Arab African International Bank
UAE Branches

Financial statements

For the year ended 31 December 2021

Building a better working world

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT OF ARAB AFRICAN INTERNATIONAL BANK – UNITED ARAB EMIRATES BRANCHES

Opinion

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

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

Basis for opinion

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and in compliance with the applicable provisions of the UAE Federal Law No (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT OF ARAB AFRICAN INTERNATIONAL BANK – UNITED ARAB EMIRATES BRANCHES (continued)

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branches’ internal control.

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

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branches’ ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Branches to cease to continue as a going concern.

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

We communicate with the management 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.

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT OF ARAB AFRICAN INTERNATIONAL BANK – UNITED ARAB EMIRATES BRANCHES (continued)

Report on other legal and regulatory requirements

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

For Ernst & Young

Signed by:
Wardah Ebrahim
Partner
Registration No: 1258

25 March 2022

Dubai, United Arab Emirates

Arab African International Bank
United Arab Emirates Branches
Statement of financial position
As at 31 December 2021

	Notes	**2021 AED'000 (Audited)**	2020 AED'000 (Audited)
Assets			
Cash and balances with the Central Bank Of the UAE	6	**868,694**	1,298,360
Due from banks	7	**3,771,588**	7,196,645
Due from Head Office and other branches	24	**244,767**	257,532
Loans and advances	8	**1,789,620**	1,429,354
Financial investments	9	**545,618**	366,363
Premises, equipment and right of use assets	10	**13,837**	10,740
Deferred tax assets	22	**64,542**	64,484
Other assets	11	**46,584**	19,367
Total assets		**7,345,250**	10,642,845
Liabilities			
Customers' deposits	12	**4,902,120**	6,822,550
Due to banks	13	**756,030**	2,249,376
Due to Head Office and other branches	24	**17,075**	11,544
Other liabilities	14	**114,829**	88,565
Total liabilities		**5,790,054**	9,172,035
Head Office equity			
Allocated capital	15	**686,437**	686,437
Legal reserve	15	**127,566**	119,107
Fair value reserve		**12**	219
Impairment reserve		**29,653**	4,995
Retained earnings		**711,528**	660,052
Total Head Office equity		**1,555,196**	1,470,810
Total liabilities and Head Office equity		**7,345,250**	10,642,845

The notes on pages 9 to 73 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

These financial statements were approved and authorised for issue on 25 MAR 22 by:

Tamer Khalifa
Assistant Managing Director & Group Chief Business Officer

Arab African International Bank
United Arab Emirates Branches
Statement of profit or loss
For the year ended 31 December 2021

	Notes	**2021** **AED'000** **(Audited)**	2020 AED'000 (Audited)
Interest income	16	**106,642**	136,149
Interest expense	17	**(18,906)**	(34,996)
Net Interest Income		**87,736**	101,153
Fee and commission income	18	**33,426**	24,475
Fee and commission expense	18	**(640)**	(475)
Net Fee and Commission income		**32,786**	24,000
Net gains on foreign exchange	21	**42,536**	39,233
Loss on financial assets at FVTPL		**(1,792)**	(16,126)
Other income	19	**155**	341
Net Foreign Exchange and Other Income		**40,899**	23,448
Operating income		**161,421**	148,601
Personnel expenses		**(23,705)**	(18,740)
Depreciation	10	**(3,056)**	(1,644)
Other operating expenses	20	**(8,967)**	(9,629)
Profit before net impairment charge and taxation		**125,693**	118,588
Net impairment allowance on financial assets	7,8,9,11,25	**(19,942)**	(193,196)
Profit /(Loss) before tax		**105,751**	(74,608)
Taxation	22	**(21,158)**	14,933
Profit /(Loss) for the year		**84,593**	(59,675)

The notes on pages 9 to 73 are an integral part of these financial statements.

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Arab African International Bank
United Arab Emirates Branches
Statement of comprehensive income
For the year ended 31 December 2021

	2021 **AED'000** **(Audited)**	2020 AED'000 (Audited)
Profit/(loss) for the year	**84,593**	(59,675)
Other comprehensive income:		
Items that may or will be reclassified subsequently to statement of profit or loss		
Net change in fair value reserve during the year	**(207)**	(483)
Other comprehensive loss for the year	**(207)**	(483)
Total comprehensive income/(loss) for the year	**84,386**	(60,158)

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Arab African International Bank
United Arab Emirates Branches
Statement of changes in equity
For the year ended 31 December 2021

	Allocated capital AED'000	Legal reserve AED'000	Fair Value reserve AED'000	Impairment reserve AED'000	Retained earnings AED'000	Total Head Office equity AED'000
As at 1 January 2020	686,437	119,107	702	-	724,722	1,530,968
Total comprehensive loss for the year	-	-	(483)	-	(59,675)	(60,158)
Transfer to impairment reserve	-	-	-	4,995	(4,995)	-
As at 31 December 2020	686,437	119,107	219	4,995	660,052	1,470,810
As at 1 January 2021	686,437	119,107	219	4,995	660,052	1,470,810
Total comprehensive income for the year	-	-	(207)	-	84,593	84,386
Transfer to legal reserve	-	8,459	-	-	(8,459)	-
Transfer to impairment reserve	-	-	-	24,658	(24,658)	-
As at 31 December 2021	**686,437**	**127,566**	**12**	**29,653**	**711,528**	**1,555,196**

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Arab African International Bank
United Arab Emirates Branches
Statement of cash flows
For the year ended 31 December 2021

	Note	2021 AED'000 (Audited)	2020 AED'000 (Audited)
Cash flows from operating activities			
Profit / (loss) before tax		**105,751**	(74,608)
Adjustment for:			
Depreciation on premises and equipment		**1,490**	1,303
Depreciation on right of use assets		**1,566**	341
Net impairment allowance on financial assets		**19,942**	193,196
Finance cost on lease liability		**78**	122
Loss on financial assets at FVTPL		**1,792**	16,126
Operating profit before changes in assets and liabilities from operating activities		**130,619**	136,480
Changes in operating assets and liabilities			
Reserve with Central Bank of UAE		**(104,635)**	(382,221)
Loans and advances		**(394,818)**	(185,312)
Due from banks		**(1,150,977)**	(87,941)
Other assets		**(26,475)**	795
Customers' deposits		**(1,920,430)**	2,510,582
Other liabilities		**21,660**	11,261
Due to the Central Bank of the UAE		**(9,907)**	9,907
Tax paid		**(16,891)**	(41,820)
Net cash (used in) / generated from operating activities		**(3,471,854)**	1,971,731
Cash flows from investing activities			
Purchase of premises and equipment		**(6,153)**	(1,236)
Purchase of financial investments		**(195,211)**	(303,195)
Sale of financial investments		**18,400**	254,400
Net cash used in investing activities		**(182,964)**	(50,031)
Cash flows from financing activities			
Lease payments		**(1,597)**	(1,597)
Net cash used in financing activity		**(1,597)**	(1,597)
Net (decrease)/ increase in cash and cash equivalents	23	**(3,656,415)**	1,920,103
Cash and cash equivalents at 1 January		**5,128,068**	3,207,965
Cash and cash equivalents at 31 December		**1,471,653**	5,128,068

The notes on pages 9 to 73 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

1. Legal status and principal activities

Arab African International Bank – United Arab Emirates Branches (the "Branches" of the "Bank") operates in the United Arab Emirates ("UAE") through its two branches located in the Emirates of Dubai and Abu Dhabi which are registered under a banking license issued by the Central Bank of United Arab Emirates ("CBUAE"). The address of both branches are as follows: Office G02, Dubai National Insurance & Reinsurance P.S.C Building, Al Wasl, P.O. Box 1049, Dubai and Kamala Tower, Zayed The First Street, Al Khalidiyah, P.O.Box 928, Abu Dhabi. Arab African International Bank (the "Head Office") is an Egyptian Joint Stock company incorporated in Cairo, Egypt. The Branches are a segment of the Head Office which is held 48.96 % each by the Central Bank of Egypt and Kuwait Investment Authority which are therefore the ultimate controlling parties. The accompanying financial statements have been prepared from the records of the Branches, which contain evidence of transactions recorded locally.

The principal activities of the Branches primarily comprise corporate and retail banking activities. The financial statements of the Branches include only activities relating to the Branches and do not include any other activities or transactions outside of the Branches and within the Head Office operations.

UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Branches came into effect from 1 July 2015. In addition, the Federal Law No. (14) of 2018 – Regarding the Central Bank & Organization of Financial Institutions and Activities ("Banking Law") which is applicable to the Branches came into effect on 23 September 2018. The Branches have assessed, evaluated provisions of the Companies Law and the Banking Law and ensured compliance with the relevant law.

These financial statements represent the combined financial position and results of the two branches in the United Arab Emirates. The Branches are not separate legal entities but meet the definition of a reporting entity under IFRS under the Conceptual Framework for IFRS. IFRS defines a reporting entity as an entity that is required, or chooses, to prepare financial statements.

All the operating activities of the Branches are clearly defined and separately managed from the other businesses of the Head Office and accounting records are maintained on this basis. The assets of the Branches are used solely by the Branches and are registered in the name of the Branches. The liabilities relate to the activities of the Branches.

It is important to note whilst the reporting boundary is defined above, the assets and liabilities presented within the reporting boundary remain the assets and liabilities of the Head Office and are not legally separable from the Head Offices' other assets and liabilities. As such legally, the assets of the reporting entity may be available to the other claims of the Head Office.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated**.**

A. Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 01 January 2021

Interbank offered rates ("IBORs) reform disclosure – Phase 2
In August 2020, the IASB issued IBOR reform - Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

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

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. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

C. Basis of preparation

a. Statement of compliance

These financial statements have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRSs) (which comprises accounting standards issued by International Accounting Standards Board (IASB) as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC)) and the applicable requirements of laws of the UAE including the UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") and the Decretal Federal Law No. (14) of 2018. The Branches have assessed, evaluated and ensured compliance with the relevant provisions of the Company Law.

The COVID-19 pandemic has resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE have announced measures to provide both financial and nonfinancial assistance to the affected entities. The pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities with details covered in note 3 (a) of these financial statements.

2. Summary of significant accounting policies (continued)

C. Basis of preparation (continued)

b. Basis of measurement

These financial statements are prepared under the historical cost convention except for investments classified as fair value through other comprehensive income (FVOCI).

c. Functional and presentation currency

The financial statements are presented in United Arab Emirates Dirham ("AED"), which is the functional currency of Branches. Except as indicated, amounts presented are rounded to the nearest thousand.

d. Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

D. Foreign currency translation

The Branches maintain its accounts in AED currency. Foreign currency transactions are translated using the exchange rates prevailing at the date of the transactions. All monetary assets and liabilities balances in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the following items in the income statement:

- Net trading income for trading assets and liabilities or net income from financial instruments designated at fair value through profit or loss for instruments designated at fair value through profit or loss according to its type.
- Other operating income (expense) for the rest of items.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in OCI.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2. Summary of significant accounting policies (continued)

E. Financial assets and liabilities

i. Recognition and initial measurement

The Branches initially recognize loans and advances, and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Branches become a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Branches recognise the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

ii. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

Financial investment is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Branches may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

2. Summary of significant accounting policies (continued)

E. Financial assets and liabilities (continued)

ii. Classification (continued)

Business model assessment
The Branches make an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- how the performance of the portfolio is evaluated and reported to the Branches' management
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; 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 Branches' stated objective for managing the financial assets is achieved and how cash flows are realised

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Branches' original expectations, the Branches do not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Branches considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Branches consider:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Branches' claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

2. Summary of significant accounting policies (continued)

E. Financial assets and liabilities (continued)

ii. Classification (continued)

Reclassification
The Branches do not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Branches acquire, dispose of, or terminate a business line. Financial liabilities are never reclassified.

Derecognition of financial assets and financial liabilities

Derecognition due to substantial modification of terms and conditions
If the terms of a financial asset are modified, the Branches evaluate whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Branches record a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Branches consider a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Derecognition other than for substantial modification
A financial asset (in whole or in part) is derecognised either when:

- the contractual rights to receive the cash flows from the asset have expired; or
- the Branches retain the right to receive cash flows from the assets but have assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- the Branches have transferred their rights to receive cash flows from the asset and either
  i. has transferred substantially all the risks and rewards of the asset, or
  ii. has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Branches have transferred their right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branches’ continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branches would be required to repay.

2. Summary of significant accounting policies (continued)

E. Financial assets and liabilities (continued)

ii. Classification (continued)

Derecognition of financial assets and financial liabilities (continued)

Derecognition other than for substantial modification (continued)
When the Branches have neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Branches' continuing involvement, in which case, the Branches also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branches have retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Branches could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Branches would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit and loss.

F. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Branches have a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting arrangements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

G. Interest income and expense

Effective interest rate
Interest income and expense for all interest-bearing financial instruments, except for those classified as FVTPL or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

2. Summary of significant accounting policies (continued)

G. Interest income and expense (continued)

Effective interest rate (continued)
When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Branches estimate future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses; i.e. the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Branches revert to calculating interest income on a gross basis.

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

Presentation:
Interest income and expense presented in the statement of profit or loss and OCI include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on financial investment is measured at FVOCI calculated on an effective interest basis;

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

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.

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.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

2. Summary of significant accounting policies (continued)

H. Fees and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees, arrangement fees, participation fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

I. Treasury bills and bonds

Bills and bonds are recognized when they are bought at face value and the issuance cost. These appear on the financial statement net of the unearned interest (including discount or premium) and they are measured by the amortized cost using the effective interest rate.

The difference between the selling and repurchase price is recognized as accrued income over the agreement's period using the effective rate of return method.

J. Impairment of financial assets

The Branches apply the three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and financial investment classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

<u>Stage 1: 12 Months ECL</u>
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

<u>Stage 2: Lifetime ECL - not credit impaired</u>
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.

2. Summary of significant accounting policies (continued)

J. Impairment of financial assets (continued)

Stage 3: Lifetime ECL - credit impaired
The Branches recognise loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Branches measure loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

The Branches consider a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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.

Purchased or originated credit impaired (POCI)
In addition, the Branches also recognise POCI assets, which are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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 Branches expect to receive);

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;

Undrawn loan commitments and letter of credit: as the present value of the difference between the contractual cash flows that are due to the Branches if the commitment is drawn down and the cash flows that the Branches expect to receive; and

Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Branches expect to recover.

2. Summary of significant accounting policies (continued)

J. Impairment of financial assets (continued)

Restructured 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. The treatment detailed in Note 2.F of these financial statements.

Revolving facilities: For revolving facilities that include both a loan and an undrawn commitment loan commitments and letters of credit, ECLs are calculated and presented together with the loan.

Guarantees: The Branches' liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Branches estimate ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the scenarios. The ECLs related to financial guarantee contracts are calculated and presented together with the loan.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Regulatory guidelines: The Branches have considered the following regulatory guidance of the regulator in arriving at ECL impairment:

- Probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.
- Requirement of 5 years data to be included in the IFRS 9 models for the purpose of assessment of the ECL, where relevant and available.

Credit-impaired financial assets

At each reporting date, the Branches assess whether financial assets carried at amortised cost and financial assets 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.

2. Summary of significant accounting policies (continued)

J. Impairment of financial assets (continued)

Credit-impaired financial assets (continued)
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 restructuring of a loan or advance by the branches on terms that the Branches would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign, is credit-impaired, the branches consider 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.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Branches have identified the ECL on the loan commitment / off balance sheet component separately from those on the drawn component: the Branches present a loss allowance for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Loss allowance for undrawn components is presented as a provision in other liabilities; and
- Financial investments 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.

2. Summary of significant accounting policies (continued)

J. Impairment of financial assets (continued)

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Branches 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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the branches' procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

K. Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash on hand, balances with Central Bank (excluding statutory reserve), due from and due to banks, due from Head Office and other branches with original maturity of three months or less from the date of initial recognition, and are used for the purpose of meeting short term cash commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

L. Due from banks, Due from Head Office and other branches

Amounts due from banks, Head Office and other branches are initially recognised at cost, being the fair value of the consideration received and are subsequently measured at amortised cost, less any allowance for impairment.

M. Premises and equipment and right of use assets

Recognition and measurement
All items of premises and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs
Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branches and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss when incurred.

Depreciation
Depreciation is recognised in the statement of profit or loss on a straight line basis over the estimated useful lives of all premises and equipment.

The estimated useful lives of assets as follows:

	Years
Furniture and fixtures	5-7
Computers and software	5
Motor vehicles	5
Leasehold Improvements and Installations	7
Right of use assets	Over lease term

2. Summary of significant accounting policies (continued)

M. Premises and equipment and right of use assets (continued)

Depreciation (continued)
Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate.

Right-of-use assets are depreciated on a straight-line basis over the lease term. Gains and losses on disposals are determined by comparing the proceeds from disposal with the carrying amount and are recognised in the statement of profit or loss, in the period in which they arise.

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Branches' accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Impairment
The carrying amounts are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

N. Due to banks, due to Head Office, other branches and customers' deposits

Due to banks, Head Office and other branches and customers' deposits are initially recognised at their fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method.

O. Impairment of non-financial assets

The carrying amount of the Branches' non-financial assets, other than deferred tax assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any.

An impairment loss is recognised in the statement of profit or loss if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or its cash-generating unit is the greater of its value-in-use and its fair value less cost to sell. In assessing its value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset in the income statement to the extent that carrying values exceed the recoverable amounts.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

2. Summary of significant accounting policies (continued)

P. Derivative financial instruments

Derivatives generally include swaps and forward foreign exchange contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position.

Q. Income tax

Income tax comprises of current tax and deferred tax. Income tax expense is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income, in which case it is recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date by the tax laws and regulation issued by the Emirates of Abu Dhabi and Dubai, any adjustments to tax payable in respect of previous years, and deferred tax income recognised during the year.

R. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Branches and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Branches expect, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Branches have not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

2. Summary of significant accounting policies (continued)

S. Leases

The Branches have lease contracts for its premises. The Branches apply a single recognition and measurement approach for its leases that it is the lessee, except for short-term leases and leases of low-value assets. The Branches recognized lease liability to make lease payments and right-of-use assets representing the right to use the underlying assets.

Below are the accounting policies of the Branches in relation to leases where the Branches are the lessee:

Right-of-use assets
The Branches recognise right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Branches are reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The estimated useful life of right-of-use assets is consistent with leasehold improvements as discussed in note 2 M.

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

In calculating the present value of lease payments, the Branches use the incremental borrowing rate of 3 % at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Branches apply the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

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

2. Summary of significant accounting policies (continued)

T. Provisions

A provision is recognised if, as a result of a past event, the Branches have 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. Where the effect of time value of money is material, 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.

U. Staff terminal benefits

The Branches provide for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed based on the requirements as per the UAE local laws.

The Branches contribute to the pension scheme for UAE nationals under the UAE pension and social security law in accordance with Federal Law No. 2 of 2000. This is a defined contribution pension plan and the Branches' contributions are charged to the statement of profit or loss in the period to which they relate. In respect of this scheme, the Branches have an obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

3 Financial risk management

Introduction and overview
The Branches have exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Currency risk;
- Operational risk
- Settlement risk; and
- Capital risk

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

Risk management framework
The Branches' risk management policies are established to identify and analyse the risks faced by the Branches, 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 the changes in market condition, products and service offered.

The Assistant Managing Director & Group Chief Business Officer (GCBO) has overall responsibility for the establishment and oversight of the Branches' risk management framework. The centralised internal audit department based in Head Office in Egypt is responsible for monitoring compliance with the Branches risk management policies and procedures, and for reviewing the adequacy of the risk management framework.

3 Financial risk management (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the Branches if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Branches' loans and advances, due from banks, due from Head Office and other branches and investment securities.

Management of credit risk
The Branches credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

The Head Office is responsible for formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Branches manage the credit exposure by obtaining security where appropriate and limiting the duration of exposure.

The credit quality of the loans and advances is managed by the Branches using internal credit ratings comprising 10 grades. The risk rating system is used as a credit risk management tool whereby any risks taken on the Branches' books are rated against a set of predetermined standards which are in line with the CBUAE guidelines.

The Branches' Credit Risk Rating Methodology reflects its assessment of the probability of default of individual counterparties mapped to the ratings specified by the External Credit Assessment Institutions (ECAIs). The mapping is based on a statistical model which takes into consideration the industry weights, country specific factors and the sensitivity of the counter party to systematic risk. Risk classification / grading system has been presented below:

Branches' rating	**Description of the grade**
1-5	Performing or normal
6-7	Regular watching and other loans especially mentioned (OLEM)
8	Sub-standard
9	Doubtful
10	Loss

Regular audits of the Branches' credit processes are undertaken by the centralised internal audit department.

3 Financial risk management (continued)

(a) Credit risk (continued)

The Branches are exposed to credit risk, which is the risk of suffering financial loss, should any of the branches' customers, clients or market counterparties fail to fulfil their contractual obligations to the Branches. Credit risk is the most important risk for the Branches' business. Management therefore carefully manages its exposure to credit risk. Credit risk arises mainly from lending activities which resulted in loans, facilities and investment activities which result in including the financial assets in the Branches' assets. Credit risk is available in the off-balance sheet financial assets such lending commitment. The credit risk management and control are centralized in a credit risk management team, which reports to the Board of Directors of the Head Office and head of each business unit regularly.

(i) <u>Credit risk measurement</u>
Loans and advances to banks and customers
In measuring credit risk of loans and advances to banks and customers, the assessment of the Branches reflects the following components:

Probability of default - by the client or counterparty on its contractual obligations.
The Branches assess the probability of default of individual customers using internal rating tools tailored to the various categories of the counterparty. They have been developed internally and combine statistical analysis with credit officer judgment. Clients of the Branches are segmented into five rating classes. The rating scale which is as shown below reflects the range of default probabilities- defined for each rating class. This means that in principal, exposures might migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Branches regularly validate the performance of the rating and their predictive power with regard to default cases.

Exposure at default
Exposure at default is based on the amounts the Branches expect to be outstanding at the time of default. For example, for a loan this is the carrying value. For a commitment, the Branches include any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Loss given default
Loss given default or loss severity represents the Branches' expectation of the extent of loss on a claim should default occur. It is expressed as a percentage of loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

Treasury bills, bonds and Due from Banks
For bills, bonds and due from banks external rating (such as Standard & Poor's rating or their equivalents) are used by the Branches for managing of the credit risk exposures. In case such ratings are unavailable, internal rating methods are used that are similar to those used for credit customers. The investment in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time.

3 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit quality analysis

The following table sets out information about the credit quality of financial assets. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

As of 31 December 2021	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	AED'000 Exposure	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**
Cash and balances with the Central Bank of the UAE	868,694	-	-	-	-	-	868,694	-
Due from banks	1,453,305	68	2,318,818	467	-	-	3,772,123	535
Due from Head Office and and other branches	244,767	-	-	-	-	-	244,767	-
Loans and advances	1,537,540	12,912	110,708	4,535	470,157	311,338	2,118,405	328,785
Financial investments	199,845	7	350,710	4,930	-	-	550,555	4,930
Other assets	-	-	45,557	298	-	-	45,557	298
Unfunded Exposure - Letter of Credits and Guarantees	443,601	1,844	1,037	1	68,802	34,190	513,440	36,035
	4,747,752	**14,831**	**2,826,230**	**10,243**	**538,959**	**345,528**	**8,113,541**	**370,590**

3 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit quality analysis (continued)

As of 31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Cash and balances with the Central Bank of the UAE	1,298,360	-	-	-	-	-	1,298,360	-
Due from banks	4,070,379	3,307	3,138,024	8,451	-	-	7,208,403	11,758
Due from Head Office and and other branches	257,532	-	-	-	-	-	257,532	-
Loans and advances	1,153,798	11,978	146,107	20,340	425,474	263,707	1,725,379	296,025
Financial investments	-	-	373,744	7,381	-	-	373,744	7,381
Other assets	-	-	20,406	1,039	-	-	20,406	1,039
Unfunded Exposure - Letter of Credits and Guarantees	595,975	2,687	1,955	28	80,583	31,523	678,513	34,238
	7,376,044	17,972	3,680,236	37,239	506,057	295,230	11,562,337	350,441

3 Financial risk management (continued)

(a) Credit risk (continued)

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Branches consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Branches' historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades:

Corporate exposure:

The Branches allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Branches collect performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio.

The Branches employ statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the branches has taken exposures.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Branches may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Branches consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due but less than 90 days for the corporates and more than 1 day but less than 30 days for the retail and small enterprises. 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.

3 Financial risk management (continued)

(a) Credit risk (continued)

Determining whether credit risk has increased significantly (continued)

The Branches monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 2.E.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

The Branches renegotiate loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the Branches' policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised 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 estimate of PD reflects whether the modification has improved or restored the Branches' ability to collect interest and principal and the Branches' previous experience of similar forbearance action. As part of this process, the Branches evaluate the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

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 / in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

3 Financial risk management (continued)

(a) Credit risk (continued)

Definition of default

The Branches consider a financial asset to be in default when:

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

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 Branches consider 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 Branches; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Branches for regulatory capital purposes.

Incorporation of forward-looking information

The Branches employs statistical models to incorporate macro-economic factors on historical default rates. The Branches incorporate the 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 Branches relies on GDP growth rates as the economic input for forward looking information. The Branches formulate three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring.

In case none of the above macro – economic parameters are statistically significant or the results of forecasted PDs are too much deviated from the present forecast of the economic conditions, qualitative PD overlay shall be used by management after analyzing the portfolio as per the diagnostic tool. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

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

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

3 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the residual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Branches estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Branches derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Branches measure ECL considering the risk of default over the residual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Branches consider a longer period.

However, for revolving facilities such as retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Branches measure ECL over a period longer than the maximum contractual period if the Branches' contractual ability to demand repayment and cancel the undrawn commitment does not limit the Branches' exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Branches can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Branches become 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 Branches expect to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and /or turning the outstanding balance into a loan with fixed repayment terms.

For portfolios in respect of which the Branches have limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

Particulars	Exposure 2021 (AED 000's)	Exposure 2020 (AED 000's)	External benchmarks used	
			PD	LGD
Bank and financial institution	**3,771,588**	7,196,645	Standard & Poor's study	Standard & Poor's study
Financial investments	**545,618**	366,363	Standard & Poor's study	Standard & Poor's study

3 Financial risk management (continued)

(a) Credit risk (continued)

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

	Maximum exposure 2021 AED'000	Maximum exposure 2020 AED'000
Cash and balances with Central Bank of UAE (excluding cash on hand)	**852,815**	1,293,180
Due from banks	**3,771,588**	7,196,645
Financial investments	**545,618**	366,363
Due from Head office and other branches	**244,767**	257,532
Loans and advances (net of ECL)*	**1,789,620**	1,429,354
Other assets (excluding prepayments)	**46,584**	18,576
Total	**7,204,408**	10,561,650
Off Balance sheet		
Letters of credit	**36,908**	11,260
Guarantees	**476,532**	667,253
Undrawn loan commitments	**20,447**	16,909
Total	**533,887**	695,422
Total credit risk exposure	**7,738,295**	11,257,072

* Including loans and advanced measured at FVTPL amounting to NIL (2020: AED 1,792 thousand).

3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)
Loans and advances neither past due nor impaired are mainly graded between credit grades 1 to 7. All other assets bearing credit risk other than those tabulated are insignificant. The following table shows the loans and advances on the basis of grade description –

	2021 **AED'000**	2020 AED'000
Stage 1 (ORR 1-6)		
Grades 1-5: Performing or normal	**1,405,513**	1,152,487
Grade 6: Regular Watching	**132,027**	1,311
	1,537,540	1,153,798
Stage 2 (ORR 6-7)		
Grade 1-5: Performing or normal **	**-**	9,219
Grade 6: Regular Watching**	**101,860**	136,888
Grade 7: Other Loans Especially Mentioned (OLEM)	**8,848**	-
	110,708	146,107
Stage 3 (ORR 8-10)		
Grade 8: Sub-standard*	**330,432**	425,474
Grade 9: Doubtful	**139,725**	-
Grade 10: Loss	**-**	-
	470,157	425,474
Total	**2,118,405**	1,725,379

* Including loans and advanced measured at FVTPL amounting to AED NIL (2020: AED 1,792 thousand).

** These include loans where there has been a significant increase in credit risk as per the credit policy.

Impaired loans and advances
Impaired loans and advances are financial assets for which the Branches determine that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

Impairment reserve under the 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”).

3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

Impairment reserve under the CBUAE guidance (continued)
Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2021 AED'000	2020 AED'000
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	**54,727**	60,206
Less: Stage 1 and Stage 2 provisions under IFRS 9	**25,074**	55,211
General provision transferred to the impairment reserve*	**29,653**	4,995

Impairment reserve under the CBUAE guidance

	2021 AED'000	2020 AED'000
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**345,528**	295,230
Less: Stage 3 provisions under IFRS 9	**345,528**	295,230
Specific provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**29,653**	4,995

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

Collaterals and collateral repossession
To mitigate its credit risks on financial assets, the Branches seek to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. With regards to lending arrangements, Collateral, unless repossessed, is not recorded on the Branches' statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

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

3 Financial risk management (continued)

(a) Credit risk (continued)

Collaterals and collateral repossession (continued)
The main types of collateral obtained are cash, securities, and charges over tangible properties and counter-guarantees. At 31 December 2021, of the total outstanding loans and advances, AED 1,789,620 thousand (31 December 2020: AED 1,429,354 thousand) were secured with a collateral value of AED 2,419,031 thousand (31 December 2020: AED 2,887,310 thousand).

The Branches' policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. This, however, is subject to the regulatory requirements as per the CBUAE. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Branches' policy.

Guarantees held are included in the measurement of loan ECL when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended. Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL.

Loans with renegotiated terms
In the event of a default, the Branches seek to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Restructuring activity is designed to manage customer relationships, maximize collection opportunities and avoid foreclosure or repossession, if possible. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Following restructuring, an overdue individual account will normally be reset from delinquent to current status. Restructuring is done based on indicators or criteria which, in the opinion of management, evidence the probability that payment will continue. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The following table contains an analysis of the credit risk exposure of total restructured loans and advances and acceptances and relevant off balance sheet exposures:

		2021		
Total restructured portfolio – AED ' 000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Outstanding balance	**-**	**81,965**	**276,244**	**358,209**
Allowance for impairment (ECL)	**-**	**(4,534)**	**(198,770)**	**(203,304)**
Carrying amount	**-**	**77,431**	**77,474**	**154,905**

		2020		
Total restructured portfolio – AED ' 000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	-	-	285,749	285,749
Allowance for impairment (ECL)	-	-	(198,770)	(198,770)
Carrying amount	-	-	86,979	86,979

3 Financial risk management (continued)

(a) Credit risk (continued)

Past due but not impaired loans
These are the loans where contractual interest or principal payments are past due, but the Branches believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Branches.

Impact of COVID-19 and macroeconomic variables with respect to ECL
In March 2021, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the world. In addition, the oil prices and financial markets have witnessed unprecedented volatility causing protracted progression and a challenging operating environment. This has resulted in disruption to business and economic activities in the global and domestic economies. The CBUAE and fiscal and monetary authorities across the world have announced various support measures to counter the possible adverse implications.

The Branches have considered the standards and joint guidance with respect to Targeted Economic Support Scheme (TESS) and the Treatment of IFRS 9 Expected Credit Loss Provisions in the UAE in the context of the COVID-19 crisis issued by the CBUAE during March and April 2020 respectively. Pursuant to these standards and the joint guidance, the Branches granted repayment holiday to its impacted customers and offered payment deferral relief in the context of COVID-19 under the TESS scheme or otherwise. Management at the time of assessing significant increase in credit risk have factored in the past and expected future performance of the customers benefitting from payment deferrals. There is no repayment outstanding under Targeted Economic Support Scheme (TESS) as at 31 December 2021. (31 December 2020: AED 9,907 thousand)

3 Financial risk management (continued)

(a) Credit risk (continued)

Concentration Risk
The Branches monitor concentrations of credit risk by sector and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

As at 31 December 2021	**Due from Central bank of the UAE** AED' 000	**Due from Banks** AED' 000	**Due from HO and other branches** AED' 000	**Loan and advances** AED' 000	**Investments** AED' 000	**Unfunded Exposure** AED' 000	**Total** AED' 000
Concentration by industry sector:							
Manufacturing	-	-	-	356,846	-	9,288	366,134
Construction	-	-	-	317,245	-	335,679	652,924
Real estate	-	-	-	384,689	-	-	384,689
Trading	-	-	-	407,756	-	10,038	417,794
Transport/aviation	-	-	-	85,703	-	-	85,703
Banks and financial institutions	852,815	3,772,123	244,767	61,646	-	143,999	5,075,350
Services	-	-	-	287,391	-	23,441	310,832
Personal loans for consumption	-	-	-	2,253	-	3,010	5,263
Government	-	-	-	214,871	550,555	-	765,426
Others	-	-	-	5	-	8,432	8,437
	852,815	3,772,123	244,767	2,118,405	550,555	533,887	8,072,552
Less: ECL	-	(535)	-	(328,785)	(4,937)	(36,035)	(369,757)
Carrying amount	852,815	3,771,588	244,767	1,789,620	545,618	497,852	7,702,260

3 Financial risk management (continued)

(a) Credit risk (continued)

Concentration Risk (continued)

As at 31 December 2020	Due from Central bank of the UAE AED' 000	Due from Banks AED' 000	Due from HO and other branches AED' 000	Loan and advances* AED' 000	Investments AED' 000	Unfunded Exposure AED' 000	Total AED' 000
Concentration by industry sector:							
Oil & gas	-	-	-	3,311	-	60	3,371
Manufacturing	-	-	-	283,957	-	172	284,129
Construction	-	-	-	302,190	-	496,757	798,947
Real estate	-	-	-	132,597	-	-	132,597
Trading	-	-	-	461,631	-	10,129	471,760
Transport/aviation	-	-	-	102,844	-	895	103,739
Banks and financial institutions	1,293,180	7,208,403	257,532	64,186	-	152,008	8,975,309
Services	-	-	-	236,777	-	22,026	258,803
Personal loans for consumption	-	-	-	1,683	-	2,995	4,678
Personal/private loans for business	-	-	-	136,203	-	-	136,203
Government	-	-	-	-	373,744	-	373,744
Others	-	-	-	-	-	10,380	10,380
	1,293,180	7,208,403	257,532	1,725,379	373,744	695,422	11,553,660
Less: ECL	-	(11,758)	-	(296,025)	(7,381)	(34,238)	(349,402)
Carrying amount	1,293,180	7,196,645	257,532	1,429,354	366,363	661,184	11,204,258

* Including loans and advanced measured at FVTPL amounting to AED 1,792 thousand.

Risk concentration of the maximum exposure to credit risk
Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2021 was AED 445,510 thousands (2020: AED 579,487 thousands) before taking account of collateral or other credit enhancements and AED 442,520 thousands (2020: AED 578,952 thousands) net of such protection.

3 Financial risk management (continued)

(a) Credit risk (continued)

Risk concentration of the maximum exposure to credit risk (continued)

An analysis of concentration of due from banks, loans and advances and unfunded exposures by geographical distribution is shown below:

As at 31 December 2021	**Due from Central bank of the UAE AED'000**	**Due from Banks AED'000**	**Due from HO and other branches AED'000**	**Loan and advances AED'000**	**Investments AED'000**	**Unfunded Exposure AED'000**
Concentration by geographical location:						
United Arab Emirates	**852,815**	**450,300**	**-**	**1,437,174**	**-**	**302,590**
Europe	-	**939,629**	**-**	**52,744**	**-**	**-**
Arab Countries	-	**1,370,282**	**244,767**	**147,667**	**550,555**	**172,324**
United States of America	-	**54,162**	**-**	**-**	**-**	**-**
Africa	-	**923,764**	**-**	**480,820**	**-**	**58,973**
Asia	-	**33,986**	**-**	**-**	**-**	**-**
	852,815	**3,772,123**	**244,767**	**2,118,405**	**550,555**	**533,887**
Less: ECL	**-**	**(535)**	**-**	**(328,785)**	**(4,937)**	**(36,035)**
Carrying amount	**852,815**	**3,771,588**	**244,767**	**1,789,620**	**545,618**	**497,852**

As at 31 December 2020	Due from Central bank of the UAE AED'000	Due from Banks AED'000	Due from HO and other branches AED'000	Loan and advances AED'000	Investments AED'000	Unfunded Exposure AED'000
Concentration by geographical location:						
United Arab Emirates	1,293,180	2,750,490	-	1,159,001	-	363,542
Europe	-	607,229	-	53,158	-	72
Arab Countries	-	2,105,565	257,532	19,188	373,744	271,391
United States of America	-	511,422	-	12,992	-	-
Africa	-	1,233,697	-	481,040	-	60,417
Asia	-	-	-	-	-	-
	1,293,180	7,208,403	257,532	1,725,379	373,744	695,422
Less: ECL	-	911,758)	-	(296,025)	(7,381)	(34,238)
Carrying amount	1,293,180	7,196,645	257,532	1,429,354	366,363	661,184

* Excluding loans and advanced measured at FVTPL amounting to NIL (2020: AED 1,792 thousand).

Concentration by location for loans and advances, unfunded exposures and due from banks is measured based on the residential status of the borrower.

Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is discussed in note 25.

3 Financial risk management (continued)

(a) Credit risk (continued)

Credit quality

The credit quality of the loans and advances is managed by the Branches using internal credit ratings model. The risk rating system is used as a credit risk management tool whereby counter party any risks are rated against a set of predetermined standards which also complies with the CBUAE guidelines.

(b) Settlement risk

The Branches 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 Branches framework and Operational Risk Management.

For certain types of transactions, the Branches mitigate 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 Branches Risk Management Department.

(c) Liquidity risk

Liquidity risk is the risk that the Branches will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It includes the risks of the inability to fund assets at appropriate maturities and rates, the inability to liquidate assets on reasonable basis and in an appropriate time frame and inability to liquidate assets to meet obligations as they become due. Liquidity risk can be caused by market disruption or credit downgrades which may cause certain sources of funding to diminish.

Management of liquidity risk

The Branches' approach to managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Branches maintain a portfolio of short-term liquid assets, largely made of inter-bank placements. Also liquidity requirements of business units are met through funding from Head Office. All liquidity policies and procedures are subject to review and approval by Head Office.

Exposure to liquidity risk

The key measure used by the Branches for measuring liquidity risk is the ratio of net assets, i.e., total assets by maturity against total liabilities by maturity.

Details of the Branches' net liquid assets is summarised in the table below by the maturity profile of the Branches' assets and liabilities based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Branches' deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)
Maturity profile of the assets and liabilities at 31 December 2021. The following table analyses the contractual maturities of assets and liabilities based on the remaining period at the reporting date:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
Assets					
Cash and balances with CBUAE	868,694	868,694	-	-	-
Due from banks	3,771,588	2,770,924	1,000,664	-	-
Due from Head Office & Other branches	244,767	244,767	-	-	-
Loans and advances	1,789,620	433,790	324,896	952,118	78,816
Other assets	45,259	45,259	-	-	-
Financial investments	545,618	76,396	199,845	269,377	-
Total Assets	7,265,546	4,439,830	1,525,405	1,221,495	78,816

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
Liabilities					
Customers' deposits	4,902,120	4,340,369	406,498	155,132	121
Due to banks	756,030	756,030	-	-	-
Due to Head Office & Other branches	17,075	17,075	-	-	-
Other liabilities	84,433	84,433	-	-	-
Total Liabilities	5,759,658	5,197,907	406,498	155,132	121
On Balance Sheet liquidity Gap	1,505,888	(758,077)	1,118,907	1,066,363	78,695

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)
Maturity profile of the assets and liabilities at 31 December 2020 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
Assets					
Cash and balances with CBUAE	1,298,360	1,288,360	10,000	-	-
Due from banks	7,196,645	6,571,368	625,277	-	-
Due from Head Office & other branches	257,532	257,532	-	-	-
Loans and advances*	1,429,354	504,939	335,282	494,847	94,286
Other assets	19,367	19,367	-	-	-
Financial investments	366,363	-	18,096	348,267	-
Total Assets	10,567,621	8,641,566	988,655	843,114	94,286

	Total AED'000	Up to 3 months AED'000	3months To 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
Liabilities					
Customers' deposits	6,822,550	6,393,299	288,064	137,975	3,212
Due to banks	2,249,376	2,239,469	9,907	-	-
Due to Head Office & Other branches	11,544	11,544	-	-	-
Other liabilities	66,952	66,952	-	-	-
Total Liabilities	9,150,422	8,711,264	297,971	137,975	3,212
On Balance Sheet liquidity Gap	1,417,199	-69,698	690,684	705,139	91,074

* Including loans and advanced measured at FVTPL amounting to NIL (2020: AED 1,792 thouasnd).

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)
The table below summarizes the maturity profile of the Branches' financial liabilities at 31 December 2021 and 31 December 2020 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Branches expect that many customers will not request repayment on the earliest date and the Branches could be required to pay and the table does not reflect the expected cash flows indicated by the Branches' deposit retention history.

At 31 December 2021:

	Total AED'000	**Up to 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**	**over 5 years AED'000**
Liabilities					
Customers' deposits	**4,909,275**	**4,346,704**	**407,091**	**155,358**	**122**
Due to banks	**756,030**	**756,030**	**-**	**-**	**-**
Due to Head Office & Other branches	**17,075**	**17,075**	**-**	**- 1**	**-**
Other liabilities	**84,433**	**81,770**	**1,659**	**1,004**	**-**
Total Liabilities	**5,766,813**	**5,201,579**	**408,750**	**156,362**	**122**

At 31 December 2020:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
Liabilities					
Customers' deposits	6,833,376	6,403,445	288,520	138,194	3,217
Due to banks	2,249,376	2,239,469	9,907	-	-
Due to Head Office & Other branches	11,544	11,544	-	-	-
Other liabilities	88,673	84,383	1,597	2,693	-
Total Liabilities	9,161,248	8,717,120	300,024	140,887	3,217

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates will affect the Branches' income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks
Corporate banking division has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Head Office.

3 Financial risk management (continued)

(d) Market risk (continued)

Interest rate risk
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 Branches manage this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Branches' treasury operations, which uses financial instruments to manage overall position arising from the Branches' interest bearing financial instruments.

The substantial portion of the Branches' assets and liabilities are re-priced within one year. Accordingly, there is a limited exposure to interest rate risk.

The effective interest rate of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

Sensitivity analysis
The amount mentioned in the table below reflect an equal but opposite potential effect on profit or loss based on assumed 50 basis point negative or positive movement in profit rates with all other variables being constant.

	2021		2020	
	Total AED'000	**Effect on Profit AED'000**	Total AED'000	Effect on Profit AED'000
Interest bearing asset	**6,349,822**	**+-31,749**	8,933,265	+-44,666
Interest bearing liabilities	**4,902,120**	**+-24,511**	6,822,550	+-34,113

The table below summarises the Branch's exposure to interest rate risks by repricing or maturity date. It includes the Branch's financial instruments at gross carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

IBOR Reforms

Interest rate benchmark reform:
A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Branches have "limited" exposure to interbank offered rates (IBORs) on its financial instruments, as these are applied primarily on loans and advances. These will be replaced or reformed as part of this market-wide initiative. The Branches anticipate that IBOR reform will have "limited" operational, risk management and accounting impacts across all of its business lines.

3 Financial risk management (continued)

(d) Market risk (continued)

IBOR Reforms (continued)

Interest rate benchmark reform:(continued)
The table below shows the Branches exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

At 31 December 2021	***Financial assets AED'000***	***Financial liabilities AED'000***
Assets		
EIBOR – 1 month	**219,361**	-
EIBOR – 3 month	**322,741**	-
EIBOR – 6 month	**81,965**	-
EIBOR – 12 month	**-**	-
LIBOR – 1 month	**131,960**	-
LIBOR – 3 month	**1,005,579**	-
LIBOR – 6 month	**224,300**	-
LIBOR – 12 month	**-**	-
Total	**1,604,596**	-

At 31 December 2020	***Financial assets AED'000***	***Financial liabilities AED'000***
Assets		
EIBOR – 1 month	**233,291**	-
EIBOR – 3 month	**188,358**	-
EIBOR – 6 month	**83,175**	-
EIBOR – 12 month	**1,311**	-
LIBOR – 1 month	**178,983**	-
LIBOR – 3 month	**778,784**	-
LIBOR – 6 month	**58,658**	-
LIBOR – 12 month	**-**	-
Total	**1,522,560**	-

The Branches are in the process of establishing policies for amending the interbank offered rates on its existing floating-rate loan portfolio indexed to IBORs that will be replaced as part of the IBOR reform. The Branches expect to participate in bilateral negotiations with the counterparties in its bespoke products, such as loans and advances issued to corporates. The Branches expect to begin amending the contractual terms of its existing floating-rate assets in the year 2020; however, the exact timing will vary depending on the extent to which standardized language can be applied across certain loan types and the extent of bilateral negotiations between the Branches and loan counterparties.

3 Financial risk management (continued)

(e) 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 Branches' functional currency is the UAE Dirham. Head Office 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 Branches had the following significant net open currency exposures denominated in the following foreign currencies and the major currency rates:

	Net spot position (short) / long 2021 AED'000	Net spot position (short) / long 2020 AED'000
Currency		
US Dollar	**38,266**	1,088,132
Sterling Pound	**(60)**	6
Euro	**15**	209
Saudi Riyal	**140**	3,732
Egyptian Pound	**264**	385
Omani Riyal	**33**	(22)
Qatari Riyal	**64**	68
Swiss Franc	**8**	7
Kuwaiti Dinar	**39**	22
Jordanian Dinar	**8**	15

	Currency Rates 2021	Currency Rates 2020
Currency		
US Dollar	**3.6730**	3.6730
Sterling Pound	**4.9538**	5.0001
Euro	**4.1622**	4.5134
Egyptian Pound	**0.2337**	0.2334

The exchange rate of AED against US Dollar is pegged since November 1980 and the Branches' exposure to currency risk is limited to that extent. Since majority of the assets and liabilities are in AED and US Dollar, the management estimates that any reasonable possible changes in exchange rates would not have a significant impact on the Branches' financial statements.

3 Financial risk management (continued)

(e) Currency risk (continued)

31-Dec-21	*AED AED'000 (equivalent)*	*US$ AED'000 (equivalent)*	*GBP AED'000 (equivalent)*	*EUR AED'000 (equivalent)*	*CHF AED'000 (equivalent)*	*OTH AED'000 (equivalent)*	*Total AED'000 (equivalent)*
Assets							
Cash and balances with the Central Bank of UAE	868,390	304	-	-	-	-	**868,694**
Due from banks	450,299	3,279,466	2,683	36,809	420	1,911	**3,771,588**
Due from related parties	9,000	235,094	-	-	-	673	**244,767**
Loans and advances*	712,791	1,076,825	-	4	-	-	**1,789,620**
Financial Investments	199,845	255,627	-	90,146	-	-	**545,618**
Other assets	27,472	14,699	-	3,088	-	-	**45,259**
Total financial assets	**2,2,67,797**	**4,862,015**	**2,683**	**130,047**	**420**	**2,584**	**7,265,546**
Liabilities							
Customer deposits	3,122,011	1,559,356	26,407	192,068	413	1,865	**4,902,120**
Due to Banks	175,244	580,438	4	344	-	-	**756,030**
Due to related parties	12,118	4,957	-	-	-	-	**17,075**
Other liabilities	30,507	53,656	110	52	-	108	**84,433**
Total financial liabilities	**3,339,880**	**2,198,407**	**26,521**	**192,464**	**413**	**1,973**	**5,759,658**
Net position	**(1,072,083)**	**2,663,608**	**(23,838)**	**(62,417)**	**7**	**611**	**1,505,888**

3 Financial risk management (continued)

(e) Currency risk (continued)

31-Dec-20	*AED AED'000 (equivalent)*	*US$ AED'000 (equivalent)*	*HKD AED'000 (equivalent)*	*CNY AED'000 (equivalent)*	*EUR AED'000 (equivalent)*	*OTH AED'000 (equivalent)*	*Total AED'000 (equivalent)*
Assets							
Cash and balances with the Central Bank of UAE	1,298,283	77	-	-	-	-	1,298,360
Due from banks	2,475,014	4,608,576	3,595	101,226	1,424	6,810	7,196,645
Due from related parties	-	257,132	-	-	-	400	257,532
Loans and advances*	564,511	783,409	-	81,434	-	-	1,429,354
Financial Investments	-	268,426	-	97,937	-	-	366,363
Other assets	5,153	10,914	-	3,300	-	-	19,367
Total financial assets	4,342,961	5,928,534	3,595	283,897	1,424	7,210	10,567,621
Liabilities							
Customer deposits	4,842,798	1,664,744	28,249	282,741	1,417	2,601	6,822,550
Due to Banks	1,112,509	1,135,915	27	925	-	-	2,249,376
Due to related parties	6,105	5,439	-	-	-	-	11,544
Other liabilities	25,698	40,630	313	22	-	289	66,952
Total financial liabilities	5,987,110	2,846,728	28,589	283,688	1,417	2,890	9,150,422
Net position	(1,644,149)	3,081,806	(24,994)	209	7	4,320	1,417,199

* Including loans and advanced measured at FVTPL amounting to NIL (2020: AED 1,792 thousand).

3 Financial risk management (continued)

(f) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Branches' processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Branches operations and are faced by all business entities.

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

The Branches don't have any separate division for the monitoring of operational risk other than the centralised audit department that reviews the Branches on a regular basis. The results of these reviews are discussed with unit heads to which they relate, with summaries submitted to the General Manager of the Branches.

(g) Capital management

Capital management process
The Branches objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:

- To comply with the capital requirements set by the Central Bank of U.A.E.;
- To safeguard the Branches ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

The Central Bank of UAE ('CBUAE') supervises the Branches on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Branches as a whole. Effective from 2020, the capital is computed at the Branches 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 Branches' regulatory capital is analysed into two tiers:

- 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 4regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- 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 2020 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.
- Capital conservation buffer (CBB) of 2.5%.

3 Financial risk management (continued)

(g) Capital management (continued)

Capital management process (continued)
Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Branches' management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly or/and quarterly basis.

During the years ended 31 December 2021 and 2020, the Branches have complied in full with all its externally imposed capital requirements.

Capital adequacy ratio
Capital Adequacy Ratio (CAR) under Basel III in accordance with regulations of the Central Bank of the U.A.E. is as follows:

	2021 AED'000	2020 AED'000
Tier 1 Capital		
Allocated capital	**686,437**	686,437
Legal reserves	**127,566**	119,107
Retained earnings	**711,528**	660,052
Fair value reserve	**5**	98
Total Tier 1 Capital	**1,525,536**	1,465,694
Tier 2 Capital	**45,606**	50,172
Total Tier 2 Capital	**45,606**	50,172
Total capital base	**1,571,142**	1,515,866
Risk weighted assets		
Credit risk	**3,648,445**	4,013,722
Market risk	**574**	643
Operational risk	**422,071**	500,000
Total risk weighted assets	**4,071,090**	4,514,365
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets ("capital adequacy ratio")	**38.59%**	33.58%
Tier 1 capital to total risk weighted assets after deductions for associates	**37.47%**	32.47%

4 Use of estimates and judgements

(a) *Impairment losses on loans and advances*

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Branches' ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

i. The Branches' internal credit grading model, which assigns Probability probability of default (PD) to the individual grades.
ii. The Branches' criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life-time expected credit loss (LTECL) basis and the qualitative assessment.
iii. The segmentation of financial assets when their ECL is assessed on a collective basis.
iv. Development of ECL models, including the various formulas and the choice of inputs.
v. Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, exposure at default (EAD) and loss given default (LGD).
vi. Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(b) *Impairment charge on other financial assets*

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

(c) *Contingent liability arising from litigations*

The Branches may be involved in litigations arising in the ordinary course of business, due to the nature of its operations. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(d) *Financial asset and liability classification*

The Branches determine the classification of financial assets based on the 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. The Branches' accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in accordance with IFRS 9. Refer note 2 E.

4 Use of estimates and judgements (continued)

(e) Income tax and Deferred Tax Assets

The Branches subject to income tax in the UAE. Estimates are required in determining the provision for income taxes. There are several transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The recoverability of the Branches' deferred tax assets is based on management's judgment of the availability of future taxable profits against which the deferred tax assets will be utilized.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

(f) Estimating the incremental borrowing rate

The Branches cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Branches would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Branches 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Branches estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

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

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

The Branches have one lease contract that includes extension and termination options. The Branches apply judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Branches reassess the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

(h) Going concern

The Branches management has made an assessment of its ability to continue as a 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 Branches ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5 Accounting classification and fair value

Fair value of financial instruments
All financial assets and liabilities are measured at amortised cost except for financial investments that are measured at fair value through OCI.

'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 Branches have access to at that date. The fair value of a liability reflects its non-performance risk.

Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Branches are going concern without any intention or requirement to materially curtail the scale of their operation or to undertake a transaction on adverse terms.

Fair value hierarchy
The Branches measure fair values using the following fair value hierarchy that reflects the significance of the 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 input, 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 observable 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.

Management believes that the carrying value of financial assets and liabilities in the statement of financial position represents a reasonable approximation of their fair values.

The Branches estimate that the fair value of its loans and advances portfolio is not materially different from its book value since majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans and advances considered to be impaired, the expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

5 Accounting classification and fair value (continued)

Financial instruments measured at fair value

For the year ended 31 December 2021

At 31 December 2021	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Total carrying amount AED'000
Financial assets					
Cash and balances with CBUAE	868,694	-	-	868,694	868,694
Due from Banks	1,984,112	-	1,787,476	3,771,588	3,771,588
Due from Head office and other branches	244,767	-	-	244,767	244,767
Loans and advances	-	-	1,789,620	1,789,620	1,789,620
Financial Investments	-	545,618	-	545,618	545,618
Other assets	-	-	45,259	45,259	45,259
	3,097,573	545,618	3,622,355	7,265,546	7,265,546
Financial Liabilities					
Customer deposits	-	-	4,902,120	4,902,120	4,902,120
Due to banks	756,030	-	-	756,030	756,030
Due to Head Office & Other branches	17,075	-	-	17,075	17,075
Other liabilities	-	-	84,433	84,433	84,433
	773,105	-	4,986,553	5,759,658	5,759,658

5 Accounting classification and fair value (continued)

Financial instruments measured at fair value (continued)

At 31 December 2020	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Total carrying amount AED'000
Financial assets					
Cash and balances with CBUAE	1,298,360	-	-	1,298,360	1,298,360
Due from Banks	6,571,369	-	625,276	7,196,645	7,196,645
Due from Head office and other branches	257,532	-	-	257,532	257,532
Loans and advances	-	-	1,429,354	1,429,354	1,429,354
Financial Investments	-	366,363	-	366,363	366,363
Other assets	-	-	19,367	19,367	19,367
	8,127,261	366,363	2,073,997	10,567,621	10,567,621
Financial Liabilities					
Customer deposits	-	-	6,822,550	6,822,550	6,822,550
Due to banks	2,239,469	-	9,907	2,249,376	2,249,376
Due to Head Office & Other branches	11,544	-	-	11,544	11,544
Other Liabilities	-	-	66,952	66,952	66,952
	2,251,013	-	6,899,409	9,150,422	,150,422

All investments are subject to price risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to price risk is monitored by senior management on an ongoing basis to assess the impact of changes in market conditions.

Sensitivity
An increase of 5% in the price as at the reporting date would have increased FVOCI investments by AED 920 thousand (2020: AED 1,847 thousand); an equal change in the opposite direction would have decreased equity by AED 920 thousand (2020: AED 1,847 thousand).

6 Cash and balances with the Central Bank of the UAE

	2021	2020
	AED'000	AED'000
Cash on hand	**15,879**	5,180
Reserve with UAE Central Bank	**852,815**	738,180
Certificate of Deposits with UAE Central Bank	-	555,000
	868,694	1,298,360

The reserve requirements, which were previously maintained with the CBUAE in AED and USD in accordance with Circular No. 21/99, were computed as 14% of demand deposits plus 1% of time deposits. These reserve amounts were not available for use in the Bank's day to day operations and could not be withdrawn without the CBUAE's approval. The level of reserve required used to be updated on a monthly basis in accordance with the CBUAE directives.

On 6 April 2021 via Notice No. 1759/2021, the CBUAE revised its computation of reserves to be 7% of demand deposits plus 1% of time deposits to be maintained in AED with reserves denominated in foreign currency to be converted into AED using the FX midpoint rate as published by the CBUAE. Effective 28 October 2020 via Notice No. CBUAE/MMD/2021/4690, the CBUAE required that this reserve be updated on a fortnightly basis

The reserve requirement as at 31 December 2021 amounted to AED 852,815 thousand (2020: AED 738,180 thousand). In accordance with the revised regulations effective from October 2021, the end of day balance in the clearing account maintained with CBUAE is swept to the Reserve account on a daily basis.

Certificates of deposit carried interest rate from 0.07% to 0.13% per annum with three months to one-year original maturity during the year 2020.

Balances with the CBUAE are in stage 1 throughout the period year and there is no significant ECL on these balances.

7 Due from banks

	2021	2020
	AED'000	AED'000
Money at call	**66,733**	871,207
Term deposit accounts	**3,177,737**	6,121,298
Loan to banks	**215,432**	110,190
Bank's trade bill discounted	**312,221**	105,708
	3,772,123	7,208,403
Expected Credit Losses	**(535)**	(11,758)
	3,771,588	7,196,645

Movement in the gross balance and corresponding ECL allowances of due from bank balances at amortised cost

Outstanding balance – AED ' 000	**Stage 1**	**Stage 2**	**Total**
Gross carrying amount - 1 January 2021	**4,070,379**	**3,138,024**	**7,208,403**
Originated (expired) during the period (net)	**(2,617,074)**	**(819,206)**	**(3,436,280)**
Gross carrying amount - 31 December 2021	**1,453,305**	**2,318,818**	**3,772,123**

Outstanding balance – AED ' 000	Stage 1	Stage 2	Total
Gross carrying amount - 1 January 2020	3,075,153	565,678	3,640,831
Changes due to financial assets recognised in the opening balance that have:			
Originated (expired) during the period (net)	995,226	2,572,346	3,567,572
Gross carrying amount - 31 December 2020	4,070,379	3,138,024	7,208,403

7 Due from banks (continued)

ECL – AED ' 000	**Stage 1**	**Stage 2**	**Total**
1 January 2021	**3,307**	**8,451**	**11,758**
Expired) during the period (net)	**(3,239)**	**(7,984)**	**(11,223)**
31 December 2021	**68**	**467**	**535**

ECL – AED ' 000	Stage 1	Stage 2	Total
1 January 2020	1,751	7	1,758
Changes due to financial assets recognised in the opening balance that have:			
Originated / (expired) during the period (net)	1,556	8,444	10,000
31 December 2020	3,307	8,451	11,758

8 Loans and advances

Loans and advances are stated net of provision for loans and advances. The composition of the loans and advances portfolio is as follows:

	2021 **AED'000**	2020 AED'000
Gross loans and advances at amortized cost	**2,118,405**	1,723,587
Less: Expected credit losses	**(328,785)**	(296,025)
	1,789,620	1,427,562
Loans measured at FVTPL	**-**	1,792
	1,789,620	1,429,354

8.1 Individually impaired loans and collaterals held

At 31 December 2021, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance and on which interest is not being accrued amounted to AED 470 million (2020: AED 338 million).

The fair value of collateral that the Branches hold relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2021 amounts to AED 279 million post haircut (2020: AED 279 million).

8 Loans and advances (continued)

8.2 Collateral repossessed

During the year, the Branches did not repossess any material amounts of collateral.

8.3 Modified and renegotiated loans

Modified or renegotiated loans as at 31 December 2021 amounts to AED 82 million (2020: nil).

8.4 Ageing for stage 2 and stage 3 loans

The Branches' stage 2 loans are aged 30 days, while the Branches' stage 3 loans are aged between 330 days and 550 days.

8.5 Movement in the gross balance and corresponding ECL allowances of loans and advances at amortised cost

Outstanding balance – AED'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount - 1 January 2021	**1,153,798**	**146,107**	**425,474**	**1,725,379**
Transferred from Stage 1	**(38,326)**	**38,326**	**-**	**-**
Transferred from Stage 2	**-**	**(53,164)**	**53,164**	**-**
	-	**-**	**-**	**-**
Originated / (expired) during the period (net)	**422,068**	**(20,561)**	**(8,481)**	**393,026**
Gross carrying amount - 31 December 2021	**1,537,540**	**110,708**	**470,157**	**2,118,405**

Outstanding balance – AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2020	975,554	293,120	377,265	1,645,939
Transferred from Stage 1	(88,933)	88,933	-	-
Transferred from Stage 2	-	(179,420)	179,420	-
Originated / (expired) during the period (net)	267,177	(56,526)	(131,211)	79,440
Gross carrying amount - 31 December 2020	1,153,798	146,107	425,474	1,725,379

8 Loans and advances (continued)

8.5 Movement in the gross balance and corresponding ECL allowances of loans and advances at amortised cost (continued)

ECL – AED'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 January 2021	**11,978**	**20,340**	**263,707**	**296,025**
Transferred from Stage 1	**(124)**	**124**	**-**	**-**
Transferred from Stage 2	**-**	**(15,952)**	**15,952**	**-**
Transferred from Stage 3	**-**	**-**	**-**	**-**
Originated / (expired) during the period (net)	**1,058**	**23**	**31,679**	**32,760**
31 December 2021	**12,912**	**4,535**	**311,338**	**328,785**

ECL – AED'000	Stage 1	Stage 2	Stage 3	Total
1 January 2020	14,438	26,548	151,589	192,575
Transferred from Stage 1	(5)	5	-	-
Transferred from Stage 2	-	(26,543)	26,543	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period (net)	(2,455)	20,330	85,575	103,450
31 December 2020	11,978	20,340	263,707	296,025

9 Financial investments

	2021 AED'000	2020 AED'000
Debt Securities measured at FVOCI		
Treasury bills	**18,401**	36,931
Debt Securities measured at amortized cost		
Treasury bonds	**332,309**	336,813
Monetary bills	**199,845**	-
	550,555	373,744
Expected credit losses on amortized cost	**(4,937)**	(7,381)
	545,618	366,363

During the year, the Branches have sold treasury bills with the face value of AED 18.4 million (with a discount of 0.27 million) and purchased monetary bills from the Central Bank of the UAE with face value of AED 200 million (with a discount of AED 0.15 million) and maturity in Q2'2022

The expected credit losses on Debt Securities measured at FVOCI amounting to AED 12 thousand (2020: AED 219 thousand).

9 Financial investments (continued)

Movement in the gross balance and corresponding ECL allowances of investments at amortised cost

Outstanding balance – AED'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount - 1 January 2021	**-**	**336,813**	**-**	**336,813**
Transferred from Stage 1	-	-	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period (net)	**199,845**	**(4,504)**	**-**	**195,341**
Gross carrying amount - 31 December 2021	**199,845**	**332,309**	**-**	**532,154**

Outstanding balance – AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2020	85,534	-	-	85,534
Transferred from Stage 1	(85,534)	85,534	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period (net)	-	251,279	-	251,279
Gross carrying amount - 31 December 2020	-	336,813	-	336,813

ECL – AED'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 January 2021	**-**	**7,381**	**-**	**7,381**
Transferred from Stage 1	**-**	**-**	**-**	**-**
Transferred from Stage 2	**-**	**-**	**-**	**-**
Transferred from Stage 3	**-**	**-**	**-**	**-**
Originated / (expired) during the period (net)	**7**	**(2,451)**	**-**	**(2,444)**
31 December 2021	**7**	**4,930**	-	**4,937**

ECL – AED'000	Stage 1	Stage 2	Stage 3	Total
1 January 2020	688	-	-	688
Transferred from Stage 1	(688)	688	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period (net)	-	6,693	-	6,693
31 December 2020	-	7,381	-	7,381

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10 Premises and Equipment

	Furniture and fixtures AED'000	*Computers AED'000*	*Motor Vehicles AED'000*	*Leasehold Improvements & Installations AED'000*	*Capital work in progress AED'000*	*Right to Use Asset AED'000*	*Total AED'000*
Cost							
Balance at 1 January 2020	1,129	1,046	529	5,218	-	-	7,922
Additions during the year	4	103	-	112	1,017	5,657	6,893
Written off during the year	-	(207)	-	-	-	-	(207)
Balance at 31 December 2020	1,133	942	529	5,330	1,017	5,657	14,608
Balance at 1 January 2021	1,133	942	529	5,330	1,017	5,657	14,608
Additions /(Capitalization) during the year	60	82	-	1,694	4,317	-	6,153
Written off during the year	(199)	(25)	-	(209)	-	-	(433)
Balance at 31 December 2021	**994**	**999**	**529**	**6,815**	**5,334**	**5,657**	**20,328**
Accumulated Depreciation							
Balance at 1 January 2020	451	211	290	1,479	-	-	2,431
Charge for the year	185	205	106	807	-	341	1,644
Written off during the year	-	(207)	-	-	-	-	(207)
Balance at 31 December 2020	636	209	396	2,286	-	341	3,868
Balance at 1 January 2021	636	209	396	2,286	-	341	3,868
Charge for the year	176	201	106	1,007	-	1,566	3,056
Written off during the year	(199)	(25)	-	(209)	-	-	(433)
Balance at 31 December 2021	**613**	**385**	**502**	**3,084**	**-**	**1,907**	**6,491**
Balance at 31 December 2020	497	733	133	3,044	1,017	5,316	10,740
Balance at 31 December 2021	**381**	**614**	**27**	**3,731**	**5,334**	**3,750**	**13,837**

11 Other assets

	2021	2020
	AED'000	AED'000
Accrued interest receivable	**21,443**	18,073
Sundry debtors and prepayments	**1,325**	990
Customers' indebtedness for acceptances	**24,114**	1,343
	46,882	20,406
Expected Credit Losses	**(298)**	(1,039)
	46,584	19,367

12 Customers' deposits

	2021	2020
	AED'000	AED'000
By account:		
Current accounts	**2,551,232**	4,373,465
Saving accounts	**215,601**	299,156
Call accounts	**474,846**	552,799
Time deposits	**1,631,705**	1,574,988
Others	**28,736**	22,142
	4,902,120	6,822,550
By sector:		
Corporate / private sector	**3,963,031**	5,756,076
Retail sector	**939,089**	1,066,474
	4,902,120	6,822,550

13 Due to banks

	2021	2020
	AED'000	AED'000
Current Account and Demand Deposits	**755,993**	2,235,257
ZCF borrowing from the Central Bank of the UAE*	**-**	9,907
Due to the Central Bank of the UAE**	**37**	4,212
	756,030	2,249,376

* Represents zeo-cost funding ("ZCF") availed from the CBUAE under the Targeted Economic Support Scheme ("TESS").
** Represents day end reserve adjustment as per latest CBUAE requirements.

14 Other liabilities

	2021 **AED'000**	2020 AED'000
Accrued interest payable	**7,155**	10,826
Unearned commission	**4,639**	1,017
Unearned discount	**-**	21
Employees' end of service benefits *(Note 14.1)*	**5,013**	4,156
Cheques and transfers payable	**7,375**	11,666
Tax payable *(Note 22)*	**20,744**	16,419
Sundry creditors	**7,091**	4,697
Liabilities under acceptances	**24,114**	1,343
Lease liability	**2,663**	4,182
Expected credit losses on unfunded exposures *(Note 25)*	**36,035**	34,238
	114,829	88,565

14.1 The movement in the provision for employees' end of service benefits is as follows:

	2021 **AED'000**	2020 AED'000
Balance at 1 January	**4,156**	2,898
Paid during the year	**(184)**	(216)
Charge for the year	**1,041**	1,474
Balance at 31 December	**5,013**	4,156

15 Capital and reserve

Allocated capital:

Allocated capital amounting to AED 686,437 thousand *(2020: AED* 686,437 *thousand)* is specifically allocated by the Head Office. The Branches increased its allocated capital from AED 319,137 thousand to AED 686,437 thousand by funding provided by Head office pursuant to the decision of the Board dated 12 September 2017 and CBUAE approval dated 1 November 2017.

Legal reserve:

Legal reserve amounting to AED 127,566 thousand (*2020: AED 119,107 thousand*) is maintained in accordance with Article 82 of Union Law No. 10 of 1980, where the Branches have to allocate 10% of the profit for the year to the legal reserve, until this reserve is equal to 50% of the Head Office allocated capital. This reserve is not available for distribution.

16 Interest income

	2021	2020
	AED'000	AED'000
Interest on:		
- Loans and advances	**47,959**	57,844
- Placements with banks	**35,596**	56,669
- Certificate of Deposit with the CBUAE	**527**	1,722
- Due from Head Office and other branches	**13**	517
- Financial investments	**22,547**	19,397
	106,642	136,149

17 Interest expense

	2021	2020
	AED'000	AED'000
Interest on:		
- Customers' deposits	**18,871**	33,675
- Due to banks	**35**	1,321
	18,906	34,996

18 Net fee and commission income

	2021	2020
	AED'000	AED'000
Commission on letters of guarantee	**5,020**	6,683
Commission on bills of collection	**4,801**	5,262
Commission on letters of credit	**1,047**	618
Commission on transfers	**5,826**	4,701
Syndication and participation fees	**313**	2,302
Consultation fees	**13,975**	2,705
Miscellaneous	**2,444**	2,204
Fee and commission income	**33,426**	24,475
Fee and commission expenses	**(640)**	(475)
Net fee and commission income	**32,786**	24,000

19 Other income

	2021	2020
	AED'000	AED'000
Reversal of excess accruals	**57**	84
Others	**98**	257
	155	341

20 Other operating expenses

	2021	2020
	AED'000	AED'000
Printing and stationery	**158**	185
Communication expense	**1,331**	607
Head office admin charges	**4,070**	4,114
Professional and license fees	**1,091**	949
Repairs and maintenance	**1,437**	1,367
Travel and entertainment	**282**	171
Finance cost on leased liability	**78**	122
Others	**520**	2,114
	8,967	9,629

21 Net gains on foreign exchange

Net gains on foreign exchange amounting to AED 42,536 thousand (2020: AED 39,233 thousand) mainly relates to the realised gains on remittance services provided to different customers during the year.

22 Taxation

The Branches are subject to tax in accordance with Regulation Number 2 of 2007 for the assessment of fees on the branches of foreign banks issued by the Government of UAE.

22.1 Movement in income tax provision

	2021	2020
	AED '000	AED '000
Opening balance	**16,419**	41,611
Income taxes paid	**(16,891)**	(41,820)
Current tax expense	**21,216**	16,628
Closing balance *(Note 14)*	**20,744**	16,419

22 Taxation (continued)

22.1 Movement in tax provision (continued)

	2021 AED '000	2021 AED '000
Current tax		
Current income tax	**20,744**	16,419
Adjustment in respect of prior years *(Note 22.3)*	**472**	209
	21,216	16,628
Deferred tax		
Relating to origination and reversal of temporary difference of current year	**406**	(31,561)
Relating to origination and reversal of temporary difference of prior year	**(464)**	-
	(58)	(31,561)
Total income tax expense / (credit)	**21,158**	(14,933)

22. 2 Reconciliation between tax expense and accounting profit

Tax is computed at 20% of the net taxable profit of the Branches generated through its operations in the Emirates of Abu Dhabi and Dubai

	2021 AED '000	2020 AED '000
Net profit /(loss) for the year before taxation	**105,751**	(74,608)
Tax @ 20% of net accounting (loss) / profit (2020: 20%)	**21,150**	(14,922)
Deferred tax effect	**(464)**	(220)
Prior year tax charge	**472**	209
Total income tax expense	**21,158**	(14,933)
Effective tax rate	**20.0%**	20.0%

22.3 Prior year taxation

Tax assessed by the tax authorities for the prior assessment years was in excess of the tax provision maintained by the Branches by AED 472 thousand (2020: AED 209 thousand). Such shortfall was charged to statement of profit or loss by the Branches

22 Taxation (continued)

22.4 Deferred tax

31 December 2021	**At 1 January AED '000**	**Charge to statement of profit or loss AED '000**	**At 31 December AED '000**
Deferred tax asset on Stage 1 & 2 ECL	**11,085**	**(6,071)**	**5,014**
Deferred tax asset on ECL on Stage 3 loans and advances	**34,548**	**10,060**	**44,608**
Deferred tax asset on Carry forward losses	**18,642**	**(5,722)**	**12,920**
Deferred tax asset on other provisions etc	**209**	**1,791**	**2,000**
	64,484	**58**	**64,542**

31 December 2020	At 1 January AED '000	Charge to statement of profit or loss AED '000	At 31 December AED '000
Deferred tax asset on Stage 1 & 2 ECL	14,078	(2,993)	11,085
Deferred tax asset on ECL on Stage 3 loans and advances	18,845	15,703	34,548
Deferred tax asset on Carry forward losses	-	18,642	18,642
Deferred tax asset on other provisions etc	-	209	209
	32,923	31,561	64,484

23 Cash and cash equivalents

	2021 AED'000	2020 AED'000
Cash and balances with the Central Bank of UAE (excluding reserves) (Refer note 6)	**15,879**	550,180
Due from banks	**1,984,112**	6,571,369
Due from Head Office and other branches	**244,767**	257,532
Due to banks	**(756,030)**	(2,239,469)
Due to Head Office and other branches	**(17,075)**	(11,544)
Cash and cash equivalents	**1,471,653**	5,128,068

24 Related party transactions

Identification of related parties:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Branches, related parties comprise Head Office, key management personnel and their related companies. Banking transactions are entered into with related party on terms and conditions approved by the Branches management and the Head Office. The significant related party transactions and significant outstanding balances are as follows:

(a) Balances with related parties

Head office and other branches

	2021	2020
	AED'000	AED'000
Deposit with Head Office and other Branches*		
Outstanding at 1 January	**257,532**	29,773
Movement during the year	**(12,765)**	227,759
	244,767	257,532

* The ECL considered against deposits with Head Office and other Branches was not material

Deposits from Head office and other Branches

	2021	2020
	AED'000	AED'000
Outstanding at 1 January	**11,544**	39,213
Movement during the year	**5,531**	(27,669)
Outstanding at 31 December	**17,075**	11,544

(b) Transactions carried out during the year with related parties:

	2021	2020
	AED'000	AED'000
Interest income for the year	**13**	517
Head office admin charges	**4,070**	4,114

(c) Key management compensation:

All key management personnel are based in the Head Office and accordingly, no key management compensation is paid in the Branches.

25 Commitments and contingencies

As at 31 December 2021, the Branches had the following commitments and contingencies:

	2021 AED'000	2020 AED'000
Letters of credit	**36,908**	11,260
Letters of guarantee	**476,532**	667,253
Undrawn loan commitments	**20,447**	16,909
	533,887	695,422

The Branches hold collaterals against letter of guarantees and letter of credits in the form of deposits, securities and personal and corporate guarantees, where applicable.

Movement in the gross balance and corresponding ECL allowances of off–balance sheet exposures

Outstanding balance – AED ' 000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount - 1 January 2021	**595,975**	**1,955**	**80,583**	**678,513**
Transferred from Stage 1		**(918)**	**918**	**-**
Transferred from Stage 2	**-**	**-**	**-**	**-**
Transferred from Stage 3	**-**	**-**	**-**	**-**
Originated (expired) during the period (net)	**(152,374)**	**-**	**(12,699)**	**(165,073)**
Gross carrying amount - 31 December 2021	**443,601**	**1,037**	**68,802**	**513,440**

Outstanding balance – AED ' 000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2020	709,629	82,170	-	791,799
Transferred from Stage 1	(1,037)	1,037	-	-
Transferred from Stage 2	(322)	(79,910)	80,232	-
Transferred from Stage 3	-	-	-	-
Originated (expired) during the period (net)	(112,295)	(1,342)	351	(113,286)
Gross carrying amount - 31 December 2020	595,975	1,955	80,583	678,513

ECL – AED ' 000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 January 2021	**2,687**	**28**	**31,523**	**34,238**
Transferred from Stage 1	**-**	**(27)**	**27**	**-**
Transferred from Stage 2	**-**	**-**	**-**	**-**
Transferred from Stage 3	**-**	**-**	**-**	**-**
Originated / (expired) during the period (net)	**(843)**	**-**	**2,640**	**1,797**
31 December 2021	**1,844**	**1**	**34,190**	**36,035**

ECL – AED' 000	Stage 1	Stage 2	Stage 3	Total
1 January 2020	3,262	22,270	-	25,532
Transferred from Stage 1	-	-	-	-
Transferred from Stage 2	(2)	(22,270)	22,272	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period (net)	(573)	28	9,251	8,706
31 December 2020	2,687	28	31,523	34,238

25 Commitments and contingencies (continued)

Credit related commitments

Letters of credit and guarantee commit the Branches to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Irrevocable commitments to extend credit represent contractual commitments to extend loans and revolving credits. These commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

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

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