIVITIES			
Purchase of investments		**(22,595,632)**	(5,901,384)
Proceeds from sale of investments		**18,728,201**	6,443,202
Purchase of property and equipment and investment properties		**(53,492)**	(50,086)
Proceeds from sale of property and equipment and investment properties	13	**4,472**	31,459
Dividend received		**2,925**	2,786
Dividend from an associate	11	**3,992**	2,661
Net cash flow (used in) / from investing activities		**(3,909,534)**	528,638
FINANCING ACTIVITIES			
Notes and medium term borrowings		**819,397**	(1,469,200)
Tier 1 capital notes issued during the year		**-**	2,203,800
Interest on Tier 1 capital notes		**(132,228)**	-
Tier 1 capital notes transaction cost		**(1,543)**	(7,950)
Dividend paid		**(560,547)**	(580,166)
Net cash flow from financing activities		**125,079**	146,484
Net (decrease) / increase in cash and cash equivalents		**(309,270)**	5,989,344
Cash and cash equivalents at 1 January		**13,329,709**	7,340,365
Cash and cash equivalents at end of the year	28	**13,020,439**	13,329,709
Supplemental disclosure:			
Interest income and income from Islamic financing received		**2,822,304**	2,779,502
Interest expense and distributions to Islamic depositors paid		**767,489**	1,059,255

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.
The report of the Auditors is set out on pages 27 to 33.

1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates (U.A.E.) in 1969 and is registered as a Public Joint Shareholding Company (PJSC) in accordance with Federal Law No. 2 of 2015. The Bank is listed on the Dubai Financial Market. The Bank's principal activity is commercial and retail banking. The registered address of the Bank is CBD Head Office, Al Ittihad Street, P. O Box 2668, Dubai, United Arab Emirates.

The consolidated financial statement of the group for the year ended 31 December 2021 comprise the results of the Bank, its wholly owned subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

Details about subsidiaries and an associate:

i. CBD Financial Services LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Group holds a 100% interest. Its principal activity is providing brokerage facilities for local shares and bonds.
ii. CBD Employment Services One Person Company LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Group holds 100% interest. Its principal activity is the supply of manpower services.
iii. Attijari Properties LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Group holds a 100% interest. Its principal activity is self-owned property management services as well as buying and selling of real estate.
iv. CBD (Cayman) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established for the issuance of debt securities.
v. CBD (Cayman II) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established to transact and negotiate derivative agreements.
vi. VS 1897 (Cayman) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established to manage investment acquired in the settlement of debt.
vii. National General Insurance Co. (PJSC) is an associate of the Bank and is listed on the Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds a 17.8% interest in the associate. The management believes that it has significant influence on the associate by virtue of having representation on the Board of Directors of the associate.

2. BASIS OF PREPARTION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E.

As required by the UAE Securities and Commodities Authority (SCA) notification number 85/2009 dated January 6, 2009, the Group's exposure in cash and balances with Central Bank of the UAE, Due from Banks and Investment Securities outside the UAE have been presented under the respective notes.

2.2 Functional and presentation currency

The Group's consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's functional and presentation currency, rounded to the nearest thousand unless otherwise stated.

2.3 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity are disclosed in note 4.

2. BASIS OF PREPARATION (continued)

2.4 Basis of measurement

The Group's consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value through profit or loss (FVPL);
- financial instruments classified as fair value through profit or loss;
- financial assets at fair value through other comprehensive income;
- recognised financial assets and financial liabilities that are hedged items in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged. Amortised cost is adjusted for hedging gain or loss;
- end of service benefits that are measured at the present value of the defined benefit obligation.

2.5 Basis of consolidation

The Group's consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are entities controlled by the Group.

i. Business Combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired.

ii. Subsidiary

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interest (NCI). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the cumulative translation differences recorded in equity;
- Derecognises the carrying amount of any non-controlling interest;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of profit or loss; and
- Reclassifies the parent's share of components previously recognised in consolidated OCI to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

2. BASIS OF PREPARATION (continued)

2.5 Basis of consolidation (continued)

ii. Subsidiary (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

iii. Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit or loss of an associate'.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

Management reviews its share of investments in associates to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and choosing a suitable discount rate in order to calculate the present value of those cash flows.

iv. Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency translation gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements, except for the accounting standards mentioned in note 5.1 which are applied for the first time.

3.1 Financial Instruments

a. Recognition and initial measurement

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

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis, which is the date on which the Group becomes a party to the contractual provisions of the instrument. 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.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVPL) are added to or deducted from the fair value of the financial assets or financial liabilities respectively, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVPL are recognised immediately in the consolidated statement of profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in consolidated statement of profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to consolidated statement of profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

b. Fair Value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

b. Fair Value measurement (continued)

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio. The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving similar investments, are based on the expected discounted cash flows.

A fair value measurement of a non-financial asset 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 Group uses 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.

c. Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, which reflects the significance of inputs used in making the measurements:

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, group, 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.

The hierarchy used by the Group is set out in note 6.2.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

c. Fair value hierarchy (continued)

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group 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 Group 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.

3.1.1 Financial assets

a) Classification

The Group classifies financial assets on initial recognition in the following categories:

i. Amortised cost;
ii. Fair value through other comprehensive income (FVOCI); and
iii. Fair value through profit or loss (FVPL).

o Business model assessment

The Group makes an assessment of the objective of a business model in which a financial asset is held at portfolio level, because this reflects the way the business is managed and information is provided to the management. The assessment is not determined by a single factor or activity. Instead, the entity considers all relevant information available at the date of the assessment. The information considered includes:

- the stated policies and objectives for the business and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio and the financial asset held within the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the portfolio and, in particular, the way in which those risks are managed;
- how the managers of the business are compensated; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

a) Classification (continued)

o Assessment whether contractual cash flows is solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), the Group considers the contractual terms of the instrument.

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-recourse

In some cases, loans made by the Group that are secured by collateral of the borrower's limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

i. Financial assets at amortized cost

A debt instrument, including loans and advances and Islamic financing asset is classified as being measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

a) Classification (continued)

ii. Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is classified as being measured at FVOCI if it meets the following two conditions and the debt instrument is not designated at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

The Group measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are not held for trading. This election is made on an investment-by-investment basis.

iii. Financial assets at fair value through profit or loss (FVPL)

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

b) Subsequent measurement

The Group measures financial instruments, such as derivatives and investments in equity and certain fixed income instruments, at fair value at each reporting date.

Financial asset classified as at FVOCI or FVPL are subsequently measured at fair value. Financial assets not carried at fair value are subsequently measured at amortized cost using the effective interest method, less expected credit allowances.

c) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition except in the period after the Group changes its business model for managing financial assets. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current and previous financial year there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on 'Modification of financial assets' and 'Derecognition of financial assets' described in note 3.1.1 (g) and 3.1.1 (h) respectively.

d) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in consolidated statement of profit or loss in the 'net gains from foreign exchange and derivatives' line item;
- for debt instruments measured at FVOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in the consolidated statement of profit or loss in the 'net gains from foreign exchange and derivatives' line item. Other exchange differences are recognised in OCI in the investments revaluation reserve;

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

d) Foreign exchange gains and losses (continued)

- for financial assets measured at FVPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in consolidated statement of profit or loss in 'net gains from investments at FVPL';
- for equity instruments measured at FVOCI, exchange differences are recognised in OCI in the investments revaluation reserve; and
- Non-monetary assets and liabilities denominated in foreign currencies that are measured at FVPL are retranslated into the functional currency (AED) at the foreign exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

e) Impairment

The Group recognizes, where applicable, loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are not measured at FVPL:

- balances with central banks;
- due from banks;
- debt investment securities;
- loans and advances, Islamic financing and other financial assets;
- loan commitments; and
- financial guarantee contracts.

No impairment loss is recognized on equity investments.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the life time expected credit losses (LTECL). LTECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Stage 3: Loans considered credit-impaired. The group records an allowance for the LTECLs.

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, as the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment (continued)

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original Effective Interest Rate (EIR), regardless of whether it is measured on an individual basis or a collective basis.

The key inputs into the measurement of ECL are the term structures of the following variables:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD)

These parameters are generally derived from internally developed statistical models, other historical data, where applicable, regulatory parameter and are adjusted to reflect forward-looking information.

Details of these statistical parameters / inputs are as follows:

- PD – PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories of counterparties and exposures.
- EAD – EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.
- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, history of recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- loan to value ratio for retail exposure;
- date of initial recognition;
- remaining term of maturity;
- industry; and
- geography location of the borrower.

The groupings are subject to regular review to ensure that exposure within a particular group remain appropriately homogenous.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators or a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment (continued)

Default definition

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs or the identification of a significant increase in credit risk.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and based on data developed internally and obtained from external sources

The Group has performed a historical default rate analysis to identify homogeneous segments and further estimated ECL parameters (i.e. PD, LGD and EAD) at similar granularities. To perform a historical default rate analysis, the Group has adopted two separate definitions of default for the non-retail and the retail portfolio.

o Non-retail portfolio

The non-retail portfolio comprises of loans which are managed individually by the Relationship Managers (RMs) with oversight from the Credit Risk team of the Group. These loans are appraised at least annually based on the financial information, other qualitative information and account conduct of the customer.

A non-retail customer is identified as at default if the customer is materially delinquent for more than 90 days on any of its credit obligation.

o Retail portfolio

The retail portfolio comprises of loans that are managed at a product level, and based on approved product programs. A retail account is identified as default if the customer is delinquent for more than 90 days. The default rate analysis for the retail portfolio is performed at the account level.

Assessment of significant increase in credit risk

The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The assessment is performed on at least quarterly basis for each individual exposure.

Quantitative thresholds are established for the significant increase in the credit based on the movement in credit rating. In addition to quantitative criteria the Group has a proactive Early Warning Indicator (EWI) framework, based on which the Credit Risk team performs a portfolio quality review on a monthly basis. The objective of the same is to identify potentially higher risk customers within the performing customers.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment (continued)

Multiple macro-economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different macro-economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the probability of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the probability of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised.

In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment. The following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation;
- significant changes in the actual or expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macro-economic information (such as oil prices or GDP) is incorporated as part of the internal rating model

The quantitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

As a back stop, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For retail lending the Group considers credit scores and events such as unemployment, bankruptcy or death. As a back stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Group has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded in stage (one stage at a time) from Stage 3 to Stage 2 and thereafter from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 installments (for quarterly installments) have been made or 12 months (for installments longer than quarterly) curing period is met.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment (continued)

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group relies on a broad range of forward looking information as economic inputs such as:

- House prices like real estate – Dubai and Abu Dhabi Index;
- Economic Composite Index (ECI);
- Non-Oil Economic Composite Index (NIECI);
- Oil Price per Barrel (OPB);
- Consumer Price Index (CPI) and
- Hotel Occupancy Dubai

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 40% (2020: 65%) probability of occurring, and two less likely scenarios, one upside at 30% (2020: 0%) probability of occurring and one downside at 30% (2020: 35%) probability of occurring.

The table below summarizes key macroeconomic indicators included in the economic scenarios in UAE at 31 December 2021 for the years ending 2021 to 2023:

	Base Scenario			Downside Scenario			Upside Scenario		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Economic Composite Index	5.34%	1.46%	1.68%	5.34%	-9.21%	0.37%	5.34%	6.04%	3.30%
Oil Price – USD	77	57	55	77	36	45	77	61	59
Real Estate Index - Dubai	11,310	11,297	11,433	11,310	9,565	9,183	11,310	12,128	12,671

Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve;
- for loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

f) Write-off

Loans and advances and Islamic financing and debt securities are written-off when the Group has no reasonable expectations of recovering the financial asset (either partially or in full). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written-off.

Recoveries of amounts previously written-off are included in 'recoveries' in the consolidated statement of profit or loss.

g) Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and / or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified, the Group assesses whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is material, the Group deems the arrangement is substantially different leading to derecognition.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms.

If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

g) Modification of financial assets (continued)

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the consolidated statement of profit or loss. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

h) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

On derecognition of a financial asset in its entirety, the difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain / loss allocated to it that had been recognised in OCI is recognised in consolidated statement of profit or loss.

Any cumulative gain / loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated statement of profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.2 Financial liabilities

a) Classification

The Group classifies its financial liabilities in the following categories:

i. Fair value through profit or loss; and

ii. Amortised cost.

i. Financial liabilities at FVPL

Financial liabilities are classified as at FVPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVPL. A financial liability is classified as held for trading if:

- it has been incurred 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 Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and is effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVPL 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 Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Subsequent measurement

Financial liabilities at FVPL are stated at fair value, with any gains / losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain / loss recognised in consolidated statement of profit or loss incorporates any interest paid on the financial liability.

However, for non-derivative financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to consolidated statement of profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVPL. This determination is made at initial recognition.

Fair value is determined in the manner described in note 3.1 (b).

ii. Financial liabilities at amortised cost

Other financial liabilities, including deposits and 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.

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 EIR 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Financial Instruments (continued)

3.1.2 Financial liabilities (continued)

b) Modification of financial liabilities

The Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is materially different from the discounted present value of the remaining cash flows of the original financial liability.

In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in the consolidated statement of profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in the consolidated statement of profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

c) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3.1.3 Financial guarantee contracts and loan

Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised. Derecognition policies are applied to loan commitments issued and held.

The Group has issued no loan commitments that are measured at FVPL.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Derivative financial instruments

a) Classification

The Group enters into derivative financial instruments including forwards, futures, swaps and options in the foreign exchange and capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVPL – financial assets held for trading" financial instruments.

b) Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

The positive mark to market values (unrealised gains) of derivative financial instruments is included in other assets. The negative mark to market values (unrealised losses) of derivative financial instruments is included in other liabilities.

c) Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as FVPL are taken to the consolidated statement of profit or loss.

3.3 Hedging instruments

As part of its asset and liability management, the Group uses derivatives for hedging purpose.

When derivatives are designated as hedges, the Group classifies 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.

Hedge accounting

a) 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 Group's 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 Group will assess the effectiveness of the hedging relationship on an ongoing basis.

b) Hedge effectiveness testing

The hedge is regarded as highly effective if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or cash flows of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge effectiveness testing are within a range of 80 to 125 percent.

In case of a cash flow hedge, prospective hedge effectiveness is assessed by matching the critical terms of hedging instruments and hedged items.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Hedging instruments (continued)

Hedge accounting (continued)

c) 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 consolidated statement of profit or loss.

d) Cash flow hedges

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 consolidated statement of profit or loss.

e) 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 OCI until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the consolidated statement of profit or loss.

f) Hedges 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 consolidated statement of profit or loss for the year.

3.4 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less allowance for expected credit loss, if any.

3.5 Loans and advances and Islamic financing

Loans and advances and Islamic financing are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at FVPL.

In addition to conventional banking products, the Group offers its customers certain Islamic financing products, which are approved by Sharia Supervisory Board. Islamic financing consists of the following:

Murabaha

An agreement whereby the Group sells to a customer, commodity or asset (subject asset) on a deferred payment basis, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the subject asset and an agreed profit margin. Income is recognised on an accrual basis adjusted by actual income when received.

Ijarah

Ijara refers to lease of the asset, which the Group (Lessor) constructs or purchases as per customer (Lessee) request based on the promise to lease the asset for a fixed term against certain rent installment. Ijara can end by transferring the ownership of the asset to the lessee in case of Ijara Muntahia Bittamleek.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Loans and advances and Islamic financing (continued)

Ijara (continued)

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

Musharaka

An agreement whereby the Group and a customer contribute to a certain enterprise according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise. In principle Musharaka profit is distributed on declaration / distribution by the managing partner.

Islamic financing products are initially recognised at fair value and subsequently measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability.

3.6 Investment securities

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

- debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVPL or designated as at FVPL : these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as FVOCI.

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

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

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

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses on equity instruments recognised in OCI are transferred to retained earnings on disposal of an investment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Investment properties

The Group holds certain investment properties to earn rental income, for capital appreciation or both. The leased out or intended to lease out components have been classified as investment properties. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged using straight line method over the useful life of the asset. Estimated useful life of buildings is 30 to 60 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property is determined by comparing the proceeds from disposal with the carrying amount and is recognised in the consolidated statement of profit or loss under 'other income' in the year of retirement or disposal.

Transfers are made to and from investment properties when, and only when there is change in use evidenced by ending or commencing of owner-occupation, ending or commencement of an operating lease of another party or ending of construction or development.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current 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 is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to be completed within one year from the date of classification.

3.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for granted land, which is stated at the market value at the date of grant.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing an item of property and is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The day-to-day servicing expenses of property and equipment are recognised in the consolidated statement of profit or loss as incurred.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment. These are included in the consolidated statement of profit or loss.

Property and equipment is impaired if the carrying amount of the asset or its cash generating unit (CGU) exceed its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss.

The cost of all property and equipment other than freehold land and capital work in progress is depreciated using the straight-line method over the following estimated useful lives:

Buildings	30 to 60 years
Leasehold improvements	5 to 10 years
Building renovations	7 years
Furniture and fixtures	7 years
Computer equipment	3 to 10 years
Computer software	7 years
Motor vehicles	5 years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Property and equipment (continued)

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

Capital work in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated in accordance with the Group's policies.

3.9 Due to banks, notes and medium term borrowing

Amounts due to banks, notes and medium term borrowing are initially measured at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest method.

3.10 Repurchase agreement

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date the agreement is accounted for as a term borrowing depending on period of the agreement, and the underlying asset continues to be recognised in the Group's financial statement.

3.11 Customer deposits and Islamic customer deposits

Customer deposits are initially recognised at fair value, being the fair value of the consideration received. After initial recognition, all deposits are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs that are directly attributable to the acquisition or receipt of customer deposit.

The Islamic customer deposits are received by entering into following kinds of agreements:

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds (Rab ul Mal) which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba. In principle Mudaraba profit is distributed on declaration/distribution by the Mudarib.

Wakala

An agreement between Group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Wakil may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, Wakala profit is distributed on declaration/distribution by the Wakil.

Islamic customer deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit method.

3.12 Employees' terminal benefits

The Group provides for employees' terminal benefit in accordance with the UAE labor law. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. With respect to its UAE national employees, the Group makes contributions to the relevant government pension scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Employees' terminal benefits (continued)

Defined contribution scheme

A defined contribution scheme is a post-employment benefit scheme under which an entity pays fixed contributions into a separate entity or to a government organisation and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated statement of profit or loss in the periods during which services are rendered by employees.

Pension and national insurance contributions for eligible employees are made by the Group to Pensions and Benefits Fund in accordance with the applicable laws of country where such contributions are made.

Defined benefit scheme

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The liability recognised in the statement of financial position in respect of defined benefit gratuity schemes is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using assumptions in line with the guidelines of IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The Group has determined that, in accordance with the terms and conditions of the defined benefit scheme, and in accordance with statutory requirements, the present value of refunds or reductions in future contributions, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit scheme are recognised in staff and other expenses in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit scheme when the settlement occurs.

The below are the key actuarial assumptions used to value the liabilities using weighted average rates.

	2021	2020
Discount Rate	2.10% per annum	3.20% per annum
Salary Increase Rate	0.50 % per annum	1.00% per annum

3.13 Share capital

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.14 Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Group's shareholders in the Annual General Meeting.

3.15 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and balances with the Central Bank (excluding statutory reserve), and amounts due from and due to banks with original maturity of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.17 Revenue recognition

i. Interest income and expense

Interest income and expense for all interest bearing financial instruments except at FVPL, are presented in 'interest income' and 'interest expense' in the consolidated statement of profit or loss on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income and expense for financial instruments at FVPL is recognised as 'Net gains from investments at fair value through profit or loss'.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

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

Calculation of interest income and expense

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

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

ii. Income from Islamic financing and distributions to depositors

Income from Islamic financing is recognised in the consolidated statement of profit or loss using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Distribution to depositors (Islamic products) is calculated according to the Group's standard procedures and is approved by the Group's Sharia Supervisory Board.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Revenue recognition (continued)

iii. Fees and commission

Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Group to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Group based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- other fees and commission income and expense are recognised as the related services are performed or received and they mainly relates to commission, brokerage fees and credit card expenses.

Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

▪ Asset management services

The Group provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis.

▪ Customer loyalty programme

The Group operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products / services sold and the points issued. The proceeds allocated to the points are equal to their fair value. Fair value is determined by applying statistical techniques.

For aspects where third party providers are used, the consideration allocated to the awards credits collected on behalf of the third party are charged to the consolidated statement or profit or loss at the time of supplying the rewards.

iv. Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease and is recorded under 'other income' in the consolidated statement of profit or loss.

v. Dividend income

Dividend income is recognised when the right to receive payment is established. The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- for equity instruments designated at FVOCI, dividend income is presented as Dividend Income; and
- for equity instruments at FVPL, dividend income is presented as 'Net gains from investments at FVPL'.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Revenue recognition (continued)

vi. Share of profit of an associate

Share of profit of an associate reflects the Group's share of the results of operations of the associate.

3.18 Provisions

A provision is recognised if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.19 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date, are translated at the foreign exchange rate ruling at spot date.

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 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 consolidated statement of profit or loss.

Foreign currency differences arising on translation are generally recognized in the consolidated statement of profit or loss. However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedge is effective, are recognised in OCI.

3.20 Leasing

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

i. Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Leasing (continued)

i. Group acting as a lessee (continued)

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

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

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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

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

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

Short-term leases and leases of low-value assets

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

ii. Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

3.21 Fiduciary activities

The Group provides wealth management solutions to manage client assets. These assets are held in the Group's custody and are invested on behalf of the client in third party funds, and other securities like bonds and sukuk.

These assets and income arising from these assets are not included in the Group's consolidated financial statements as the risk and rewards incidental to ownership of these assets lie with the client.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and continued to be recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

3.23 Derivative product types

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and interest rate swap.

Forwards

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

Options

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

i. Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group and potential future fluctuations.

ii.Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading are conducted under Assets & Liabilities Committee (ALCO) approved limits.

Derivatives are initially recognised in the consolidated financial statements at cost being its fair value, for the premium received /paid. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Subsequent to initial recognition derivatives (held for trading) are measured at fair value with fair value changes recognised in the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Bank (further adjusted for interest expense and transaction cost on Tier 1 capital notes) by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.25 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Executive Committee to make decisions about resources allocated to the segment and assess its performance, and for which distinct financial information is available. Segment results that are reported to the Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.26 Related parties

An entity is considered related party of the Group if:

a) A person or a close member of that person's family is related to the Group if that person:
   i. has control or joint control of the Group;
   ii. has significant influence over the Group; or
   iii. is a member of the key management personnel of the Group.

b) An entity is related to a Group if any of the following conditions applies:
   i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is controlled or jointly controlled by a person identified in (a).
   vi. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

c) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

Other than the transactions disclosed in note 33, the Group enters into transactions with other Government entities. In accordance with the exemption available in the revised IAS 24, these transactions with such related Government entities are not collectively or individually significant and have not been disclosed.

3.27 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of their non-financial assets to determine whether there is any indication of 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 Group estimates 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 group 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. 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 consolidated statement of profit or loss.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 Impairment of non-financial assets (continued)

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 consolidated statement of profit or loss.

3.28 Interest Rate Benchmark Reform

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

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted.

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

The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. This committee is running a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

IBOR reform exposes the Group to various risks, which the project group is reviewing and monitoring to manage the changes appropriately. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial and Market risk to the Group and its clients that IBOR reform disrupts markets giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable; and
- Accounting risk if the Group's hedging relationships fail and form an unrepresentative income statement volatility as financial instruments transition to RFRs.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR rate the group is working to amend contracts to include the addition of fallback clauses or replacement of the IBOR rate with an alternative benchmark rate. The Group has signed up to fallback mechanisms for centrally cleared derivatives and will transfer exposures to the new benchmark subject to Central bank guidance.

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the amounts of contracts that have yet to transition to an alternative benchmark rate. The Group considers that a contract is not yet transitioned to an alternative benchmark rate (and referred to as an 'unreformed contract') when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR.

The Group holds derivatives in its trading book and as hedging instruments. The Group's exposure to US Dollar LIBOR transactions designated in hedge accounting relationships as at 31 December 2021 represents a nominal amount of USD 30 million. There were no items designated in hedging relationships with exposures to other LIBOR rates.

4. USE OF ESTIMATE AND JUDGEMENT

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

Critical judgements in applying the Group's accounting policies

In particular, considerable management judgment is required in respect of the following issues:

4.1 Going concern

The Group's management has made an assessment of its ability to continue as going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

4.2 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Units (CGU's) fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other available fair value indicators.

4.3 Financial asset classification

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

4.4 Significant increase in credit risk

As explained in note 3.1.1 (e), ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

4.5 Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3.1.1 (e) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

4. USE OF ESTIMATES AND JUDGEMENTS (continued)

4.6 Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3.1.1 (e) for more details on ECL.

4.7 Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Group's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario. When measuring ECL, the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Exposure at Default: EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

4.8 Impact of COVID-19

On 11 March 2020, the World Health Organisation ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus. This note describes the impact of the outbreak on the Group's operations and the significant estimates and judgements applied by management in assessing the values of assets and liabilities as at 31 December 2021.

i. Credit risk management

In addition to the management of credit risk described in Note 35 b. (i), the Group has identified the most vulnerable sectors to this stressed situation in response to the COVID-19 outbreak, and reviews are being conducted on a more frequent basis:

- Tourism and Hospitality
- Aviation and Airlines
- Retail
- Logistics
- Real Estate
- Education

The Group continues to apply robust underwriting standards to companies in the above sectors, especially for any new to bank customers. Extra measures, such as requiring additional approvals for disbursals of facilities have been implemented to ensure a high level of scrutiny over the credit management process.

The Bank will continue to demonstrate sound prudence and vigor in underwriting across the retail sector whilst supporting customers and businesses across the UAE.

On a case by case basis in the Institutional, Corporate and Personal banking segments, the Group has approved payment holidays to certain customers. The bank has extensively reviewed the past account conduct and payment history of the borrowers requesting for deferral, prior to approval. Significant judgment is applied when assessing whether the cash flow and liquidity issues faced by the customer are temporary or long term in nature.

As required by the UAE Central Bank under the notice no CBUAE/BSD/N/2020/2019, the customers benefitting from payment deferrals under the TESS program and the customers benefitting outside the program (Non-TESS) have been split into the below two main categories:

4. USE OF ESTIMATES AND JUDGEMENTS (continued)

4.8 Impact of COVID-19 (continued)

i. Credit risk management (continued)

Group 1: Customers that are temporarily and mildly impacted by the Covid-19 crisis.
This sub segment includes borrowers for which the credit deterioration is not considered significant enough to trigger a significant increase in credit risk. Such customers are expected to face short term liquidity issues caused by business disruption / salary cuts and are expected to recover rapidly once the economic environment stabilizes. These accounts are not considered to have sufficient deterioration in credit quality to trigger a stage migration and the staging maybe retained at the pre-crisis level.

Group 2: Customers that are expected to face substantial changes in their credit worthiness beyond liquidity issues.
This sub segment includes borrowers for which the credit deterioration is more significant and prolonged, ranging beyond liquidity issues, with an extended recovery period. For customers in Group 2, there may be sufficient deterioration in credit risk to trigger a migration to stage 2 or 3.

The Grouping of the client is based on a combination of quantitative analysis and judgmental approach based on subject matter expert views within the Group.

As of 31 December 2021, there are no clients benefiting from payment deferrals under the TESS program.
Non-Targeted Economic Support Scheme (Non-TESS) utilization by industry and segment as at 31 December 2021 are summarised below:

Sector	AED'000 Group 1		AED'000 Group 2	
	Amount deferred	Total loans and advances	Amount deferred	Total loans and advances
Construction and real estate	53,700	461,901	-	-
Financial and insurance activities	-	-	-	-
Hospitality	53,000	524,920	-	-
Individual loans for business	4,400	24,538	-	-
Individual loans for consumption	1,200	9,167	-	-
Manufacturing	-	-	-	-
Services	39,000	209,555	-	-
Trade and others	1,000	53,737	66,900	172,045
	152,300	1,283,818	66,900	172,045
Expected Credit Loss (ECL)		10,705		2,230

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

4. USE OF ESTIMATES AND JUDGEMENTS (continued)

4.8 Impact of COVID-19 (continued)

i. Credit risk management (continued)

Below is an analysis of change in ECL allowance by industry sector since 1 January 2021 on the bank's customers benefitting from payment deferrals under the Non-TESS program as at 31 December 2021:

Sector	AED'000 Impairment Allowance
ECL allowance as at 1 January 2021	10,566
Construction and real estate	(156)
Hospitality	3,074
Financial and insurance activities	-
Services	-
Manufacturing	-
Individual loans for business	(222)
Individual loans for consumption	39
Trade and others	(366)
ECL allowance as at 31 December 2021	12,935

A case by case analysis has been performed for wholesale customers with material exposures and portfolio approach has been followed for retail customers and customers with smaller exposures. Based on the above considerations, customers availing Non-TESS as at 31 December 2021 have been categorised as follows:

Segment	Group	Number of Customers	Payment deferrals under Non-TESS	Exposure	AED'000 Impairment allowance
Institutional and Corporate banking	Group 1	10	152,300	1,283,818	10,705
	Group 2	1	66,900	172,045	2,230
Total		11	219,200	1,455,863	12,935

Migration of staging
Customers that are categorised as Group 1 will remain in the same stage as of deferral date unless conditions of significant increase in credit risk are met, since these customers do not have substantial changes to their credit worthiness.

4. USE OF ESTIMATES AND JUDGEMENTS (continued)

4.8 Impact of COVID-19 (continued)

(i) Credit risk management (continued)

Migration of staging (continued)

The IFRS 9 stage classifications of customers availing Non-TESS as at 31 December 2021 are summarized below:

Segment	Stage	Group	Payment deferrals under Non-TESS	Exposure	AED'000 Impairment allowance
Institutional and corporate banking	Stage 1	Group 1	**152,300**	**1,283,818**	**10,705**
		Group 2	**-**	**-**	**-**
			152,300	**1,283,818**	**10,705**
	Stage 2	Group 1	**-**	**-**	**-**
		Group 2	**66,900**	**172,045**	**2,230**
			66,900	**172,045**	**2,230**
	Stage 3	Group 1	**-**	**-**	**-**
		Group 2	**-**	**-**	**-**
			-	**-**	**-**
Total			**219,200**	**1,455,863**	**12,935**

Stage migration of exposure since 1 January 2021, of customers benefiting from payment deferrals under the Non-TESS program by business segment as at 31 December 2021 are summarised below:

	Stage 1	Stage 2	Stage 3	AED'000 Total
Institutional and corporate banking				
As at 1 January 2021	**1,523,763**	**-**	**-**	**1,523,763**
- Transfer from stage 1 to stage 2	**(172,045)**	**172,045**	**-**	**-**
- Transfer from stage 2 to stage 1	**-**	**-**	**-**	**-**
- Transfer from stage 3 to stage 2	**-**	**-**	**-**	**-**
Change in exposure within same stage	**(67,900)**	**-**	**-**	**(67,900)**
As at 31 December 2021	**1,283,818**	**172,045**	**-**	**1,455,863**

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

4. USE OF ESTIMATES AND JUDGEMENTS (continued)

4.8 Impact of COVID-19 (continued)

ii. Liquidity risk management

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and continue to be evaluated, as Governments around the world contribute to provide relief and mitigate the adverse effects of the crisis. The key risk factors include:

- Sustained periods of lower oil prices combined with significantly lower economic output will lead to constraints on the banking sector's funding capabilities and liquidity management;
- Potential rise in the cost of funds due to reduced deposit inflows from the general public and government entities; and
- Weakened credit outlook may have a negative impact on lending, which will further contribute to a slowdown in economic growth.

In 2020, the UAE Central Bank had announced a AED 256 billion stimulus package in an attempt to combat the above effects of COVID-19 and ease the liquidity constraints in the UAE Banking Sector, by providing relief to the local economy. The stimulus package included the launch of the Targeted Economic Support Scheme ('TESS'), which allows banks to grant temporary relief to certain customers in the way of deferring payments, and allowing banks to apply for zero-cost funding from the Central Bank. The details of the benefits under the TESS package have been disclosed under "Other reliefs" section of recent regulatory updates.

The Group's management of liquidity risk is disclosed in note 35 d). In response to the COVID-19 outbreak, the bank continues to evaluate the liquidity and funding position and has taken into consideration the relief provided by the UAE Central Bank. In the period ended 30 June 2020, the bank joined the Central Bank's TESS Programme described above and utilised the zero cost funds available to the bank which was fully paid off on 5 November 2020. The bank will continue to monitor the liquidity position and the risks associated with the evolving COVID-19 crisis.

iii.Use of estimates and judgements:

The spread of COVID-19 increased rapidly during the months following March 2020, and as the number of cases spiked governments around the world deployed a multitude of measures to combat the virus and protect their economies. The Bank exercises significant judgement in assessing and estimating areas such as Expected Credit Losses. The bank has updated its ECL model based on the latest macro-economic data provided by Moody's during Q4-2021.

Governance around IFRS 9 ECL models and calculations

Given the significant impact that the macro-economic scenarios and weightages will have on the Bank's ECL, the Bank has further strengthened its processes, controls and governance frameworks around macro-economic forecasting and the computation of ECL. The Bank's IFRS 9 Committee, which reports to the Executive Management, has primary responsibility for overseeing the Bank's ECL models. To ensure the ongoing integrity of ECL calculations during times of extreme uncertainty and volatility, the Bank's IFRS 9 Committee exercises oversight by conducting regular reviews of the portfolio. The committee has been closely monitoring the macro-economic inputs applied to the IFRS 9 model at the bank and has recommended changes required during the current year in the light of relevant information received. The committee continually assess the performance of the bank's portfolio, ensuring that credit risk behaviors align with the significant increase in credit risk policy and that the staging criteria remain relevant.

The IFRS 9 Committee had reviewed the inputs and assumptions for IFRS 9 ECL measurement in light of available information. During 2021, the bank had updated the macro economic variables that feed into the ECL model and this update reflects the impact of COVID-19 on the macro economic environment and in turn into the bank's ECL. In Q1-2021, the macro-economic scenario weights were updated in alignment to Moody's recommended weightage using baseline, upside and downside scenarios with 40%, 30% and 30% weightings respectively. This is in light of the favorable economic outlook, the progress in the vaccination process in UAE and around the globe, the significant easing concerns of second/third wave of coronavirus, impact of new strains of coronavirus and efficacy of the vaccines toward the new strains. Accordingly, the Group has taken the impact arising on ECL.

4. USE OF ESTIMATES AND JUDGEMENTS (continued)

4.8 Impact of COVID-19 (continued)

Governance around IFRS 9 ECL models and calculations (continued)

During Q2-2021 the methodology for estimating point-in-time default probabilities used in the calculation of ECL was refined to more closely align with best international practice. The refinement resulted in an increase in overall ECL.

iv. Fair value measurement of financial instruments

The Group's existing policy on fair value measurement of financial instruments is disclosed in note 3.1 (b). Given the significant impact of the COVID-19 pandemic on the global financial markets, the bank is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario.

v. Investment properties

The Group's existing policy on the recognition and measurement of investment properties is disclosed in note 3.7.

As the real estate market has recovered significantly and became highly active, the Bank has not identified any significant impact to the fair values of investment properties during the year ended 31 December 2021.

vi. Recent regulatory updates:

On 15th March 2020, the CBUAE launched the Targeted Economic Support Scheme (TESS) to address and mitigate the adverse systematic economic impacts of COVID-19 on the UAE banking sector. The objectives of the program were to:

- Facilitate the provision of temporary relief for the payments of principal and / or interest / profit on outstanding loans for all affected private sector corporates, SMEs and individuals, excluding loans extended to governments, government related entities ("GREs") and non-residents; and
- Facilitate additional lending capacity of banks, through the reliefs on existing capital buffers.

The constituents of the TESS program are detailed below:

a) Zero cost facility:

The Zero cost facility ("ZCF") consists of collateralized CBUAE liquidity facilities provided to eligible counter parties under the TESS program. Funds borrowed by the Bank under the ZCF are priced at zero interest rate and the Bank is expected to pass on this zero-cost benefit, at a minimum, to its clients who have been identified to be eligible as per TESS guidelines.

Out of CBUAE's total funding program of AED 50 billion, an amount of AED 2.35 billion was earmarked for the Bank and was fully utilized in the quarter ended 30 June 2020. The benefit had been passed onto customers in the form of payment reliefs. On 5 November 2020, the Bank fully paid back the facility.

The ZCFs from CBUAE constitute a Government Grant, as per International Accounting Standard (IAS) 20, as they reflect a transfer of resources to the Bank by a government entity in return for compliance with certain future conditions related to the entity's operating activities, i.e. funding granted under the TESS is linked with the Bank's payment deferral schemes offered to customers.

The ZCFs are initially recorded at their fair values in accordance with the requirements of IFRS 13 and are subsequently measured in accordance with the requirements of IFRS 9.

b) Other reliefs:

Key measures taken by the CBUAE include:

- Reduction of the reserve requirements by half for CASA deposits for all banks, from 14% to 7%;
- Under liquidity requirements relief, banks are allowed to fall below Liquidity Coverage Ratio (LCR) up to 70% and Eligible Liquid Assets Ratio (ELAR) up to 7%, to accommodate for the use of ZCF and to provide banks with additional flexibility to support the UAE economy;

4. USE OF ESTIMATES AND JUDGEMENTS (continued)

4.8 Impact of COVID-19 (continued)

b) Other reliefs: (continued)

- As part of stable funding relief, banks are allowed to fall below Net Stable Funding Ratio (NSFR) up to 90% and Advances to Stable Resources Ratio can be up to 110% to provide banks with additional flexibility to support the UAE economy;
- Funding obtained through CBUAE Zero Cost Funding facility under the TESS program should be treated as stable funding with a 50% factor for calculating NSFR and ASRR; and
- In line with the CBUAE circular notice no. CBUAE/BSD/N/2020/4980 dated 12 November 2020, it had decided to implement the remaining of the Standards in a phased in manner as follows:
  - Q2 2021: (Basel III part 1) Credit Risk, Market Risk and Operational Risk.
  - Q4 2021: (Basel III part 2) Equity Investment in Funds, Securitisation, Counterparty Credit Risk, Leverage Ratio, and Pillar 3 (except for Credit Value Adjustment).
  - Q2 2022: (Basel III part 3) Credit Value Adjustment and Pillar 3 (for Credit Value Adjustment).

In order to relieve the pressure on financial institutions, the CBUAE, vide its official paper issued on 5 April 2020, has allowed banks to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of the expected volatility due to the COVID-19 crisis. The filter will allow Banks to partially add incremental ECL provisions back to their Tier 2 capital for the purpose of calculating capital adequacy ratios. Banks are however required to reverse this capital benefit in a gradual and phased manner over a period of 5 years (ending on 31 December 2024). The CBUAE has also granted extension of the capital buffer relief to 30 June 2022 for banks enrolled in the TESS program.

vii. Concentration analysis:

Please refer to note 35-b), which discloses the sector categorization of assets as at 31 December 2021.

4.9 Credit Card Portfolio Acquisition

On 4 February 2021, the Group agreed to acquire a credit card portfolio of a finance company within U.A.E. The agreement was signed between both the parties with a cutoff date of 1 May 2021 subject to meeting condition precedent within the agreement i.e. to provide notice to all existing credit card customers with the option to opt out which ended in April 2021. The purchase price paid including the transaction cost ("transaction price") incurred amounted to AED 65.0 million. Management had assessed the initial fair value as equivalent to transaction price.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS "IFRS"

5.1 Relevant new and revised IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRS have been adopted in the Group consolidated financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods.

	Effective for annual periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to phase 2 of interest rate benchmark reforms	1 January 2021

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2021.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS "IFRS" (continued)

5.2 Relevant new and revised IFRS issued but not yet effective

The Group has not applied the following new and revised IFRS, amendments and interpretations that have been issued but not yet effective:

		Effective for annual periods beginning on or after
a	Amendments to IAS 16 Property, plant and equipment relating to proceeds before intended use	1 January 2022
b	Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets relating to onerous contracts.	1 January 2022
c	Amendments to IFRS 3 Business Combinations relating to reference to conceptual framework	1 January 2022
d	Annual improvements to IFRS standards 2018 - 2020	1 January 2022
e	Amendments to IAS 8 Accounting policies, Changes in accounting estimates and errors	1 January 2023
f	Amendments to IAS 1 Presentation of Financial Statements relating to classification of Liabilities as Current or Non-Current	1 January 2023
g	Amendment to IFRS 17 Insurance contracts	1 January 2023

Management anticipates that these IFRS and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

6. FINANCIAL ASSETS AND LIABILITIES

6.1 Financial assets and liabilities classification

The table below sets out the Group's financial assets and liabilities classification in accordance with the categories of financial instruments in IFRS 9:

	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total carrying amount
31 December 2021	**AED '000**	**AED '000**	**AED '000**	**AED '000**
Cash and balances with Central Bank	-	-	14,667,589	14,667,589
Due from banks, net	-	-	3,154,599	3,154,599
Loans and advances and Islamic financing, net	-	-	76,441,385	76,441,385
Investment securities	256,910	5,973,091	2,761,320	8,991,321
Bankers acceptances	-	-	7,341,210	7,341,210
Other assets, net	666,709	-	796,863	1,463,572
Total financial assets	**923,619**	**5,973,091**	**105,162,966**	**112,059,676**
Due to banks	-	-	6,120,214	6,120,214
Customer deposits and Islamic customer deposits	-	-	82,721,669	82,721,669
Notes and medium term borrowings	-	-	2,584,490	2,584,490
Due for trade acceptances	-	-	7,341,210	7,341,210
Other liabilities	547,530	-	1,280,776	1,828,306
Total financial liabilities	**547,530**	**-**	**100,048,359**	**100,595,889**
31 December 2020				
Cash and balances with Central Bank	-	-	13,162,743	13,162,743
Due from banks, net	-	-	4,218,894	4,218,894
Loans and advances and Islamic financing, net	-	-	65,288,572	65,288,572
Investment securities	320,989	4,941,608	-	5,262,597
Bankers acceptances	-	-	5,972,327	5,972,327
Other assets, net	874,857	-	815,707	1,690,564
Total financial assets	1,195,846	4,941,608	89,458,243	95,595,697
Due to banks	-	-	4,782,749	4,782,749
Customer deposits and Islamic customer deposits	-	-	69,750,833	69,750,833
Notes and medium term borrowings	-	-	1,764,059	1,764,059
Due for trade acceptances	-	-	5,972,327	5,972,327
Other liabilities	795,081	-	1,283,159	2,078,240
Total financial liabilities	795,081	-	83,553,127	84,348,208

6. FINANCIAL ASSETS AND LIABILITIES

6.2 Fair value measurement – Fair value hierarchy:

The table below shows categorization of fair value of financial assets and liabilities into different levels of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value
31 December 2021	**AED '000**	**AED '000**	**AED '000**	**AED '000**
Investments				
Equity instruments and funds	**54,107**	**-**	**281,389**	**335,496**
Fixed and floating rate securities	**4,417,192**	**1,477,313**	**-**	**5,894,505**
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	**-**	**663,944**	**-**	**663,944**
Held for fair value hedge	**-**	**2,164**	**-**	**2,164**
Held for cash flow hedge	**-**	**601**	**-**	**601**
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	**-**	**(541,329)**	**-**	**(541,329)**
Held for fair value hedge	**-**	**(3,959)**	**-**	**(3,959)**
Held for cash flow hedge	**-**	**(2,242)**	**-**	**(2,242)**
	4,471,299	**1,596,492**	**281,389**	**6,349,180**
31 December 2020				
Investments				
Equity instruments and funds	93,849	-	300,347	394,196
Fixed and floating rate securities	4,868,401	-	-	4,868,401
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	-	874,389	-	874,389
Held for fair value hedge	-	468	-	468
Held for cash flow hedge	-	-	-	-
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	-	(780,214)	-	(780,214)
Held for fair value hedge	-	(8,453)	-	(8,453)
Held for cash flow hedge	-	(6,414)	-	(6,414)
	4,962,250	79,776	300,347	5,342,373

The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different from their fair values.

During the year there was a transfer of some fixed income securities between Level 1 and Level 2 of the fair value hierarchy, there were no other transfers between levels. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the current or prior year.

During the year 2020, the Bank has acquired unquoted fund investments in settlement of debt which are treated as Level 3. These investments are measured at fair value through other comprehensive income with reference to the net asset values of the respective funds.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

7. CASH AND BALANCES WITH CENTRAL BANK

	2021	2020
	AED'000	AED'000
Cash on hand	**796,104**	739,726
Balances with Central Bank U.A.E		
- Statutory reserves and other deposits	**3,071,485**	3,073,017
- Negotiable certificates of deposit	**10,800,000**	9,350,000
	14,667,589	13,162,743

Effective 28 October 2020, the CBUAE introduced new regulations regarding reserve requirements for deposit-taking licensed financial institutions. Under the new regulation, deposit-taking licensed institutions are allowed to draw on their reserve balances held in the CBUAE on any day up to 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that the daily average requirements over a 14-day reserve maintenance period is met. The level of reserves required changes periodically in accordance with business requirements and the directives of the Central Bank.

Cash and balances with Central Bank is classified under stage 1 as per IFRS 9. However, these are low credit risk and there are no expected credit losses and hence no provision has been recognised.

8. DUE FROM BANKS, NET

	2021	2020
	AED'000	AED'000
Current and demand deposits	**1,836,296**	2,871,638
Overnight, call and short notice	**585,300**	1,008,402
Loans to banks	**735,059**	340,278
Gross due from banks	**3,156,655**	4,220,318
Allowances for impairment losses	**(2,056)**	(1,424)
Net due from banks	**3,154,599**	4,218,894
Within the U.A.E.	**197,982**	387,404
Outside the U.A.E.	**2,956,617**	3,831,490
	3,154,599	4,218,894

Due from banks is classified under stage 1 as per IFRS 9.

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

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

At Amortised Cost	2021	2020
Loans and advances	**AED'000**	AED'000
Overdrafts	**8,653,532**	7,812,960
Loans	**54,393,536**	45,096,499
Advances against letters of credit and trust receipts	**2,188,459**	1,608,063
Bills discounted	**2,366,805**	2,418,037
Gross loans and advances	**67,602,332**	56,935,559
Islamic financing		
Murabaha and Tawaruq	**4,941,516**	4,814,715
Ijara	**7,565,613**	7,114,905
Others	**355,742**	184,120
Gross Islamic financing	**12,862,871**	12,113,740
Gross loans and advances and Islamic financing	**80,465,203**	69,049,299
Allowances for impairment losses	**(4,023,818)**	(3,760,727)
Net loans and advances and Islamic financing	**76,441,385**	65,288,572

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1	Stage 2	Stage 3	Total
	AED '000	AED '000	AED '000	AED '000
Gross exposure at 1 January 2021	**55,506,008**	**8,377,726**	**5,165,565**	**69,049,299**
Net transfers between stages	**(1,971,256)**	**336,119**	**1,635,137**	**-**
Net additions / (repayments)	**13,593,934**	**(1,479,431)**	**273,824**	**12,388,327**
Amounts written off	**-**	**-**	**(972,423)**	**(972,423)**
At 31 December 2021	**67,128,686**	**7,234,414**	**6,102,103**	**80,465,203**
ECL allowance at 1 January 2021	**652,976**	**517,923**	**2,589,828**	**3,760,727**
Net transfers between stages	**(2,974)**	**(94,120)**	**97,094**	**-**
Net (reversals) / impairment charge	**(54,678)**	**239,161**	**1,131,970**	**1,316,453**
Recoveries	**-**	**-**	**(80,939)**	**(80,939)**
Amounts written off	**-**	**-**	**(972,423)**	**(972,423)**
At 31 December 2021	**595,324**	**662,964**	**2,765,530**	**4,023,818**

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET (continued)

	Stage 1	Stage 2	Stage 3	Total
	AED '000	AED '000	AED '000	AED '000
Gross exposure at 1 January 2020	52,348,762	7,198,430	4,492,069	64,039,261
Net transfers between stages	(4,468,901)	2,110,891	2,358,010	-
Net additions / (repayments)	7,626,147	(931,595)	(248,123)	6,446,429
Amounts written off	-	-	(1,436,391)	(1,436,391)
At 31 December 2020	55,506,008	8,377,726	5,165,565	69,049,299
ECL allowance at 1 January 2020	517,614	609,152	2,731,685	3,858,451
Net transfers between stages	(14,168)	(207,610)	221,778	-
Net impairment charge	149,530	116,381	1,219,166	1,485,077
Recoveries	-	-	(146,410)	(146,410)
Amounts written off	-	-	(1,436,391)	(1,436,391)
At 31 December 2020	652,976	517,923	2,589,828	3,760,727

The net impairment charge are inclusive of interest in suspense.

The economic sector composition of the loans and advances and Islamic financing is set out in note 35 (b).

The Group has hedged the fair value of certain fixed rate loans and advances and Islamic financing. The carrying value of these loans and advances and Islamic financing is AED 45.6 million (2020: AED 60.0 million). Net positive fair value of the hedged component is AED 1.9 million (2020: net positive fair value of AED 3.7 million).

10. INVESTMENT SECURITIES

	UAE	GCC	International	Total
31 December 2021	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Held at fair value through profit & loss				
Fixed rate securities				
- Government	**-**	**-**	**-**	**-**
- Others	**-**	**-**	**-**	**-**
Quoted equity instruments	**-**	**-**	**-**	**-**
Unquoted equity instruments	**1,837**	**-**	**255,073**	**256,910**
Held at fair value through other comprehensive income				
Quoted equity instruments	**54,107**	**-**	**-**	**54,107**
Unquoted equity instruments and fund	**-**	**-**	**24,479**	**24,479**
Fixed rate securities				
- Government	**1,803,851**	**747,680**	**641,693**	**3,193,224**
- Others	**909,430**	**182,656**	**1,384,243**	**2,476,329**
Floating rate non-government securities	**166,183**	**-**	**58,769**	**224,952**
Held at amortised cost				
Fixed rate government securities	**2,761,320**	**-**	**-**	**2,761,320**
	5,696,728	**930,336**	**2,364,257**	**8,991,321**

10. INVESTMENT SECURITIES (continued)

31 December 2020	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
Held at fair value through profit & loss				
Fixed rate securities				
- Government	3,353	-	-	3,353
- Others	22,243	1,292	-	23,535
Quoted equity instruments	-	-	22,025	22,025
Unquoted equity instruments	-	-	272,076	272,076
Held at fair value through other comprehensive income				
Quoted equity instruments	71,824	-	-	71,824
Unquoted equity instruments and fund	27,978	-	293	28,271
Fixed rate securities				
- Government	1,069,106	633,556	76,912	1,779,574
- Others	1,173,884	319,935	1,257,182	2,751,001
Floating rate non-government securities	147,024	-	163,914	310,938
	2,515,412	954,783	1,792,402	5,262,597

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 2.6 billion (31 December 2020: AED 2.2 billion), pledged under repurchase agreements with banks.

Net gains from sale of debt investments at fair value through other comprehensive income amounted to AED 53.0 million (2020: AED 137.6 million).

10.1 Rating of fixed and floating rate securities

The below table shows the rating of fixed and floating rate securities:

	2021 AED'000	2020 AED'000
Rated Aaa to Aa3	**2,641,702**	766,533
Rated A1 to A3	**2,345,693**	2,500,447
Rated Baa1 to Baa3	**362,640**	896,731
Rated below Baa3 or Unrated - Government	**2,885,273**	567,834
Rated below Baa3 - others	**420,517**	136,856
	8,655,825	4,868,401

The above represents approved ratings from External Credit Assessment Institutions (ECAIs) as per BASEL III guidelines.

11. INVESTMENT IN AN ASSOCIATE

Equity accounting was applied using management information available at the date of reporting.

The following is the aggregated financial information of the associate:

	2021 AED'000	2020 AED'000
At 1 January	**88,514**	85,127
Share of profit of associate	**11,529**	5,991
Dividends received	**(3,992)**	(2,661)
Share of Directors' remuneration of associate	**(604)**	(310)
Other equity adjustments	**(396)**	367
At 31 December	**95,051**	88,514

	2021 AED'000	2020 AED'000
Assets	**1,541,189**	1,406,949
Liabilities	**1,005,690**	908,281
Net assets	**535,499**	498,668
Revenue	**84,898**	65,961

12. INVESTMENT PROPERTIES, NET

The movement in investment properties during the year is as follows:

Cost	2021 AED'000	2020 AED'000
At 1 January	**347,899**	359,004
Additions	**-**	585
Transfers from property and equipment	**8,680**	15,010
Disposals	**-**	(26,700)
At 31 December	**356,579**	347,899
Depreciation		
At 1 January	**156,430**	160,108
Charge for the year	**4,051**	4,655
Transfers from property and equipment	**4,692**	11,234
Disposals	**-**	(19,567)
At 31 December	**165,173**	156,430
Net book value at 31 December	**191,406**	191,469

12. INVESTMENT PROPERTIES, NET (continued)

Investment properties comprises buildings. Rental income amounting to AED 14.2 million (2020 AED 15.3 million) from investment properties leased under operating lease is recorded in other income.

The fair value of the investment property amounted to AED 261.9 million. All of the investment properties have been categorised as Level 3 fair value measurements.

During the year ended 31 December 2021 the Group has carried out external valuations of all investment properties. The valuations are carried out by professional valuers who hold recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuations were based on income (investment) and market based method of valuation. To value the investment properties, the passing rental income and estimated market rental income are used. Any significant movement in the assumptions used for the fair valuation of investment properties such as yield, rental growth, vacancy rate etc. is expected to result in significantly lower / higher fair value of these assets. As a result of the above impairment exercise, the Group has recognised an impairment of AED Nil (2020: AED Nil).

13. PROPERTY AND EQUIPMENT

	Freehold land and buildings	**Leasehold improvements**	**Furniture, equipment & vehicles**	**Capital work in progress (CWIP)**	**Total**
Cost	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
At 1 January 2021	**292,535**	**41,976**	**492,805**	**22,226**	**849,542**
Additions during the year	**158**	**297**	**1,670**	**51,367**	**53,492**
Transfers	**(5,564)**	**379**	**22,461**	**(25,956)**	**(8,680)**
Disposals / write off	**-**	**-**	**(8,931)**	**(4,464)**	**(13,395)**
At 31 December 2021	**287,129**	**42,652**	**508,005**	**43,173**	**880,959**
Depreciation					
At 1 January 2021	**138,336**	**33,157**	**388,024**	**-**	**559,517**
Transfers	**(4,692)**	**-**	**-**	**-**	**(4,692)**
Charge for the year	**2,418**	**1,412**	**21,764**	**-**	**25,594**
On disposals	**-**	**-**	**(8,885)**	**-**	**(8,885)**
At 31 December 2021	**136,062**	**34,569**	**400,903**	**-**	**571,534**
Net book value at 31 December 2021	**151,067**	**8,083**	**107,102**	**43,173**	**309,425**

13. PROPERTY AND EQUIPMENT (continued)

	Freehold land and buildings	Leasehold improvements	Furniture, equipment & vehicles	Capital work in progress (CWIP)	Total
Cost	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2020	312,147	49,673	456,834	13,091	831,745
Additions during the year	531	525	7,566	40,879	49,501
Transfers	(14,392)	(618)	28,944	(28,944)	(15,010)
Disposals / write off	(5,751)	(7,604)	(539)	(2,800)	(16,694)
At 31 December 2020	292,535	41,976	492,805	22,226	849,542
Depreciation					
At 1 January 2020	147,384	39,679	371,099	-	558,162
Transfers	(10,771)	(463)	-	-	(11,234)
Charge for the year	1,723	1,417	20,089	-	23,229
On disposals	-	(7,476)	(3,164)	-	(10,640)
At 31 December 2020	138,336	33,157	388,024	-	559,517
Net book value at 31 December 2020	154,199	8,819	104,781	22,226	290,025

The Group assessed whether there is an indication that an asset may be impaired and concluded that there was no indication of impairment.

14. OTHER ASSETS, NET

	2021	2020
	AED'000	AED'000
Interest receivable	**348,850**	482,007
Accounts receivable and prepayments	**475,698**	359,128
Positive mark to market value of derivatives (note 31)	**666,709**	874,857
Properties acquired in settlement of debt-held for sale, net	**1,529,353**	1,170,427
	3,020,610	2,886,419

During the year provision of AED 40.9 million (2020: AED 17.1 million) was charged on property acquired in settlement of debt.

15. DUE TO BANKS

	2021	2020
	AED'000	AED'000
Current and demand deposits	**208,048**	88,863
Term borrowings	**5,912,166**	4,693,886
	6,120,214	4,782,749

16. CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	2021	2020
Customer deposits	**AED'000**	AED'000
Current and demand accounts	**27,692,171**	21,668,539
Savings accounts	**4,188,259**	3,410,165
Time deposits	**33,689,371**	28,403,618
	65,569,801	53,482,322
Islamic customer deposits		
Current and demand accounts	**4,881,439**	3,267,590
Mudaraba savings accounts	**588,262**	571,232
Investment and Wakala deposits	**11,682,167**	12,429,689
	17,151,868	16,268,511
Total customer deposits and Islamic customer deposits	**82,721,669**	69,750,833

	2021	2020
By sector:	**AED'000**	AED'000
Government	**17,582,539**	15,634,367
Corporate	**37,435,457**	35,555,078
Personal	**27,703,673**	18,561,388
	82,721,669	69,750,833

17. NOTES AND MEDIUM TERM BORROWINGS

		31 December 2020 AED'000	**Cash flow Changes AED'000**	**Non cash flow Changes AED'000**	**31 December 2021 AED'000**
Syndicated loan	17.1	620,818	**-**	**1,034**	**621,852**
Repurchase agreements - I	17.2	551,442	**-**	**-**	**551,442**
Repurchase agreements - II	17.2	591,799	**(591,799)**	**-**	**-**
Repurchase agreements - III	17.2	-	**1,135,721**	**-**	**1,135,721**
Medium term notes	17.3	-	**275,475**	**-**	**275,475**
Total		1,764,059	**819,397**	**1,034**	**2,584,490**

		31 December 2019 AED'000	Cash flow Changes AED'000	Non cash flow Changes AED'000	31 December 2020 AED'000
Syndicated loan	17.1	619,912	-	906	620,818
Repurchase agreements - I	17.2	551,442	-	-	551,442
Repurchase agreements - II	17.2	591,799	-	-	591,799
Medium term notes	17.3	1,467,919	(1,469,200)	1,281	-
Total		3,231,072	(1,469,200)	2,187	1,764,059

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

17. NOTES AND MEDIUM TERM BORROWINGS (continued)

17.1 Syndicated loan

In August 2019, the Group entered into a club deal of USD 170 million (AED 624.4 million) priced at 6 month Libor plus 135 bps. for a term of 5 years with an option to roll over on a semi-annual basis maturing in August 2024.

17.2 Repurchase agreements

The Group entered into multiple repo transactions to obtain financing against the sale of certain debt securities. The repo transactions details are as follows:

	Purchase date	**Maturity date**	**Amount in USD (millions)**	**Amount in AED (millions)**
Repurchase agreements - I	July 2012	July 2022	150.1	551.4
Repurchase agreements - II	June 2016	July 2021	161.1	591.8
Repurchase agreements - III	June 2021	June 2026	309.2	1,135.7

As at 31 December 2021 the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 2,095.9 million (USD 570.6 million) (31 December 2020: AED 1,455.7 million (USD 396.3 million)).

17.3 Medium term notes

In November 2015, CBD issued USD 400 million (AED 1,469.2 million) of conventional notes. These notes were priced at 4 per cent fixed rate and matured on 17 November 2020.

In July 2021, CBD issued USD 50 million (AED 183.7 million) of conventional notes. These notes were priced at 3 month Libor plus 130 bps. floating rate and will mature on 8 July 2026.

In September 2021, CBD issued USD 25 million (AED 91.8 million) of conventional notes. These notes were priced at 3 month Libor plus 130 bps. floating rate and will mature on 15 September 2026.

18. OTHER LIABILITIES

	2021	2020
	AED'000	AED'000
Interest payable	**223,012**	379,243
Employees' terminal benefits	**54,190**	49,941
Accounts payable	**425,419**	507,024
Accrued expenses	**136,865**	125,874
Manager cheques	**441,290**	221,077
Unearned fee income and deferred credits	**49,493**	59,617
Negative mark to market value of derivatives (note 31)	**547,530**	795,081
	1,877,799	2,137,857

Based on the actuarial computation of employees' terminal benefits, the obligation under the defined benefit scheme is AED 54.2 million (2020: AED 49.9 million). The actuarial loss for the year ended 31 December 2021 amounting to AED 2.4 million loss (2020: AED 2.9 million loss) has been recognized directly in other comprehensive income under Actuarial loss on retirement benefits obligations.

18. OTHER LIABILITIES (continued)

The table below shows the movement in the employees' terminal benefits:

	2021	2020
	AED'000	AED'000
Balances as at 1 January	**49,941**	50,826
Expense during the year	**10,397**	7,965
Actuarial loss in other comprehensive income	**2,367**	2,916
Benefits paid and adjustments during the year	**(8,515)**	(11,766)
Balances as at 31 December	**54,190**	49,941

19. EQUITY

19.1 Share capital

The fully paid up and authorised ordinary share capital as at 31 December 2021 comprised 2,802,733,968 ordinary shares of AED 1 each (31 December 2020: 2,802,733,968 shares of AED 1 each). There was no movement in authorised ordinary share capital during the year.

In the Annual General Assembly meeting held on 11 March 2020 the shareholders approved the opening of the Bank's capital to non-UAE Nationals ownership up to 40%, subject to obtaining the necessary approval of the regulatory authorities. On 14 June 2020, all regulatory formalities were completed and then onwards, foreigners were allowed to trade the Bank's shares.

19.2 Tier 1 capital notes

The Group had issued USD 600 million (AED 2,203.8 million) of Tier 1 Capital Securities at a price of 6% per annum on 21 October 2020. The notes are non-callable for 6 years and are listed on Euronext Dublin and Nasdaq Dubai.

The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default.

The accounting treatment for the securities is governed by IAS 32 Financial Instruments Presentation. As per IAS 32, the instrument qualifies as an equity instrument and the interest paid on the securities is accounted for as a deduction from retained earnings. The accounting treatment for issuing securities transaction costs are accounted for as a deduction from equity. These are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

19.3 Legal and statutory reserve

The Group's Article of Association in compliance with the Decretal Federal Law No. (14) of 2018 require a minimum of 10% of annual net profit to be transferred to non-distributable legal and statutory reserve, until such time as this reserve equals 50% of share capital. During the year AED 80 thousand transferred to legal and statutory reserve (2020: nil) to meet the minimum regulatory requirement. The legal and statutory reserve is not available for distribution except under the circumstances stipulated by the relevant laws.

19.4 General reserve

The Group's Articles of Association adopted by the General Assembly of Shareholders in its meeting held on 26 June 2016 deleted the requirement for the general reserve. Therefore, there is no requirement to transfer 10% of the annual net profit to the general reserve. The previous Group's Articles of Association, required a minimum of 10% of the annual net profit to be transferred to general reserve until such time as this reserve equals 50% of share capital. The disposition of the general reserve shall be in accordance with a resolution made by the Board of Directors.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

19. EQUITY (continued)

19.5 Capital reserve

This reserve represents the inaugural value of land at the CBD head office. The reserve is available for distribution to the shareholders.

19.6 Fair value reserve

This represents the net change in the fair values of OCI investments, derivative instruments designated as cash flow hedge instruments held by the Group at reporting date and actuarial changes on retirement benefits obligations. This reserve is not available for distribution to the shareholders until realised.

19.7 Proposed distribution

As of the date of approving the consolidated financial statements, the Board of Directors' proposed a cash dividend of 25.88% (2020: 20.0%).

20. INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2021	2020
	AED'000	AED'000
Interest income		
Loans and advances	**2,198,003**	2,231,190
Negotiable certificates of deposit with the Central Bank	**9,026**	38,374
Due from banks	**987**	5,717
Investment securities		
- Debt securities at FVOCI	**128,618**	162,238
- Debt securities at amortized cost	**5,558**	-
	2,342,192	2,437,519
Income from Islamic financing		
Murabaha and Tawaruq	**124,593**	155,626
Ijara	**222,362**	272,215
	346,955	427,841
Total interest income and income from Islamic financing	**2,689,147**	2,865,360

Interest income is recognised using the effective interest rate.

21. INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS

	2021	2020
Interest expense	**AED'000**	AED'000
Due to banks	**22,219**	17,684
Customer deposits	**362,381**	594,218
Notes and medium term borrowings	**71,686**	158,502
	456,286	770,404
Distribution to Islamic depositors		
Islamic customer deposits	**154,972**	208,403
	154,972	208,403
Total interest expense and distribution to Islamic depositors	**611,258**	978,807

Distribution to Islamic depositors represents the share of income allocated to Islamic depositors of the Group. The allocation and distribution is approved by the Group's Internal Sharia Supervision Committee (ISSC).

22. NET FEES AND COMMISSION INCOME

	2021	2020
	AED'000	AED'000
Lending activities	**273,928**	215,694
Trade finance activities	**187,415**	190,894
Account operating activities	**297,577**	253,157
Cards income and brokerage fees	**249,292**	105,834
	1,008,212	765,579
Cards, commissions and brokerage expenses	**(265,790)**	(114,296)
	742,422	651,283

23. NET GAINS FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
	AED'000	AED'000
Net realised gains on sale of investments at fair value through profit or loss	**3,452**	2,048
Unrealised gains of investments at fair value through profit or loss	**-**	22,578
	3,452	24,626

24. OTHER INCOME

Other income includes rental income from Investment properties and properties acquired in settlement of debt of AED 41.7 million (2020: AED 32.6 million) and profit on sale of investment properties or assets held for sale acquired in settlement of debt of AED 2 million (2020: AED 15.7 million).

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

25. STAFF AND OTHER EXPENSES

In 2021, staff expenses were AED 557.6 million (2020: AED 555.9 million) and other expenses of AED 271.6 million (2020: AED 215.7 million). Other expenses were inclusive of general and administrative expenses, corporate social responsibility (CSR) related expenses of AED 2.9 million (2020: AED 5 million) and directors' sitting fees for attending committee meetings during the year ended 31 December 2021 of AED 3.3 million (2020: AED 2.8 million).

26. LEASE COMMITMENTS

Group as lessee

Staff and other expenses include expenses related to the leases of the bank amounting to AED 10.6 million (2020: AED 9.7 million). Future minimum lease payments under non-cancellable leases as at 31 December are, as follows:

	2021	2020
	AED'000	AED'000
Less than 1 year	**7,148**	7,564
From 1 year to 5 years	**-**	1,532
	7,148	9,096

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit (further adjusted for interest expense and transaction cost on Tier 1 capital notes) divided by the weighted average number of ordinary shares outstanding 2,802,733,968 (31 December 2020: 2,802,733,968).

	2021	2020
	AED'000	AED'000
Net profit for the year	**1,450,522**	1,120,098
Deduct : Interest on Tier 1 capital notes	**(132,228)**	-
Deduct : Tier 1 capital notes transaction cost	**(1,543)**	(7,950)
Adjusted net profit for the year	**1,316,751**	1,112,148
Weighted average number of ordinary shares ('000)	**2,802,734**	2,802,734
Adjusted earnings per share (AED)	**0.47**	0.40

Diluted earnings per share as of 31 December 2021 and 31 December 2020 are equivalent to basic earnings per share as no new shares have been issued that would impact earnings per share when executed.

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2021	2020
	AED'000	AED'000
Cash on hand	**796,104**	739,726
Statutory reserves and other deposits	**3,071,485**	3,073,017
Negotiable certificates of deposit with the UAE Central Bank	**10,800,000**	9,350,000
Due from banks	**3,156,655**	4,220,318
	17,824,244	17,383,061
Less: UAE Central Bank statutory reserves requirement	**(3,016,348)**	(2,420,934)
Less: Negotiable certificates of deposit with the UAE Central Bank with original maturity more than three months	**-**	(350,000)
Less: Due from banks with original maturity of more than three months	**(735,059)**	(340,278)
Less: Due to banks with original maturity of less than three months	**(1,052,398)**	(942,140)
	13,020,439	13,329,709

29. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit and guarantees which are designed to meet the requirements of the Group's customers toward third parties. Undrawn commitments represent the Group's commitments towards approved un-drawn credit facilities. The amount of contingent liabilities reflected below represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2021	2020
Contingent liabilities:	**AED'000**	AED'000
Letters of credit	**2,961,640**	2,883,465
Letters of guarantee	**11,098,639**	11,104,923
	14,060,279	13,988,388
Undrawn commitments to extend credit	**17,714,851**	14,518,690
Capital commitments:		
Capital expenditure commitments	**44,636**	20,241
Total contingent liabilities and commitments	**31,819,766**	28,527,319

In the normal course of business, certain litigations were filed by or against the Bank. However based on management assessment, none of the litigations have a material impact on Bank's financial results.

The bank seeks to comply with all applicable laws by which it is governed and is not aware of any material fines or penalties that warrant disclosure in the financial statements.

30. FIDUCIARY ASSETS

Assets held under fiduciary capacity on behalf of clients amounted to AED 8,151.3 million (2020: AED 5,837.9 million).

31. DERIVATIVES

The following table shows the positive and negative fair values of derivative financial instruments at the reporting date, together with the notional amounts, analyzed by terms to maturity. The notional amount is the value of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and therefore, are neither indicative of the Group's exposure to credit risk nor market risk. Credit risk on derivatives is limited to its positive fair value if any, the positive MTM and also the bank's own credit risk associated with it's derivative liability position.

	Positive market value	**Negative market value**	**Notional amount**	**Less than three months**	**From three months to one year**	**From one year to five years**	**Over Five years**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
31 December 2021							
Cash flow hedge instruments							
Currency Swaps	**601**	**2,242**	**62,384**	**62,384**	**-**	**-**	**-**
Fair value hedge instruments							
Interest Rate Swaps	**2,164**	**3,959**	**157,064**	**-**	**-**	**120,334**	**36,730**
Forward foreign exchange contracts and other derivatives							
Interest rate swaps	**521,441**	**421,758**	**26,247,057**	**387,607**	**1,179,034**	**8,526,769**	**16,153,647**
Foreign exchange deals	**78,624**	**56,114**	**9,049,380**	**4,545,218**	**4,372,559**	**131,603**	**-**
Currency options	**50,144**	**50,131**	**5,187,294**	**83,000**	**787,038**	**4,317,256**	**-**
Interest rate options	**13,735**	**13,326**	**1,568,924**	**-**	**233,651**	**1,008,823**	**326,450**
	666,709	**547,530**	**42,272,103**	**5,078,209**	**6,572,282**	**14,104,785**	**16,516,827**

	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to five years	Over Five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2020							
Cash flow hedge instruments							
Currency Swaps	-	6,414	67,728	-	-	67,728	-
Fair value hedge instruments							
Interest Rate Swaps	468	8,453	279,753	-	-	243,023	36,730
Forward foreign exchange contracts and other derivatives							
Interest rate swaps	758,205	669,478	23,708,828	-	719,543	10,253,320	12,735,965
Foreign exchange deals	50,869	46,259	9,795,238	587,869	7,840,902	1,366,467	-
Currency options	56,539	56,506	2,207,979	-	461,603	1,746,376	-
Interest rate options	8,776	7,971	1,099,485	-	-	773,035	326,450
	874,857	795,081	37,159,011	587,869	9,022,048	14,449,949	13,099,145

32. SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure that are regularly reviewed by the Executive Committee in order to allocate resources to the segment and to assess its performance. During the year, there has been a change to the organization structure and the portfolio allocation to the business segments. This was to streamline the allocation of customers between Institutional and Corporate banking, with now the former focusing on a re-defined definition of Institutions whilst the latter targeting the regional corporates. The prior year comparative figures have been accordingly reclassified to conform to the current year presentation.

The business segments pay to and receive interest from the Treasury to reflect the allocation of funding costs. Interest is charged or credited to business segments and branches to match funding at transfer pricing rates which approximate the cost of funds.

Business segments

Institutional banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to institutional clients (including Government related entities).
Corporate banking	Includes loans, working capital financing, trade finance and deposits products to corporate clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to small business and retail clients.
Trading & Other	Undertakes balance sheet management deals and manages the Group's proprietary investment portfolio. It also has derivatives for trading and risk management purposes.

Geographical
The Group operates in one geographic area, the United Arab Emirates.

	Institutional banking	Corporate banking	Personal banking	Trading & Other	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2021					
Assets	**32,793,898**	**40,744,312**	**13,291,649**	**27,382,737**	**114,212,596**
Liabilities	**44,574,610**	**15,144,970**	**31,613,171**	**9,312,631**	**100,645,382**
31 December 2020					
Assets	28,111,314	36,578,539	8,832,742	23,838,965	97,361,560
Liabilities	34,476,375	14,074,011	28,401,228	7,456,211	84,407,825

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

32. SEGMENTAL REPORTING (continued)

	Institutional banking	Corporate banking	Personal banking	Trading & Other	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2021					
Net interest income and net income from Islamic financing	**619,073**	**1,090,358**	**574,536**	**(206,078)**	**2,077,889**
Non-interest & other income	**270,996**	**265,844**	**409,110**	**159,159**	**1,105,109**
Total operating income	**890,069**	**1,356,202**	**983,646**	**(46,919)**	**3,182,998**
Expenses *(note a)*	**163,984**	**144,671**	**459,995**	**96,408**	**865,058**
Net provisions *(note b)*	**259,219**	**538,719**	**28,953**	**40,527**	**867,418**
	423,203	**683,390**	**488,948**	**136,935**	**1,732,476**
Net profit for the year	**466,866**	**672,812**	**494,698**	**(183,854)**	**1,450,522**
31 December 2020					
Net interest income and net income from Islamic financing	598,203	966,269	572,183	(250,102)	1,886,553
Non-interest & other income	234,858	255,923	345,043	255,819	1,091,643
Total operating income	833,061	1,222,192	917,226	5,717	2,978,196
Expenses *(note a)*	152,247	128,087	440,298	86,674	807,306
Net provisions *(note b)*	618,541	308,571	111,996	11,684	1,050,792
	770,788	436,658	552,294	98,358	1,858,098
Net profit for the year	62,273	785,534	364,932	(92,641)	1,120,098

a. This includes staff and other expenses and depreciation and amortization.
b. This includes impairment allowances on due from banks, loans and advances and Islamic financing, investment securities, and other assets, net of recoveries.

The following is an analysis of the total operating income of each segment between income from external parties and inter-segment:

	External parties		Inter-segment	
	2021	2020	**2021**	2020
	AED'000	AED'000	**AED'000**	AED'000
Institutional banking	**671,618**	578,764	**218,451**	254,297
Corporate banking	**1,533,815**	1,522,116	**(177,613)**	(299,924)
Personal banking	**765,608**	587,162	**218,038**	330,064
Trading & Other	**211,957**	290,154	**(258,876)**	(284,437)
Total operating income	**3,182,998**	2,978,196	**-**	-

33. RELATED PARTY TRANSACTIONS AND BALANCES

As at 31 December 2021 and 31 December 2020, the Investment Corporation of Dubai ("ICD") owns 20% share capital of the Group. ICD is a wholly owned entity by the Government of Dubai (the "Government").

The Group in the ordinary course of business enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board of Directors.

	Directors and key management personnel		Government related parties		Other related parties	
	2021	2020	**2021**	2020	**2021**	2020
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Due from banks	**-**	-	**99,685**	138,766	**-**	-
Loans and advances and Islamic financing	**150,208**	194,195	**1,482,351**	1,577,176	**2,427,352**	1,925,264
Investment securities	**-**	-	**565,379**	715,360	**-**	-
Acceptances	**-**	-	**-**	-	**5,721**	4,509
Letters of credit	**-**	-	**-**	-	**4,319**	3,294
Letters of guarantee	**-**	-	**79,778**	207,585	**24,576**	101,619
Undrawn commitments to extend credit	**11,001**	15,707	**79,882**	275,416	**354,037**	226,605
Due to banks	**-**	-	**459,125**	-	**-**	-
Customer deposits and Islamic customer deposits	**114,443**	112,264	**6,000,409**	4,631,362	**491,068**	443,840
Interest income and commission income	**6,458**	8,387	**39,924**	41,408	**79,041**	69,691
Interest expense	**216**	556	**44,405**	66,372	**3,173**	5,255
Dividend from an associate	**-**	-	**-**	-	**3,992**	2,661

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Other related parties represents major shareholders and parties related to directors, key management personnel.

Directors' sitting fees for attending committee meetings during the year ended 31 December 2021 amounted to AED 3.3 million (2020: AED 2.8 million).

	2021	2020
Key management compensation	**AED'000**	AED'000
Salaries	**20,392**	21,599
Post-employment benefits	**771**	839
Other benefits	**40,841**	21,317

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

34.1 Risk Governance

The Board of Directors (the "Board") has the overall responsibility for the operations and the financial stability of the Group, and ensures that the interests of shareholders, depositors, creditors, employees and other stakeholders, including the banking regulators and supervisors, are addressed. The Board is responsible for strategic direction, management oversight and adequate control with the ultimate objective of promoting the success and long-term value of the Bank. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. Additionally, it is responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures as well as management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by various Board Committees, namely Board Executive Committee (BEC), Board Risk Committee (BRC), Board Audit Committee (BAC) and Remuneration and Nomination Committee (REMCO).

Management actively manages risk, primarily through the Risk Department with oversight by the Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Credit Committee (CC), Project Investment Committee (PIC), Information Security Risk Committee (ISRC), Compliance Committee (CCO), Human Resources Committee (HRC) and Operational Risk Management Committee (ORMC).

34.2 Control Environment

a) Group Risk

Group Risk Department comprises credit, market and operational units. Its responsibilities include the following:

- Developing a strategy, policy and framework for risk management such that these are aligned with business requirements;
- Providing support to the Group in implementation of the framework;
- Bringing together analysis of risk concentrations and sensitivities across the Group;
- Acting as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO;
- Financial restructuring & recovery and business management and governance; and
- Providing independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

b) Internal Audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the BAC or Management.

It is led by the Chief Internal Audit Officer who reports to the BAC of the Board of Directors, with administrative reporting to the Chief Executive Officer of the Group.

To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel. The Internal Audit Charter empowers it to have full, free and effective access at all reasonable times to all records, documents and employees of the Group. Internal Audit has direct access to the Chairman of the BAC and Chief Executive Officer of the Group.

To determine whether the Internal Audit Function is functioning effectively, the BAC shall:

- Assess the appropriateness of the Internal Audit Charter once each year;
- Assess the adequacy of resources available, both in terms of skills and funding once each year; and
- Sponsor external assessments, at least once every five (5) years, by a qualified, independent reviewer from outside the Group.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

34.2 Control Environment (continued)

c) Internal Control

Board of Directors and Management are responsible for developing and maintaining the existence of a sound Internal Control System and procedures that meet international standards and fulfill the requirements of the Group's management and external regulatory bodies. The internal control system should be capable of ensuring the achievement of the following:

- Accuracy and integrity of financial and operational statements issued by the Group;
- Effectiveness and efficiency of the Group's operational activities;
- Effectiveness of measures and procedures set to safeguard the Group's assets and properties; and
- Compatibility with laws, legislations and regulations in force as well as policies pertinent to internal operational procedures.

Executive management constantly monitors and assesses the efficiency and effectiveness of internal control procedures and their ability to achieve stated objectives and their furtherance and enhancement.

The processes and responsibilities of the Internal Control functions include but not limited to:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enabling the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Monitoring of operational activities and overseeing operational controls being exercised to ensure that these are timely and effective.

d) Compliance and Fraud prevention

The process of monitoring compliance is an independent task which aims at ensuring that the Group is in compliance with all applicable laws, regulations, instructions, directives, codes of conduct and sound banking standards and practices as issued by relevant authorities.

The Board of Directors takes necessary measures to further strengthen the values of integrity and sound professional conduct within the Group by promoting a culture of compliance in letter and spirit of applicable laws, regulations, instructions and standards.

The mission and role of compliance, AML and Fraud prevention department is to:

- Ensuring compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- Ensuring senior management is fully informed of significant compliance issues and plans for resolution;
- Contributing to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- Aligning annual compliance plans with business strategies and goals; and
- Meet regulatory expectations, Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) requirements.

Fraud prevention

The Group has a dedicated Fraud Prevention and Investigation Unit that assists in identification, detection, and verification of potential or actual fraud incidents including quantification and recoupment of any losses sustained as a result of such incident. The purpose is to manage susceptibility of Group's assets and processes to fraud risk with a view to reducing it and to raise the level of fraud awareness amongst employees and other stakeholders.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

34.2 Control Environment (continued)

e) Whistle Blowing

A set of arrangements has been designed to enable employees to confidentially report concerns about any potential violations, enabling the investigation and follow up of such concerns independently and discreetly through the whistle blowing policy. Such arrangements are supervised by the BAC and in coordination with the executive management.

34.3 Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all regulations and guidelines issued by the lead regulator Central Bank of the UAE (CBUAE), International Financial Reporting Standards (IFRS), Securities and Commodities Authority (SCA) and Dubai Financial Market (DFM).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

a) Materiality thresholds

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement, and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down qualitative materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

b) Control framework

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of financial disclosures.

c) Frequency and medium of disclosure

Interim financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel III Pillar 3, relevant laws of the U.A.E, SCA requirement and other guidelines from CBUAE is made on annual basis. Disclosures of material non-public financial information are made as follows:

- Uploading quarterly reviewed and annual audited consolidated financial statements to DFM, SCA and Nasdaq Dubai websites;
- Posting quarterly and annual consolidated financial statements on the Bank's website;
- Management discussion and analysis in Arabic and English newspapers in a manner that ensures wide dissemination;
- Publication of the annual report which includes audited consolidated financial statements, list of names of members of the Board of Directors, senior executives and names of wholly or partially owned subsidiaries; and
- Investor's pack is presented on Bank's website on a quarterly and annual basis.

35. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following primary risks from financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Risk Committee (BRC) is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's BRC is assisted in these functions by Internal Audit, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group BRC as well as BAC.

This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Group's balances with Central Bank, due from banks, loans and advances and Islamic financing, other financial assets, loan commitments and financial guarantee contracts. For reporting purpose, credit risk on loan commitments and financial guarantee contracts is reported as a component of credit risk on loans and advances and Islamic financing. For risk management purposes, credit risk arising on investment securities held at FVPL is managed independently.

i. Management of credit risk

Credit Committee (CC) manages the credit risk of the Group by continuous review and update of the following:

- Formulating credit policies;
- Establishing the authorisation structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk;
- Limiting concentrations of exposure to counterparties, geographies and industries;
- Developing and maintaining the Group's risk gradings;
- Developing and maintaining the Group's processes for measuring ECL;
- Reviewing compliance of business units with agreed exposure limits; and
- Providing advice, guidance and specialist skills to business units to promote best practice.

ii. Internal credit risk ratings

In order to minimize credit risk, the Group has tasked its credit committee to develop and maintain the Group's credit risk grading to categories exposures according to their degree of risk of default. The Group's credit risk grading framework comprises various categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

35. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

ii. Internal credit risk ratings (continued)

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk increases. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the customer risk profile:

- Payment record and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review and where available changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the probability of default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as Economic Composite Index (ECI), Oil price per barrel (OPB), hotel occupancy and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly for each obligor. The criteria used are both quantitative changes in PDs as well as qualitative.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increase in credit is effective, meaning that significant increase in credit risk is identified before the exposure is defaulted. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Loss Given Default is the loss expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The Bank estimates LGD based on history of recovery rates and considers the valuation of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.

35. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

iii. Measurement of ECL

As explained in note 3.1.1 (e), the Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk. However, for financial instruments such as credit cards and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance to terminate a loan commitment or guarantee.

iv. Restructured and renegotiated loans

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

v. Exposure to credit risk

The Group measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and expected credit allowances, if any.

31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Due from banks	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Performing	**3,156,655**	**-**	**-**	**3,156,655**
Allowance for impairment losses	**(2,056)**	**-**	**-**	**(2,056)**
Net carrying amount	**3,154,599**	**-**	**-**	**3,154,599**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Performing	**67,128,686**	**7,234,414**	**-**	**74,363,100**
Non-performing	**-**	**-**	**6,102,103**	**6,102,103**
Allowance for impairment losses	**(595,324)**	**(662,964)**	**(2,765,530)**	**(4,023,818)**
Net carrying amount	**66,533,362**	**6,571,450**	**3,336,573**	**76,441,385**

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

35. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

v. Exposure to credit risk (continued)

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Due from banks	AED'000	AED'000	AED'000	AED'000
Performing	4,220,318	-	-	4,220,318
Allowance for impairment losses	(1,424)	-	-	(1,424)
Net carrying amount	4,218,894	-	-	4,218,894

	Stage 1	Stage 2	Stage 3	Total
Loans and advances	AED'000	AED'000	AED'000	AED'000
Performing	55,506,008	8,377,726	-	63,883,734
Non-performing	-	-	5,165,565	5,165,565
Allowance for impairment losses	(652,976)	(517,923)	(2,589,828)	(3,760,727)
Net carrying amount	54,853,032	7,859,803	2,575,737	65,288,572

The Group's Investment securities were classified under stage 1 at the reporting date (2020: classified under stage 1 and 2).

vi. Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("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	2020
Allowances for impairment losses: General	**AED'000**	AED'000
General provisions under Circular 28/2010 of CBUAE	**1,210,773**	1,092,625
Less: Stage 1 and Stage 2 provisions under IFRS 9	**1,258,288**	1,170,899
General provision transferred to the impairment reserve*	**-**	-
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**2,506,119**	2,328,085
Less: Stage 3 provisions under IFRS 9	**2,765,530**	2,589,828
Specific provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**-**	-

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

35. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

vii. Allowances for impairment

As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

Assets carried at fair value through profit or loss is not subject to ECL, as the measure of fair value reflects the credit quality of each asset.

The Group monitors concentrations of its impaired loans by sector and by geographic location. An analysis of concentrations of impaired (excluding restructured / under restructuring) loans by sector is shown below:

	Impaired loans	Collateral	Specific provision and interest in suspense
31 December 2021	**AED'000**	**AED'000**	**AED'000**
Manufacturing	**82,056**	**45,670**	**23,088**
Construction	**745,325**	**404,691**	**315,411**
Real estate	**2,117,046**	**1,952,791**	**383,755**
Trade	**275,295**	**63,160**	**202,661**
Transportation and storage	**23,119**	**17,769**	**7,323**
Services	**795,078**	**281,843**	**335,783**
Hospitality	**308,620**	**304,783**	**41,577**
Financial and insurance activities	**1,222,983**	**319,939**	**1,122,392**
Personal - mortgage	**140,253**	**104,282**	**53,314**
Personal - schematic	**115,213**	**54,389**	**49,453**
Individual loans for business	**277,100**	**43,928**	**226,279**
Others	**15**	**11**	**4,494**
Total carrying amount	**6,102,103**	**3,593,256**	**2,765,530**
31 December 2020			
Manufacturing	188,282	34,813	116,622
Construction	226,666	41,346	110,961
Real estate	1,187,036	919,186	331,816
Trade	352,698	112,938	176,626
Transportation and storage	24,170	19,397	6,915
Services	849,523	479,613	379,969
Hospitality	132,912	-	128,485
Financial and insurance activities	1,401,322	472,107	955,661
Personal - mortgage	198,565	120,962	107,531
Personal - schematic	207,491	113,623	104,767
Individual loans for business	324,137	85,173	159,040
Others	72,763	70,978	11,435
Total carrying amount	5,165,565	2,470,136	2,589,828

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

35. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

vii. Allowances for impairment (continued)

All impaired loans are located in one geographic area i.e. the United Arab Emirates. The value of collateral is restricted to lower of loan exposure or realisable value of the collateral.

The gross carrying value of unfunded exposures pertaining to impaired loans amounted to AED 281.3 million (2020: AED 191.0 million).

viii. Write - off policy

The Group writes off a loan / investment in debt security (and any related expected credit allowances) when the Board Executive Committee (BEC) determines that the loan / security is uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product-specific past due status.

ix. Collateral

The Group holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored and updated on a periodic basis. Generally, collateral is not held against debt securities and amounts due from banks, and no such collateral was held at 31 December 2021 or 2020.

Analysis of collateral by type is presented in the following table:

	2021	2020
	AED'000	AED'000
Pledged deposits	**3,320,629**	3,950,065
Properties	**38,647,650**	32,588,290
Mortgages	**241,353**	198,798
Pledge of shares	**2,789,227**	1,775,986
Bank guarantees	**267,668**	267,992
Gold	**193,587**	200,073
Credit Insurance	**94,849**	166,253
Others	**28,773**	42,592
Total collaterals	**45,583,736**	39,190,049

The above represents collateral value restricted to the lower of loan balance or collateral value.

35. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

x. Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The following tables set out the concentration of credit risk by sector, geography and currency.

Concentration of credit risk by sector for 2021:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Manufacturing	4,387,817	-	239,535	-	-	4,627,352	1,979,898	1,332,329
Construction	5,458,048	-	-	-	-	5,458,048	1,226,942	5,902,260
Real estate	24,814,731	-	-	6,779	-	24,821,510	4,255,423	828,527
Trade	7,599,868	-	-	-	-	7,599,868	3,182,692	9,415,005
Transportation and storage	3,880,144	-	56,280	-	-	3,936,424	117,657	81,758
Services	5,051,121	-	141,066	47,328	-	5,239,515	1,303,159	911,736
Hospitality	2,337,033	-	-	-	-	2,337,033	311,315	67,502
Financial and insurance activities	7,224,430	3,156,655	2,013,557	281,389	95,051	12,771,082	872,845	1,771,656
Government entities	2,059,268	-	4,939,297	-	13,871,485	20,870,050	349,765	94,635
Personal - mortgage	7,454,864	-	-	-	-	7,454,864	-	-
Personal - schematic	5,462,188	-	-	-	-	5,462,188	2,666,848	48,029
Individual loans for business	976,207	-	-	-	-	976,207	250,003	1,785
Others	3,759,484	-	1,266,090	-	4,441,744	9,467,318	1,198,304	946,267
Total carrying amount	80,465,203	3,156,655	8,655,825	335,496	18,408,280	111,021,459	17,714,851	21,401,489

35. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

x. Concentration (continued)

Concentration of credit risk by sector for 2020:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Manufacturing	3,329,049	-	243,160	-	-	3,572,209	1,090,296	957,782
Construction	5,000,476	-	-	-	-	5,000,476	1,032,297	6,407,140
Real estate	23,373,188	-	74,385	5,007	-	23,452,580	3,434,515	544,394
Trade	6,579,571	-	-	-	-	6,579,571	2,923,733	8,621,190
Transportation and storage	2,720,470	-	68,635	-	-	2,789,105	189,579	56,381
Services	5,319,519	-	184,419	66,816	-	5,570,754	958,510	977,757
Hospitality	2,576,351	-	-	-	-	2,576,351	352,862	7,268
Financial and insurance activities	5,814,070	4,220,318	2,354,808	322,373	88,514	12,800,083	1,574,405	1,575,901
Government entities	1,333,967	-	816,026	-	12,423,017	14,573,010	160	1,218
Personal - mortgage	4,036,946	-	-	-	-	4,036,946	-	-
Personal - schematic	4,952,897	-	-	-	-	4,952,897	1,890,088	28,480
Individual loans for business	1,241,197	-	-	-	-	1,241,197	225,157	2,400
Others	2,771,598	-	1,126,968	-	4,024,690	7,923,256	847,088	780,804
Total carrying amount	69,049,299	4,220,318	4,868,401	394,196	16,536,221	95,068,435	14,518,690	19,960,715

35. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

x. Concentration (continued)

Concentration of credit risk by geographic location for 2021:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
UAE	76,056,688	197,982	5,640,784	55,944	18,408,280	100,359,678	17,158,691	17,435,768
GCC	1,347,190	208,745	930,336	-	-	2,486,271	16,584	791,190
Middle East	451,233	276,221	-	254,949	-	982,403	330,876	332,808
Europe	585,123	649,463	119,027	124	-	1,353,737	188,489	368,556
USA	4,964	1,470,018	668,271	24,479	-	2,167,732	-	423,581
Asia	969,080	128,148	1,150,634	-	-	2,247,862	19,593	1,970,431
Others	1,050,925	226,078	146,773	-	-	1,423,776	618	79,155
Total carrying amount	**80,465,203**	**3,156,655**	**8,655,825**	**335,496**	**18,408,280**	**111,021,459**	**17,714,851**	**21,401,489**

Concentration of credit risk by geographic location for 2020:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
UAE	66,280,198	388,829	2,415,610	99,802	16,536,221	85,720,660	13,876,016	16,007,701
GCC	158,614	388,547	954,783	-	-	1,501,944	4,044	205,471
Middle East	639,866	54,281	-	272,075	-	966,222	15,702	105,523
Europe	454,487	834,808	62,209	294	-	1,351,798	82,451	2,018,056
USA	1,901	2,296,645	404,790	22,025	-	2,725,361	313,348	502,446
Asia	655,591	112,359	990,521	-	-	1,758,471	868	1,091,720
Others	858,642	144,849	40,488	-	-	1,043,979	226,261	29,798
Total carrying amount	69,049,299	4,220,318	4,868,401	394,196	16,536,221	95,068,435	14,518,690	19,960,715

35. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

x. Concentration (continued)

Concentration of credit risk by currency for 2021:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
AED	62,268,370	-	2,761,320	54,107	17,531,504	82,615,301	13,527,099	11,087,646
Other currencies*	18,196,833	3,156,655	5,894,505	281,389	876,776	28,406,158	4,187,752	10,313,843
Total carrying amount	80,465,203	3,156,655	8,655,825	335,496	18,408,280	111,021,459	17,714,851	21,401,489

Concentration of credit risk by currency for 2020:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity securities and fund of funds	Cash, balances with Central bank and other assets	Total funded exposures	Undrawn commitments	Acceptances and contingent liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
AED	55,774,443	-	-	71,823	15,564,570	71,410,836	11,518,279	10,539,873
Other currencies*	13,274,856	4,220,318	4,868,401	322,373	971,651	23,657,599	3,000,411	9,420,842
Total carrying amount	69,049,299	4,220,318	4,868,401	394,196	16,536,221	95,068,435	14,518,690	19,960,715

*Majority of assets denominated in other currencies are in USD to which AED is pegged

c) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Group's Internal Capital Adequacy Assessment Procedures (ICAAP) framework and Operational Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group Risk Management Department.

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at contracted maturities and rates and the inability to liquidate assets at reasonable prices and in the required timeframe and the inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

35. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

i. Management of liquidity risk

Liquidity risk is managed by the Treasury and Asset and Liability management (ALM) department in line with the regulatory, internal policies and guidelines. The Group's approach to manage liquidity risk is to ensure that it has adequate funding from diversified sources at all times to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, money market instruments, subordinated debts and capital. The treasury and ALM department monitors the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions.

The Group's liquidity management process, as carried out within the Group and monitored by Group's treasury, includes:

- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met these include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money market to facilitate funding activities;
- Maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Repurchase arrangements with various Banks which allow it to repo its fixed income investments to meet any liquidity needs that may arise.

ii. Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which is 88.0% as at 31 December 2021 (2020: 86.33%). In addition, the Group also uses the following ratios / information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR); and
- Basel III ratios (including LCR, NSFR, etc.) are also monitored internally and shared with the Board on quarterly basis.

The following table summarizes the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. These do not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the residual period at the report date to the contractual maturity date.

35. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

ii. Exposure to liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2021 was as follows:

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No Fixed Maturity
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**14,667,589**	**11,651,241**	**-**	**-**	**-**	**-**	**3,016,348**
Due from banks, net	**3,154,599**	**2,421,580**	**73,210**	**285,761**	**374,048**	**-**	**-**
Loans and advances and Islamic financing, net	**76,441,385**	**6,787,082**	**3,725,212**	**14,242,581**	**29,860,839**	**21,825,671**	**-**
Investment securities	**8,991,321**	**758,716**	**1,595,551**	**1,128,681**	**3,145,531**	**2,362,842**	**-**
Investment in associate	**95,051**	**-**	**-**	**-**	**-**	**-**	**95,051**
Investment properties, net	**191,406**	**-**	**-**	**-**	**-**	**-**	**191,406**
Property and equipment	**309,425**	**-**	**-**	**-**	**-**	**-**	**309,425**
Bankers acceptances	**7,341,210**	**164,178**	**1,370,649**	**5,405,800**	**304,582**	**96,001**	**-**
Other assets, net	**3,020,610**	**1,491,257**	**-**	**-**	**-**	**-**	**1,529,353**
Total assets	**114,212,596**	**23,274,054**	**6,764,622**	**21,062,823**	**33,685,000**	**24,284,514**	**5,141,583**
Liabilities and equity							
Due to banks	**6,120,214**	**1,529,255**	**974,164**	**661,669**	**2,955,126**	**-**	**-**
Customer deposits and Islamic customer deposits	**82,721,669**	**42,514,907**	**13,405,746**	**25,167,648**	**1,621,182**	**12,186**	**-**
Notes and medium term borrowings	**2,584,490**	**-**	**-**	**551,442**	**2,033,048**	**-**	**-**
Due for trade acceptances	**7,341,210**	**164,178**	**1,370,649**	**5,405,800**	**304,582**	**96,001**	**-**
Other liabilities	**1,877,799**	**1,831,558**	**-**	**-**	**-**	**-**	**46,241**
Total liabilities	**100,645,382**	**46,039,898**	**15,750,559**	**31,786,559**	**6,913,938**	**108,187**	**46,241**
Gap representing equity	**13,567,214**	**(22,765,844)**	**(8,985,937)**	**(10,723,736)**	**26,771,062**	**24,176,327**	**5,095,342**

35. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

ii. Exposure to liquidity risk (continued)

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

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No Fixed Maturity
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with Central Bank	13,162,743	10,741,809	-	-	-	-	2,420,934
Due from banks, net	4,218,894	3,879,708	-	162,611	176,575	-	-
Loans and advances and Islamic financing, net	65,288,572	9,521,406	4,311,593	7,997,610	24,442,437	19,015,526	-
Investment securities	5,262,597	73,633	297,410	936,717	3,954,837	-	-
Investment in associate	88,514	-	-	-	-	-	88,514
Investment properties, net	191,469	-	-	-	-	-	191,469
Property and equipment	290,025	-	-	-	-	-	290,025
Bankers acceptances	5,972,327	1,889,928	239,469	2,992,317	13,721	836,892	-
Other assets, net	2,886,419	1,715,992	-	-	-	-	1,170,427
Total assets	97,361,560	27,822,476	4,848,472	12,089,255	28,587,570	19,852,418	4,161,369
Liabilities and equity							
Due to banks	4,782,749	934,752	72,737	2,094,375	1,680,885	-	-
Customer deposits and Islamic customer deposits	69,750,833	33,715,926	13,281,091	22,255,391	472,122	26,303	-
Notes and medium term borrowings	1,764,059	-	-	591,799	1,172,260	-	-
Due for trade acceptances	5,972,327	1,889,928	239,469	2,992,317	13,721	836,892	-
Other liabilities	2,137,857	2,094,424	-	-	-	-	43,433
Total liabilities	84,407,825	38,635,030	13,593,297	27,933,882	3,338,988	863,195	43,433
Gap representing equity	12,953,735	(10,812,554)	(8,744,825)	(15,844,627)	25,248,582	18,989,223	4,117,936

35. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

ii. Exposure to liquidity risk (continued)

The table below shows the maturity of the Group's contingent liabilities and credit commitments:

	Total	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**
31 December 2021	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Contingent liabilities	**14,060,279**	**1,479,634**	**1,802,902**	**2,060,885**	**1,036,737**	**7,680,121**
Credit commitments	**17,714,851**	**3,033,700**	**2,198,757**	**2,903,896**	**3,242,875**	**6,335,623**
Total	**31,775,130**	**4,513,334**	**4,001,659**	**4,964,781**	**4,279,612**	**14,015,744**
31 December 2020						
Contingent liabilities	13,988,388	3,861,327	1,527,476	3,385,870	831,106	4,382,609
Credit commitments	14,518,690	2,912,619	817,594	1,906,955	3,046,174	5,835,348
Total	28,507,078	6,773,946	2,345,070	5,292,825	3,877,280	10,217,957

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

	Total	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**
31 December 2021	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Due to banks	**6,289,353**	**1,530,119**	**976,385**	**824,967**	**2,957,882**
Customer deposits and Islamic customer deposits	**82,959,416**	**42,517,039**	**13,429,088**	**24,951,178**	**2,062,111**
Notes and medium term borrowings	**2,721,885**	**-**	**-**	**559,732**	**2,162,153**
Due for trade acceptances	**7,341,210**	**164,178**	**1,370,649**	**5,405,800**	**400,583**
Other liabilities	**665,967**	**665,967**	**-**	**-**	**-**
Total liabilities	**99,977,831**	**44,877,303**	**15,776,122**	**31,741,677**	**7,582,729**
31 December 2020					
Due to banks	4,952,467	934,819	72,774	2,142,305	1,802,569
Customer deposits and Islamic customer deposits	69,312,835	32,980,462	13,296,186	22,394,660	641,527
Notes and medium term borrowings	1,879,957	-	-	598,510	1,281,447
Due for trade acceptances	5,972,327	1,889,928	239,469	2,992,317	850,613
Other liabilities	742,456	742,456	-	-	-
Total liabilities	82,860,042	36,547,665	13,608,429	28,127,792	4,576,156

35. FINANCIAL RISK MANAGEMENT (continued)

e) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the Group's income and / or value of a financial instrument. The Group manages its market risk in order to achieve optimum returns while maintaining market risk exposures within set risk appetite.

i. Management of market risk

The Board of Directors sets the risk appetite pertaining to market risk which translates into risk limits which are closely monitored by Group Risk Management, reported daily to senior management and discussed monthly by the ALCO,

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested with the ALCO. The Group Risk Management department is responsible for the development of detailed risk management policies and for the day-to-day implementation, subject to review and approval by the ALCO.

ii. Exposure to interest rate risk – non trading portfolio

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing bands. The Group Risk Management Department monitors compliance with these limits on a daily basis and is responsible for reporting breaches if any, to senior management. ALCO review reports on a monthly basis.

In addition the Group also assesses the impact of defined movement in interest yield curves on its net interest income and regulatory capital. The following is the impact of interest rate movement on net interest income and regulatory capital:

	2021		2020	
	Net interest income		Net interest income	
	50 bps	**100 bps**	50 bps	100 bps
	AED'000	**AED'000**	AED'000	AED'000
Upward Parallel Shift	**98,793**	**212,579**	87,137	192,382
Downward Parallel Shift	**(72,191)**	**(144,340)**	(79,813)	(159,421)

35. FINANCIAL RISK MANAGEMENT (continued)

e) Market risk (continued)

A summary of the Group's interest rate sensitivity position based on contractual re-pricing arrangements or maturity dates, whichever dates are earlier is as follows:

31 December 2021	**Non-interest bearing**	**Less than 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 Year**	**Total**
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**3,867,589**	**10,800,000**	**-**	**-**	**-**	**14,667,589**
Due from banks, net	**2,421,525**	**348,274**	**-**	**384,800**	**-**	**3,154,599**
Loans and advances and Islamic financing	**6,102,104**	**67,117,528**	**4,218,765**	**1,014,259**	**2,012,547**	**80,465,203**
Expected credit losses	**(4,023,818)**	**-**	**-**	**-**	**-**	**(4,023,818)**
Investment securities	**335,496**	**2,576,523**	**952,409**	**66,092**	**5,060,801**	**8,991,321**
Investment in associate	**95,051**	**-**	**-**	**-**	**-**	**95,051**
Investment properties, net	**191,406**	**-**	**-**	**-**	**-**	**191,406**
Property and equipment	**309,425**	**-**	**-**	**-**	**-**	**309,425**
Bankers acceptances	**7,341,210**	**-**	**-**	**-**	**-**	**7,341,210**
Other assets, net	**3,020,610**	**-**	**-**	**-**	**-**	**3,020,610**
Total assets	**19,660,598**	**80,842,325**	**5,171,174**	**1,465,151**	**7,073,348**	**114,212,596**
Liabilities						
Due to banks	**-**	**3,894,334**	**318,917**	**342,752**	**1,564,211**	**6,120,214**
Customer deposits and Islamic customer deposits	**29,230,074**	**26,690,580**	**13,255,472**	**11,912,176**	**1,633,367**	**82,721,669**
Notes and medium term borrowings	**-**	**1,962,637**	**621,853**	**-**	**-**	**2,584,490**
Due for trade acceptances	**7,341,210**	**-**	**-**	**-**	**-**	**7,341,210**
Other liabilities	**1,877,799**	**-**	**-**	**-**	**-**	**1,877,799**
Total liabilities	**38,449,083**	**32,547,551**	**14,196,242**	**12,254,928**	**3,197,578**	**100,645,382**
Interest rate sensitivity gap	**(18,788,485)**	**48,294,774**	**(9,025,068)**	**(10,789,777)**	**3,875,770**	**13,567,214**
Cumulative interest rate sensitivity gap	**(18,788,485)**	**29,506,289**	**20,481,221**	**9,691,444**	**13,567,214**	
Represented by equity						**13,567,214**

35. FINANCIAL RISK MANAGEMENT (continued)

e) Market risk (continued)

31 December 2020	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 Year	Total
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with Central Bank	3,812,743	9,350,000	-	-	-	13,162,743
Due from banks, net	2,871,638	1,294,459	-	52,797	-	4,218,894
Loans and advances and Islamic financing	5,165,565	56,965,327	3,635,414	971,100	2,311,893	69,049,299
Expected credit losses	(3,760,727)	-	-	-	-	(3,760,727)
Investment securities	394,196	73,633	268,489	668,228	3,858,051	5,262,597
Investment in associate	88,514	-	-	-	-	88,514
Investment properties, net	191,469	-	-	-	-	191,469
Property and equipment	290,025	-	-	-	-	290,025
Bankers acceptances	5,972,327	-	-	-	-	5,972,327
Other assets, net	2,886,419	-	-	-	-	2,886,419
Total assets	17,912,169	67,683,419	3,903,903	1,692,125	6,169,944	97,361,560
Liabilities						
Due to banks	88,863	3,338,370	281,790	601,430	472,296	4,782,749
Customer deposits and Islamic customer deposits	24,449,981	22,547,036	9,901,474	12,353,917	498,425	69,750,833
Notes and medium term borrowings	-	1,143,244	620,815	-	-	1,764,059
Due for trade acceptances	5,972,327	-	-	-	-	5,972,327
Other liabilities	2,137,857	-	-	-	-	2,137,857
Total liabilities	32,649,028	27,028,650	10,804,079	12,955,347	970,721	84,407,825
Interest rate sensitivity gap	(14,736,859)	40,654,769	(6,900,176)	(11,263,222)	5,199,223	12,953,735
Cumulative interest rate sensitivity gap	(14,736,859)	25,917,910	19,017,734	7,754,512	12,953,735	
Represented by equity						12,953,735

Overall interest rate risk positions are managed by the Treasury and ALM Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's activities. Interest rate risks are assumed by ALM from the businesses through fund transfer pricing process.

35. FINANCIAL RISK MANAGEMENT (continued)

e) Market risk (continued)

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net spot	**Forward**	**Net exposure**	
	Position	**Position**	**2021**	2020
	←	**AED'000**	→	
Currencies				
US Dollar	**3,505,757**	**(3,073,890)**	**431,867**	(529,888)
GCC currencies	**(2,187,297)**	**2,183,554**	**(3,743)**	42,166
Great Britain Pound	**407**	**1,414**	**1,821**	(717)
Japanese Yen	**(4,973)**	**4,667**	**(306)**	7,465
Euro	**(580,445)**	**582,820**	**2,375**	20,928
Others	**18,583**	**(8,838)**	**9,745**	5,064

A summary of capital requirement for market risk under standardized approach of Basel III is set out below:

	2021	2020
	AED'000	AED'000
Foreign currency risk	**2,828**	4,110
Interest rate risk	**73,592**	61,074
	76,420	65,184

f) Equity risk

The Group has defined in its trading book policy the instruments which the Group is allowed to trade. A limited trading activity takes place in the equity market, monitored by Risk Management and in line with Investment Committee (IC) recommendations. Daily stop loss limits as well as portfolio notional limits are monitored daily and reported to senior management. In addition, the Group has classified an equity portfolio as FVOCI.

Analysis of equity portfolio:

	2021	2020
Publicly traded (quoted):	**AED'000**	AED'000
Equity (note 10)	**54,107**	93,849
Privately held (unquoted):		
Unquoted equity instruments and fund (note 10)	**281,389**	300,347
Total	**335,496**	394,196

Analysis of gains or (losses) on equity investments:

	2021	2020
	AED'000	AED'000
Realised gains on sale	**1,186**	-
Unrealised (loss) / gain	**(17,717)**	45,104

35. FINANCIAL RISK MANAGEMENT (continued)

f) Equity risk (continued)

Analysis of capital requirement for equity investments under standardized approach of Basel III:

	2021	2020
	AED'000	AED'000
Equity	**412**	4,663
Unquoted equity instruments and fund	**42,725**	42,907
Total	**43,137**	47,570

g) Operational risk

Operational risk is defined by Basel as "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this includes legal risk but excludes strategic and reputation risks".

The Group's objective is to manage operational risk, so as to balance the avoidance of financial losses and damage to the Group's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative, innovativeness and creativity.

The primary responsibility for overseeing the establishment of sound operational risk management framework and monitoring the operational risk profile of the Group vests with the senior management of the Group. The Group has set up a cross functional committee named Operational Risk Management Committee (ORMC) of senior management personnel to formalize this responsibility and closely monitor key Operational Risks on a pan bank basis to support timely execution of action plans.

Accountability and responsibility is further assigned to the heads of individual units, departments or branches. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions to eliminate scenarios involving any conflict of interest;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures pertaining to all activities of the bank;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action to avoid its future recurrence;
- Development of contingency plans to ensure continuity of business under all circumstances;
- Training and professional development of employees at all levels so as to increase their awareness of the subject;
- Ethical and business standards (through the Group's approved and functional Code of Conduct);
- Risk mitigation, including insurance wherever this is effective; and
- Whistle Blowing and Incident Reporting Policies are channels available to all staff for reporting of any loss events or other wrongdoings.

The Group has an approved framework for end-to-end management of its operational risks, which involves the active participation of the employees at all levels. The Operational Risk Management plan places an equal emphasis on the identification, assessment, control and reporting of operational risks and on quantification of potential risks and resultant losses therein, if any. Reports are produced covering Operational Risk dashboards, heat-maps, loss matrices, Operational Risk register and loss databases.

The Group has in place an operational risk management system to collate operational risk information in an automated environment; this has enabled the bank to build operational risk databases to support migration to more complex approaches for computation of operational risk capital in the future.

35. FINANCIAL RISK MANAGEMENT (continued)

g) Operational risk (continued)

Group Risk Management are responsible for embedding bank-wide Operational Risk awareness, by delivering workshops, seminars and training courses on different operational risk disciplines, for the employees, throughout the year. As part of the Operational Risk framework in the Bank, Risk and Control Self Assessments (RCSA) are being carried out by all Business Units to identify and measure their operational risks and assess the effectiveness of existing controls. Action plans are agreed for any control weaknesses or unacceptable risks to mitigate the likelihood and / or impact of an Operational Risk event. Any Operational Risk events that occur are recorded and escalated to ensure timely remedial actions are taken, to reduce customer dissatisfaction and recover losses.

Moreover, the Group conducts an assessment of disaster recovery and business continuity position, as well as detailed system risk assessments of all new / upgraded IT systems and assessment of Operational Risk elements in any new products to be launched or procedures to be implemented. Compliance with policies and procedures is supported by periodic reviews undertaken by Internal Audit. A review of the insurance coverage available to the Group is undertaken to maintain oversight of adequacy of insurance as necessitated by the Basel guidelines. Regular updates are provided to the senior management and the Board Risk Committee (BRC) to support their mandate to maintain adequate oversight of the Group's operational risk framework and status of operational risks across all areas of the Group.

36. CAPITAL MANAGEMENT

36.1 Regulatory capital

The Group's regulator, the Central Bank of the UAE ('CBUAE'), sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and optimize returns for shareholders;
- Comply with regulatory capital requirements set by the Central Bank of the UAE.

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

The CBUAE supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

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

36. CAPITAL MANAGEMENT (continued)

36.1 Regulatory capital (continued)

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for 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.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. The minimum capital adequacy requirements as set out by the Central Bank are as follows:

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

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%.

The Group has complied with all the externally imposed capital requirements.

36.2 Capital resources and adequacy

The table below summarizes the composition of regulatory capital and the ratios of the Group as per BASEL III guidelines and has complied with all of the externally imposed capital requirements to which it is subject. As per the Central Bank regulation for Basel III, the capital requirement as at 31 December 2021 is 13% inclusive of capital conservation buffer of 2.5%. However, effective from 15 March 2020 until 30 June 2022, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, as part of the measures adopted by the CBUAE to help banks deal with the COVID-19 crisis. The Bank has also applied the standards issued vide its circular dated 12 November 2020 by the CBUAE which includes additional Guidance on the topics of Credit Risk, Market Risk, and Operational Risk. The Standards support the implementation of the "Regulations re Capital Adequacy" (Circular 52/2017).

	2021	2020
Common equity tier 1 (CET1) capital	**AED'000**	AED'000
Share capital	**2,802,734**	2,802,734
Legal and statutory reserve	**1,401,447**	1,401,367
General reserve and other reserves	**1,366,663**	1,328,025
Retained earnings	**5,113,083**	4,537,750
Accumulated other comprehensive income	**(72,764)**	26,269
IFRS transitional arrangement	**131,522**	44,133
	10,742,685	10,140,278
Regulatory deductions and adjustments	**(164,554)**	(100,504)
Total CET1 capital	**10,578,131**	10,039,774
Additional tier 1 (AT1) Capital (note 19.2)	**2,203,800**	2,203,800
Tier 1 capital	**12,781,931**	12,243,574
Tier 2 capital		
Eligible general provision	**1,008,978**	910,521
Tier 2 capital	**1,008,978**	910,521
Total regulatory capital	**13,790,909**	13,154,095

36. CAPITAL MANAGEMENT (continued)

36.2 Capital resources and adequacy (continued)

	2021	2020
Risk weighted assets (RWA)		
Credit risk	**80,718,220**	72,841,690
Market risk	**731,729**	665,207
Operational risk	**5,746,505**	5,494,457
Risk weighted assets	**87,196,454**	79,001,354
Tier 1 ratio	**14.66%**	15.50%
Tier 2 ratio	**1.16%**	1.15%
Capital adequacy ratio	**15.82%**	16.65%

The Capital adequacy ratio calculation is after netting off the proposed dividend distribution from the capital base.

Risk Weighted Capital Requirement

The Group has adopted the standardized approach for credit risk and market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operational risk are given below:

i. Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the Central Bank of UAE Basel III Capital Adequacy Framework covering the standardized approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

- **Funded exposure**

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable external credit assessment institutions (ECAIs). Exposure to the Federal Government and Emirates Government receives 0% risk weight, if such exposures are denominated and funded in AED or USD. A 0% risk weight is applied to exposures to GCC sovereigns and their central banks only if these exposures are denominated and funded in the domestic currency of that sovereign and the Supervisory authority of that sovereign has adopted such preferential treatment for exposures to its own sovereign and central bank.

Claims on non-commercial public sector entities (PSEs) and government related enterprises (GRE)

Non-Commercial PSEs that are acknowledged by the Central Bank is treated in the same as Claims on Bank. Exposure to all other PSEs that are not included on the Central Bank's list must be treated like exposures to corporates.

Claims on government related entities (entities with greater than 50% government ownership) are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated government related entities.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with each bank's credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

36. CAPITAL MANAGEMENT (continued)

36.2 Capital resources and adequacy (continued)

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims were assigned more favorable risk weighting.
No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated corporate.

For unrated exposures to Small and Medium-sized Entities (SME) that do not meet the criteria of regulatory retail portfolio, an 85% risk weight will be applied.

Claims on regulatory retail portfolio

Retail claims that are included in the regulatory retail portfolio (including SME) are assigned risk weights of 75% (except for those assets that are past due loans), if they meet the criteria mentioned in the Central Bank of the UAE Basel III guidelines.

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million to a single borrower and the claim was secured by residential property with LTV of up to 85%. If the two criteria cannot be definitively established or met, then if the exposure meets the criteria for regulatory retail claims then a 75% risk weight applies. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial real estate

100% risk weight was applied on claims secured by commercial property.

Past due loans

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of loan;
- 100% risk weight when specific provisions are greater than 20% of the outstanding amount of loan.

In the case of residential mortgage, when such loans are past due for more than 90 days it is risk weighted at 100%. All other assets are classified between 'assets under higher-risk categories' and 'others'; and risk weighted at the prescribed risk weights.

- **Unfunded exposure**

For credit-related contingent items, the nominal value is converted to an exposure through the application of Credit Conversions Factors (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

Undrawn commitments to extend credit represent commitments that have not been drawn down or utilized at the reporting date. The nominal amount provides the calculation base to which the CCF is applied for calculating the exposure. CCF range between 20% and 50% for commitment with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

Notes to the Group consolidated financial statements
For the year ended 31 December 2021 (continued)

36. CAPITAL MANAGEMENT (continued)

36.2 Capital resources and adequacy (continued)

- **Equity Investments in Funds (EIF)**

For all equity investments by banks in all types of funds that are held in the banking book (in-scope equity positions), the RWA is calculated as if the bank held the fund's exposures directly rather than indirectly through investment in the fund. The Bank has used a hierarchy of three successive approaches i.e. Look-through approach (LTA), Mandate-based approach (MBA) and Fall-back approach (FBA) with varying degrees of risk sensitivity and conservatism, as required in the standards. Further, leverage adjustment to RWA is also incorporated to reflect a fund's leverage appropriately as described in the standards.

ii. Risk weights for market risk

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analysed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

iii. Risk weight for operation risk

Capital requirement for operation risk is calculated using basic indicator approach. This capital charge was computed using basic indicator approach by multiplying the three years average gross income by a predefined beta factor.

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which are considered immaterial.

2021

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