EMIRATES NBD BANK PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

These Audited Preliminary Financial Statements are subject to Central Bank of UAE Approval and adoption by Shareholders at the Annual General Meeting

EMIRATES NBD BANK PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

Contents	**Page**

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax: +971 (0) 4 376 8899
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Emirates NBD Bank PJSC
Dubai
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Emirates NBD Bank PJSC (the "Bank") and its subsidiaries (together the "Group"), Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group, as at 31 December 2021, and its consolidated financial performance and consolidated cash flows 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Deloitte.

Key Audit Matters (continued)

Key audit matter	Our audit approach
Loan loss impairments – Estimation uncertainty with respect to expected credit losses for loan and advances to customers	
The assessment of the Bank's determination of impairment allowances for loans and advances to customers require management to make judgements over the staging of financial assets and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality of the loans and advances to customers (representing 61.4% of total assets) and the complexity of the judgements, assumptions and estimates used in the ECL models. Refer to Note 7 to the consolidated financial statements for the accounting policy and Note 46 for the credit risk disclosure. The material portion of the non-retail portfolio of loans and advances is assessed individually for the significant increase in credit risk (SICR) or credit impairment and the related measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging movements in accordance with the Bank's policies and the requirements of IFRS 9 *Financial Instruments*. The measurement of ECL amounts for retail and non-retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention. It is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and are subject to a validation process by an independent reviewer.	We have gained an understanding of the loan origination process, credit risk management process and the estimation process of determining impairment allowances for loans and advances to customers and tested the operating effectiveness of relevant controls within these processes. On a sample basis, we selected individual loans and performed a detailed credit review and challenged the Banks's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions underlying the impairment allowance calculation, such as estimated future cash flows, collateral valuations and estimates of recovery. We evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for loan impairment allowances. We evaluated key assumptions such as thresholds used to determine SICR and forward-looking macroeconomic scenarios including the related weighting. For loans tested collectively, we evaluated controls over the modelling process, including model inputs, monitoring, validation and approval. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data. We tested the IT application used in the credit impairment process and verified the integrity of data used as input to the models including the transfer of data between source systems and the impairment models. We evaluated system-based and manual controls over the recognition and measurement of impairment allowances.

Key Audit Matters (continued)

Key audit matter	Our audit approach
Loan loss impairments – Estimation uncertainty with respect to expected credit losses for loan and advances to customers (continued)	
	We evaluated other post model adjustments and management overlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward-looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses. The Bank performed an independent validation of the PD and LGD models including macro-economic model during the reporting period. We considered the process of this independent validation of the models and its impact on the results of the impairment estimate. Finally, we have updated our assessment of the methodology and framework designed and implemented by the Bank as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the forecasts used by the Bank to determine future economic conditions at the reporting date.
IT systems and controls over financial reporting	
We identified IT systems and controls over financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Bank and rely on the effective operation of automated. Moreover, the Bank completed the migration of its core banking systems and consolidated multiple systems into a single core banking platform during the reporting period. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to address the potential risk for fraud and error as a result of change to applications or underlying data.	We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications. We tested IT general controls relevant to the identified automated controls and Information Produced by the Entity (IPEs) covering access security, program changes, data center and network operations. We examined certain Information Produced by the Entity (IPEs) used in the financial reports from relevant applications and key controls over their report logics as well as preparation and maintenance. We performed testing on the key automated controls on significant IT systems relevant to business processes. We tested the interfaces between the identified systems in order to determine if information is being transmitted in an accurate and complete manner.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Emirates NBD Bank PJSC (continued)

Key Audit Matters (continued)

Key audit matter	Our audit approach
Concentration of related party balances	
Related party assets as at 31 December 2021 are disclosed in Note 39 to these consolidated financial statements with the description of the accounting policy disclosed in Note 7. We focused on this area as significant management judgement is required to determine the disclosures required under IFRS 7 *Financial Instruments: Disclosures* and IAS 24 *Related Party Disclosures* with regards to significant credit risk concentrations and related party disclosures. IFRS 7 requires that specific information be disclosed for each type of risk arising from financial instruments. These include qualitative disclosures around how exposures arise and how they are measured and managed, summary quantitative data about an entity's exposure to each type of risk, and information about an entity's credit risk exposure, including significant credit risk concentrations. In addition, for government-controlled entities such as Emirates NBD Bank PJSC, disclosure is required under IAS 24 *Related Party Disclosures* of a qualitative or quantitative indication of the extent of transactions with the government or related entities.	Our audit procedures included: • Obtaining from those charged with governance and management information identifying all known related parties. • Evaluating and testing of key controls over the identification and monitoring of related party transactions. • Evaluating and testing of key controls over the initial recording and monitoring of loans. • Reviewing minutes of board meetings and management meetings to determine if there were any related party transactions of which we were previously unaware. • Confirming the balance in writing from the relevant related party. • Vouching individual related party transactions on a sample basis to supporting documentation. • Evaluating the adequacy of the disclosures by assessing whether a reasonable user of the consolidated financial statements could understand the exposure of the Bank to concentration and related risks, and by considering the ability of such a user to reasonably estimate the extent of transactions with the parent of the majority shareholder, including the income arising from the balance due from them, based on the disclosures provided.

Deloitte.

Other information

The Board of Directors is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Board of Directors' report of the annual report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

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

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

- Obtain an understanding of internal controls 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 internal controls.

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Emirates NBD Bank PJSC (continued)

Report on Other Legal and Regulatory Requirements

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended);
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- Note 11 to the consolidated financial statements discloses the Bank's purchases or investments in shares during the year ended 31 December 2021;
- Note 39 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021; and
- Note 48 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2021.

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

Deloitte & Touche (M.E.)

Akbar Ahmad
Registration No. 1141
25 January 2022
Dubai
United Arab Emirates

EMIRATES NBD BANK PJSC

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 AED 000	2020 AED 000
ASSETS			
Cash and deposits with Central Bank	9	70,753,613	100,841,896
Due from banks	10	45,343,248	34,997,680
Investment securities	11	106,156,886	72,695,287
Loans and receivables	12	422,272,390	443,541,469
Positive fair value of derivatives	35	10,658,925	13,697,399
Customer acceptances	38	11,343,522	8,837,724
Property and equipment		3,747,621	4,080,042
Goodwill and intangibles	14	5,981,491	6,313,171
Other assets	15	11,178,922	13,082,805
TOTAL ASSETS		**687,436,618**	**698,087,473**
LIABILITIES			
Due to banks	16	43,755,207	51,672,068
Customer deposits	17	456,483,888	464,197,034
Debt issued and other borrowed funds	18	63,387,228	54,662,670
Sukuk payable	19	3,672,500	5,510,933
Negative fair value of derivatives	35	9,186,321	10,775,231
Customer acceptances	38	11,343,522	8,837,724
Other liabilities	20	16,028,263	17,813,715
TOTAL LIABILITIES		**603,856,929**	**613,469,375**
EQUITY			
Issued capital	21	6,316,598	6,316,598
Treasury shares		(46,175)	(46,175)
Tier I capital notes	22	9,128,652	10,379,786
Share premium reserve	21	17,954,164	17,954,164
Legal and statutory reserve	23	3,158,299	3,158,299
Other reserves	23	2,945,393	2,945,393
Fair value reserve	23	(725,815)	476,692
Currency translation reserve	23	(8,299,265)	(3,607,673)
Retained earnings		53,088,213	47,014,778
TOTAL EQUITY ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP		**83,520,064**	**84,591,862**
Non-controlling interest		59,625	26,236
TOTAL EQUITY		**83,579,689**	**84,618,098**
TOTAL LIABILITIES AND EQUITY		**687,436,618**	**698,087,473**

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

Chairman | Vice Chairman | Chief Executive Officer

25 JAN 2022

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 AED 000	2020 AED 000
Interest and similar income	24	23,663,509	25,228,101
Interest and similar expense	24	(8,929,717)	(9,191,762)
Net interest income		**14,733,792**	**16,036,339**
Income from Islamic financing and investment products	25	2,822,009	2,789,375
Distribution on Islamic deposits and profit paid to Sukuk holders	26	(631,241)	(1,338,514)
Net income from Islamic financing and investment products		**2,190,768**	**1,450,861**
Net interest income and income from Islamic financing and investment products net of distribution to depositors		**16,924,560**	**17,487,200**
Fee and commission income		6,475,045	5,626,623
Fee and commission expense		(2,639,234)	(1,972,060)
Net fee and commission income	27	**3,835,811**	**3,654,563**
Net gain on trading securities	28	150,818	180,044
Other operating income	29	2,910,461	1,888,901
Total operating income		**23,821,650**	**23,210,708**
General and administrative expenses	30	(7,991,521)	(7,856,307)
Operating profit before impairment		**15,830,129**	**15,354,401**
Net impairment loss on financial assets	31	(5,898,857)	(7,936,109)
Operating profit after impairment		**9,931,272**	**7,418,292**
Share of profit of associate and (loss) on its disposal	15	(21,137)	12,173
Group profit for the year before tax		**9,910,135**	**7,430,465**
Taxation charge		(604,165)	(465,296)
Group profit for the year after tax		**9,305,970**	**6,965,169**
Attributable to:			
Equity holders of the Group		9,297,537	6,959,545
Non-controlling interest		8,433	5,624
Group profit for the year after tax		**9,305,970**	**6,965,169**
Earnings per share	34	**1.38**	**1.00**

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 AED 000	2020 AED 000
Group profit for the year after tax	9,305,970	6,965,169
Other comprehensive income		
Items that will not be reclassified subsequently to the income statement:		
Actuarial gains / (losses) on retirement benefit obligations	(34,939)	(52,397)
Movement in fair value reserve (equity instruments):		
- Net change in fair value	(23,547)	(468,848)
Items that may be reclassified subsequently to the income statement:		
Cost of hedging for forward element of a forward and currency basis spread excluded from hedge effectiveness testing:		
Net changes in the cost of hedging	(179,138)	(13,776)
Cash flow hedges:		
- Effective portion of changes in fair value	(333,459)	509,082
Fair value reserve (debt instruments):		
- Net change in fair value	(644,244)	423,587
- Net amount transferred to income statement	(182,728)	(71,795)
- Related deferred tax	160,609	(33,042)
Currency translation reserve	(4,720,325)	(1,864,182)
Hedge of a net investment in foreign operations	28,733	(36,755)
Other comprehensive income for the year	(5,929,038)	(1,608,126)
Total comprehensive income for the year	**3,376,932**	**5,357,043**
Attributable to:		
Equity holders of the Group	3,368,499	5,351,419
Non-controlling interest	8,433	5,624
Total comprehensive income for the year	**3,376,932**	**5,357,043**

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	AED 000	AED 000
OPERATING ACTIVITIES		
Group profit before tax for the year	9,910,135	7,430,465
Adjustment for non-cash items (refer Note 42)	9,630,164	10,237,009
Operating profit before changes in operating assets and liabilities	**19,540,299**	**17,667,474**
(Increase)/decrease in interest free statutory deposits	(2,232,450)	7,033,996
(Increase)/decrease in certificate of deposits with Central Banks maturing after three months	30,500,000	100,000
(Increase)/decrease in amounts due from banks maturing after three months	(2,688,268)	(2,740,567)
Increase/(decrease) in amounts due to banks maturing after three months	(5,955,285)	7,868,678
(Increase)/decrease in other assets	(4,613,877)	(482,443)
Increase/(decrease) in other liabilities	(6,593,024)	(3,118,476)
(Increase)/decrease in positive fair value of derivatives	2,554,609	(6,095,348)
Increase/(decrease) in negative fair value of derivatives	(1,588,910)	5,210,012
Increase/(decrease) in customer deposits	(7,713,146)	(7,983,797)
(Increase)/decrease in loans and receivables	15,034,219	(13,986,983)
Net cash flows generated from/(used in) operations	**36,244,167**	**3,472,546**
Taxes paid	(689,186)	(388,641)
Net cash flows generated from/(used in) operating activities	**35,554,981**	**3,083,905**
INVESTING ACTIVITIES		
(Increase)/decrease in investment securities	(34,076,787)	(18,087,312)
Disposal of subsidiary (refer note 49)	546,725	-
(Increase)/decrease of investment properties	-	-
(Increase)/decrease of property and equipment	(448,261)	(747,232)
Dividend income received	18,742	22,059
Disposal of associate	105,393	-
Net cash flows generated from/(used in) investing activities	**(33,854,188)**	**(18,812,485)**
FINANCING ACTIVITIES		
Issuance of debt issued and other borrowed funds	25,636,942	18,264,098
Repayment of debt issued and other borrowed funds	(13,313,409)	(13,487,491)
Repayment of sukuk borrowing	(3,672,500)	1,836,250
Issuance of Tier I capital notes	2,748,866	2,747,764
Repayment of Tier I capital notes	(4,000,000)	(1,836,250)
Interest on Tier I capital notes	(592,233)	(651,088)
Dividends paid	(2,524,278)	(2,524,278)
Issuance of Sukuk	1,836,250	-
Net cash flows generated from/(used in) financing activities	**6,119,638**	**4,349,005**
Increase in cash and cash equivalents (refer Note 42)	**7,820,431**	**(11,379,575)**

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium reserve(a)	Legal and statutory reserve(c)	Other reserve(c)	Fair value reserve(c)	Currency translation reserve (c)	Retained earnings	Total	Non-controlling interest	Group Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2021	6,316,598	(46,175)	10,379,786	17,954,164	3,158,299	2,945,393	476,692	(3,607,673)	47,014,778	84,591,862	26,236	84,618,098
Profit for the year	-	-	-	-	-	-	-	-	9,297,537	9,297,537	8,433	9,305,970
Other comprehensive income for the year	-	-	-	-	-	-	(1,202,507)	(4,691,592)	(34,939)	(5,929,038)	-	(5,929,038)
Tier I capital notes issued during the year (Note 22)	-	-	2,748,866	-	-	-	-	-	-	2,748,866	-	2,748,866
Tier I capital notes redeemed during the year (Note 22)	-	-	(4,000,000)	-	-	-	-	-	-	(4,000,000)	-	(4,000,000)
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(592,233)	(592,233)	-	(592,233)
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	-	24,956	24,956
Dividends paid*	-	-	-	-	-	-	-	-	(2,524,278)	(2,524,278)	-	(2,524,278)
Directors' fees (refer Note 32)	-	-	-	-	-	-	-	-	(31,000)	(31,000)	-	(31,000)
Zakat	-	-	-	-	-	-	-	-	(41,652)	(41,652)	-	(41,652)
Balance as at 31 December 2021	6,316,598	(46,175)	9,128,652	17,954,164	3,158,299	2,945,393	(725,815)	(8,299,265)	53,088,213	83,520,064	59,625	83,579,689

*Dividend paid is net of the amount attributable to treasury shares.

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

Notes:

(a) For further details refer to Note 21
(b) For further details refer to Note 22
(c) For further details refer to Note 23

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	**Treasury shares**	**Tier I capital notes (b)**	**Share premium reserve(a)**	**Legal and statutory reserve(c)**	**Other reserve(c)**	**Fair value reserve(c)**	**Currency translation reserve(c)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Group Total**
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2020	6,316,598	(46,175)	9,468,272	17,954,164	3,158,299	2,945,393	131,484	(1,706,736)	43,375,416	81,596,715	10,146	81,606,861
Profit for the year	-	-	-	-	-	-	-	-	6,959,545	6,959,545	5,624	6,965,169
Other comprehensive income for the year	-	-	-	-	-	-	345,208	(1,900,937)	(52,397)	(1,608,126)	-	(1,608,126)
Tier I capital notes issued during the year (Note 22)	-	-	2,747,764	-	-	-	-	-	-	2,747,764	-	2,747,764
Tier I capital notes redeemed during the year (Note 22)	-	-	(1,836,250)	-	-	-	-	-	-	(1,836,250)	-	(1,836,250)
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(651,088)	(651,088)	-	(651,088)
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	-	10,466	10,466
Dividends paid*	-	-	-	-	-	-	-	-	(2,524,278)	(2,524,278)	-	(2,524,278)
Directors' fees (refer Note 32)	-	-	-	-	-	-	-	-	(31,000)	(31,000)	-	(31,000)
Zakat	-	-	-	-	-	-	-	-	(61,420)	(61,420)	-	(61,420)
Balance as at 31 December 2020	6,316,598	(46,175)	10,379,786	17,954,164	3,158,299	2,945,393	476,692	(3,607,673)	47,014,778	84,591,862	26,236	84,618,098

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

Notes:

(a) For further details refer to Note 21
(b) For further details refer to Note 22
(c) For further details refer to Note 23

1 CORPORATE INFORMATION

Emirates NBD Bank PJSC (the “Bank”) was incorporated in the United Arab Emirates on 16 July 2007 consequent to the merger between Emirates Bank International PJSC (“EBI”) and National Bank of Dubai PJSC (“NBD”), under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company.

The consolidated financial statements for the year ended 31 December 2021 comprise the financial statements of the Bank and its subsidiaries (together referred to as the “Group”).

The Bank is listed on the Dubai Financial Market (TICKER: “EMIRATESNBD”). The Group’s principal business activities are corporate and institutional banking, retail banking, treasury and Islamic banking. The Bank’s website is www.emiratesnbd.com. For details of activities of subsidiaries, refer to Note 37.

The registered address of the Bank is Post Box 777, Dubai, United Arab Emirates (“UAE”).

The parent company of the Group is Investment Corporation of Dubai, a company in which the Government of Dubai is the majority shareholder.

2 BASIS OF ACCOUNTING

Statement of compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and applicable requirements of the laws of the UAE.

The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

3 FUNCTIONAL AND PRESENTATION CURRENY

The presentation currency of the consolidated financial statements is the United Arab Emirates Dirham (AED). The functional currency for a significant proportion of the Group’s assets, liabilities, income and expenses is also AED. However, certain subsidiaries have functional currencies other than AED and AED is their presentation currency.

4 BASIS OF MEASUREMENT

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

- derivative financial instruments are measured at fair value;
- financial instruments classified as trading and at fair value through profit or loss (FVTPL) are measured at fair value;
- financial assets at fair value through other comprehensive income are measured at fair value; and
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 5.

5 USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant items where the use of estimates and judgments are required are outlined below:

(i) Financial instruments

Judgments made in applying accounting policies that have most significant effects on the amounts recognized in the consolidated financial statements for the year ended 31 December 2021 pertain to:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.

- Calculation of expected credit loss (ECL): Assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2021. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation

Key concepts that have the most significant impact and require a high level of judgment, as considered by the Group while determining the ECL, are:

Assessment of Significant Increase in Credit Risk (“SICR”)

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group’s existing risk management processes.

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

1. The Group has established thresholds for significant increase in credit risk based on movement in Probability of Default relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial instruments (continued)

Inputs, assumptions and techniques used for ECL calculation (continued)

Assessment of Significant Increase in Credit Risk (continued)

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment is based on individual assessment of financial assets for objective evidence of impairment.

The Group reviews its loans and receivables portfolio and Islamic financing receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans and receivables or Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

Assessment of Significant Increase in Credit Risk (Covid-19)

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or long term.

The Group continues to support its impacted customers through a program of payment relief that was initiated in 2020 by deferring interest/principal due. These payment reliefs are considered as short-term liquidity support to address borrower cash flow issues. The Group believes that the extension of payment reliefs does not automatically trigger SICR where the impact on customer's business is expected to be short term. For all other customers, the Group continues to consider severity and extent of potential Covid-19 impact on economic sector and future outlook, cash flow and financial strength, agility and change in risk profile along with the past track record in determining SICR.

As per the disclosure requirements of the Central Bank of UAE (CBUAE) in the context of Covid-19, for the UAE operations, the Group has divided its customers benefitting from payment deferrals into two groups (Group 1 and Group 2). Customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues caused by Covid-19 crisis, are categorized in Group 1. Customers expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals are categorized in Group 2.

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

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

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial instruments (continued)

Inputs, assumptions and techniques used for ECL calculation (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions.

The estimation and application of forward-looking information requires significant judgment based on the macroeconomic variables (or changes in macroeconomic variables) such as occupancy rates, oil prices, housing price index and GDP (where applicable), that are closely correlated with credit losses in the relevant portfolio and represent the underlying causal effects of changes in these economic conditions. Each macroeconomic scenario used in the Group's ECL calculation will have projected forecasts of the relevant macroeconomic variables.

The Group estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. These scenarios are based on macroeconomic forecasts published by external experts. If conditions warrant additional downside scenarios may also be considered.

Probability weights attached to these scenarios are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities. In some instances the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Group's governance process for oversight.

Sensitivity assessment due to movement in each macroeconomic variable and the respective weights under the three scenarios is periodically assessed by the Group.

The table below summarizes key macroeconomic indicators included in the economic scenarios for respective operating regions relevant to their markets on 31 December 2021 for the years ending 2021 to 2025:

	Base Scenario					Upside Scenario					Downside Scenario				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
UAE															
Oil Price – USD	70	70	64	64	66	70	73	69	70	72	70	44	46	53	56
GDP - Change %	2.1	3.3	2.5	2.6	2.7	2.1	7.9	5.1	2.4	2.2	2.1	(6.5)	(2.0)	4.2	5.3
Imports - AED in Bn	1135	1231	1285	1348	1415	1135	1314	1434	1521	1601	1135	1077	1061	1121	1208
KSA															
Oil GDP - SAR in Trn	1.00	1.05	1.07	1.09	1.11	1.00	1.09	1.10	1.13	1.16	1.00	0.96	0.93	0.96	1.01
Unemployment - %	12.1	12.8	12.7	12.6	12.6	12.1	12.6	12.4	12.4	12.4	12.1	13.8	13.9	13.6	13.4
Turkey															
Real GDP - Growth%	6.3	0.9	(1.6)	4.6	-	6.7	(1.3)	5.4	4.8	-	5.8	(0.6)	(4.7)	4.0	-
Unemployment - %	12.0	12.5	14.0	12.8	-	11.8	13.0	12.5	11.5	-	12.1	13.2	15.8	14.0	-

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial instruments (continued)

Inputs, assumptions and techniques used for ECL calculation (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (Covid-19)

In light of the current uncertain economic environment, the Group continued to assess a range of possible macro-economic scenarios and associated weights, and analyzed their impact on ECL estimates for the year 2021 using baseline, upside and downside scenarios with 40%-30%-30% weightings respectively with the exception of Turkey that uses 50%-25%-25%. The Group also applied portfolio-level ECL adjustments to corporate exposures based upon affected sectors, as well as to retail customers availing deferrals based upon employment status and level of salary inflows. The Group continues to assess individually significant exposures for any adverse movements due to Covid-19.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Definition of default

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

Expected Life

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

Governance

In addition to the existing risk management framework, the Group has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management, Internal Audit and Business teams and are responsible for reviewing and approving key inputs and assumptions used in the Group ECL estimates. It also assesses the appropriateness of the overall allowance results to be included in the Group consolidated financial statements.

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Impairment of goodwill

On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(iv) Impairment loss on investment in associates and jointly controlled entities

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

(v) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

6 CHANGES IN ACCOUNTING POLICIES

The Group has consistently applied the accounting policies as set out in Note 7 to all periods presented in these consolidated financial statements, except for the following accounting policies which are applicable from 1 January 2021:

IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS)

Effective from 1 January 2021, the Group implemented Phase 2 of the Interest Rate Benchmark Reform —Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The areas impacted by the amendments include application of practical expedient for accounting for modifications to financial instruments that are measured at other than fair value through profit or loss when transactions are updated for the new Risk Free Rate (RFR) rates (will not result in derecognition), relief on changes to hedge designations and hedge documentation (a change to hedge designations and hedge documentation required by IBOR reform would not result in discontinuation of hedge accounting) and providing disclosures that enable users to understand nature and extent of risks arising from interest rate benchmark reform to which the Group is exposed and how it manages those risks. The amendments are applied retrospectively with no restatement required for prior periods.

During 2020, the Group implemented Phase 1 of the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), which provided relief on hedge accounting requirements for those hedges existing before the IBOR replacement. The Group's exposure to hedging instruments (Interest Rate Swaps and Cross-Currency Swaps) and hedged items maturing from the year 2021 onwards which are in scope of Phase 1 amendments include Fair Value Hedges with notional values of USD 1.35 billion on the receiving leg and USD 4 billion on the paying leg; and Cash Flow Hedges with notional values of USD 0.8 billion on the receiving leg.

Under the Phase 1 amendments the Group determined that:

- Hedge accounting relationships will continue:
  for cash flow hedges of IBOR cash flows despite the uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reform;
- The Group will not discontinue hedge accounting due to the application of practical expedient
- The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated IBOR cash flow hedges that are subject to the interest rate benchmark reform even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items.

6 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS) (Continued)

The Group will continue to apply the Phase 1 amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Group is exposed to ends. The Group expects this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced.

As a result of the Phase 2 amendments in 2021:

- When the contractual terms of non-derivative financial instruments have been amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change), the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate updated to reflect the change in an interest rate benchmark from IBOR to Risk Free Rate (RFR) without adjusting the carrying amount. If additional changes are made, which are not economically equivalent, the applicable requirements of IFRS 9 are applied to the additional changes.
- When changes are made to the hedging instruments, hedged item and hedged risk, as a result of the interest rate benchmark reform which are economically equivalent, the Group updates the hedge documentation without discontinuing the hedging relationship.

The Group is primarily exposed to GBP and USD LIBOR which are subject to the interest rate benchmark reform. The exposures arise on derivatives and non-derivative financial assets and liabilities.

The Group has cash flow and fair value relationships affected by the interest rate benchmark reform. Hedged items include issued GBP and USD fixed rate debt and advances to and deposits from customers linked to USD and GBP LIBOR. Hedging instruments include IBOR-linked interest rate swaps and cross-currency swap.

For risks arising from interest rate benchmark reform please refer note 46 (w).

Summary of transition

The table below shows the Group's 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. The table below excludes the exposures that will expire before the transition.

31 December 2021 **in AED Million**	***Non-derivative financial assets- carrying value***	***Non-derivative financial liabilities – carrying value***	***Derivatives Nominal amount***
LIBOR USD (1 month)	10,535	276	16,035
LIBOR USD (3 months)	25,380	20,294	255,289
LIBOR USD (6 months)	7,765	35	18,465
LIBOR USD (12 months)	63	-	76
LIBOR GBP (1 month)	147	-	-
LIBOR GBP (3 months)	5,620	-	245
LIBOR GBP (6 months)	113	-	-
Cross currency swaps			
Cross Currency USD	-	-	20,431
Cross Currency GBP	-	-	2,978

During the year 2021, the Group started offering SONIA linked contracts as a replacement of GBP LIBOR. GBP LIBOR discontinued from 1 January 2022. USD LIBOR will discontinue from 30 June 2023.

7 SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these Group consolidated financial statements, except for the changes explained in Note 6.

(a) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The list of the Group’s subsidiary companies is shown in Note 37.

Basis of consolidation

The Group consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the Group consolidated financial statements are prepared for the same reporting date as the Bank with the exception of Emirates NBD Capital PSC, an insignificant subsidiary, whose year-end is 31 March and hence the Group uses their reviewed 12 months accounts as at 31 December. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated.

Business combinations are accounted for by applying the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date, fair value of assets transferred by group, liability incurred, and equity interest issued by the group in exchange for control of the acquiree. Identifiable assets acquired and liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 9 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of consolidation (continued)

(i) Subsidiaries (continued)

Basis of consolidation (continued)

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 7 (r) (i). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

(ii) Special Purpose Entities

Special Purpose Entities (SPEs) are entities that are created to accomplish a well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if the Group is exposed to variable returns from its involvement in the SPE and has the ability to affect those returns through its power over the SPE based on an evaluation of the substance of its relationship with the Group.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

a. the Group has power over the SPE;

b. the Group has exposure to, or rights, to variable returns from its involvement with the SPE; and
c. the Group has the ability to use its power over the SPE to affect the amount of the Group's returns.

The assessment of whether the Group has control over an SPE is carried out at inception and reassessed at each period end date or if there are changes in the structure / terms of additional transactions between the group and the SPE.

Information about the Group's securitisation activities is set out in Note 13.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of consolidation (continued)

(iii) Fund Management

The Group manages and administers funds on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management activity is set out in Note 44.

(iv) Fiduciary activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these Group consolidated financial statements. Income earned by the Group from its fiduciary activities is recognised in accordance with the accounting policies on fee and commission income.

(v) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the Group consolidated statement of comprehensive income and within equity in the Group consolidated balance sheet, separately from equity attributable to owners of the Bank.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

(vi) Associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of over 20% of the voting rights, not being a subsidiary or a joint venture.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Under the equity method, the investment in associate is measured in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is shown on the face of the consolidated income statement.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the profit or loss.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of consolidation (continued)

(vi) Associates (continued)

The financial statements of the associates are prepared as of the same reporting date as for the Group. Where necessary, adjustments are made in the Group consolidated financial statements to align the accounting policies of the Associates in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value.

Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

(b) Foreign currencies

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting gain / loss on monetary items is taken to the 'Other operating income' in the consolidated income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the Group consolidated financial statements, assets and liabilities in foreign operations are translated into AED at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the currency translation reserve.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the reporting date.

Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to currency translation reserve.

Foreign currency differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedge is effective, are recognized in Other comprehensive income (OCI).

(c) Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash receipts or payments 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.

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest (Continued)

Amortised cost

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

Gross carrying amount

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

Calculation of interest income and expense

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.

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

For the 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 (as explained above) of the financial asset. The calculation of interest income does not revert to a gross carrying amount (as explained above), even if the credit risk of the asset improves.

Presentation

Interest income and expense presented in the consolidated income statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Fees and commission

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

Fee income is accounted for as follows:

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

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

(e) Net trading income

'Net trading income' comprises gains less losses to trading assets and liabilities, and includes all fair value changes, dividends and foreign exchange differences.

(f) Dividend income

Dividend income is recognised when the Group's right to receive the dividend is established.

(g) Property related income

Property related income includes rental income, which is recognised on a straight-line basis over the term of the lease.

(h) Leases

Under IFRS 16, the Group recognises a right-of-use asset and a lease liability at lease commencement for all leases, except for short term leases and leases of low value assets.

The Group initially measures the right-of-use asset at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

The Group initially measures the lease liability at the present value of the future lease payments discounted using the discount rate implicit in the lease. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The Group has elected to apply the expedient allowed by IFRS 16 on its general requirements to short-term leases (i.e. one that does not include a purchase option and has a lease term at commencement date of 12 months or less) and leases of low value assets. For this the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term or another systematic basis if that basis is representative of the pattern of the lessee's benefits, similar to the current accounting for operating leases.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases (Continued)

The Group has presented right of use assets within 'Property and equipment' and lease liabilities within 'Other liabilities' in the consolidated statement of financial position.

Where the Group leases out its investment property, the Group has classified these as operating leases.

(i) Income taxes and deferred taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be settled with the tax authorities.

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to be realised or the liability is expected to be settled.

Deferred tax assets are reviewed periodically to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

Deferred tax assets and liabilities are off set when there is a legally enforceable right to set off current tax asset against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and current tax liabilities on a net basis.

(j) Financial assets and financial liabilities

(i) Classification of financial assets and financial liabilities

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 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.

A debt instrument 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.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income (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 Group 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.

(ii) Recognition and initial measurement

The Group initially recognises loans and receivables, Islamic financing receivables, deposits, debts and sukuks issued on the date on which they are originated or acquired. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

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

Business model assessment:

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level as 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, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- 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;
- 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 the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment 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.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(ii) Recognition and initial measurement (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued):

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash 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 rate.

See note on investment securities, loans and receivable and cash and cash equivalents for further details.

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

The Group classifies financial liabilities as held for trading when they have issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

(iii) Impairment

The Group recognises 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 Group measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition.

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(iii) Impairment (continued)

Measurement of ECL

ECL are 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 Group expects 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: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized 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. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt 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.

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 Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Purchased or originated credit-impaired assets (POCI)

POCI assets 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. Lifetime ECLs are only recognised or released to the extent that there is a subsequent change in the credit risk.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(iii) Impairment (continued)

Revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities at a short notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

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 Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(iv) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortised cost when payment under the contract has become probable.

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

Financial guarantees issued or irrevocable commitments to provide credit are initially measured at fair value and their initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

(v) Foreign currencies

Foreign currency differences arising on translation are generally recognized 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 through OCI.

(vi) Loans and receivables

'Loans and receivables' caption in the consolidated statement of financial position include:

- Loans and receivables measured at amortised cost: they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method and are presented net of expected credit losses; and
- Loans and receivables measured at FVTPL or designated as at FVTPL: these are measured at fair value with changes recognised immediately in profit or loss, if applicable.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance or due from banks, and the underlying asset is not recognised in the Group's financial statements.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(vii) Investment securities

The ‘investment securities’ caption in the consolidated statement of financial position includes:

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

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

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

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

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

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

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of the ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards or ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecogniton that is created or retained by the Group is recognised as a separate asset or liability.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(viii) Derecognition (continued)

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

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

(ix) Modification of financial assets and financial liabilities

If the terms of a financial asset are modified, the Group evaluates 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.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

(x) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Group consolidated statement of financial position when, and only when, the Group currently has legally enforceable rights to set off amounts and it intends either to settle them on a net basis or through realize the asset and settle the liability simultaneously.

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(xi) Fair value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of principal market, in the most advantageous market for the asset and liabilities.

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

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

Fair value is applicable to both financial and non-financial instruments.

(xii) Designated at FVTPL

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise rise.

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

(a) The liabilities are managed, evaluated and reported internally on a fair value basis; or
(b) The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

A description of the basis of each designation is set out in relevant notes for the asset or liability class.

(xiii) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Group consolidated financial statements when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(k) Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with Central Banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Trading assets and liabilities

Trading assets are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss.

(m) Derivatives held for risk management purposes and hedge accounting

The Group follows a hedge accounting model that aligns hedge accounting more closely with risk management. The model measures hedge effectiveness through an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

The Group also performs rebalancing of hedging relationships, whereby, if a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Group shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in ‘income from trading activities’ except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in ‘other operating income’.

Hedging instruments include futures, forwards, options and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rates and currency risk.

Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
- Hedge of net investment in a foreign operation.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Derivatives held for risk management purposes and hedge accounting (continued)

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(i) Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivative is recognised in other comprehensive income within ‘Cash flow hedges – fair value gains / (losses)’. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the consolidated income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the consolidated income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, then hedge accounting is discontinued prospectively, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the consolidated income statement.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Derivatives held for risk management purposes and hedge accounting (continued)

(iii) Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and accumulated in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in consolidated income statement. The amount recognised in other comprehensive income is reclassified to the consolidated income statement as an adjustment on disposal of the foreign operation.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the consolidated income statement.

(v) Embedded derivatives

Derivatives embedded in financial assets, liabilities and non-financial host contacts, are treated as separate derivatives and recorded at fair value if they meet the definition of a derivative, their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

(n) Islamic financing receivables

Islamic financing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These products are carried at amortised cost less impairment.

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istisna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent instalments. Ijara ends by transferring the ownership of the asset to the lessee at the end of the Ijara agreement pursuant to a sale undertaking granted by the Group.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Islamic financing receivables (continued)

(i) Definitions (continued)

Mudaraba

An agreement between two parties; wherein one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-Ul-Mal would bear the loss of his funds while the Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised on a time proportion basis over the life of the contract using an effective profit method on the balance outstanding.

Istisna’a

Istisna’a revenue and the associated profit margin (difference between the cash price to the customer and the bank’s total Istisna’a cost) are accounted for on a time proportion basis.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to the consolidated income statement on their declaration by the Mudarib.

Wakala

Estimated income from Wakala is recognised on a time proportion basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(o) Inventory

Properties acquired in settlement of debt are held as inventory and are stated at lower of cost or net realisable value. Directly attributable costs incurred in the acquisition of inventory is included as part of cost of the inventory.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 - 60 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 - 5 years
Core banking software	5 - 7 years
Motor vehicles	3 - 5 years

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

(q) Investment properties

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in 'other operating income' in the year of retirement or disposal.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Investment properties (continued)

Transfers to and from investment properties are made only when there is a change in use based on the business model.

(r) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable net assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (bargain purchase), it is recognised immediately in the Group consolidated income statement.

Measurement

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the consolidated income statement. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Capitalised software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the Group consolidated income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Intangible assets (continued)

(iii) Other intangible assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite or indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the Group consolidated income statement in the expense category consistent with the function of the intangibles.

(s) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed periodically to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the consolidated income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(t) Deposits, debts and sukuks issued

Deposits, debts and sukuks issued are the main sources of funding for the Group.

Deposits, debts and sukuks issued are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the consolidated income statement.

The present value of the gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost / (income) for gratuities include the discount rate. Any changes in these assumptions will impact the carrying amount of gratuity obligations. The value of the gratuity obligations is based on the report submitted by an independent actuarial firm.

(w) Dividend on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders in the Annual General Meeting.

(x) Share capital and reserves

(i) Perpetual Bonds

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's perpetual bonds are not redeemable by holders and bear an entitlement to distributions that is non-cumulative and at the discretion of the board of directors. Accordingly, they are presented as a component of issued capital within equity. Distributions thereon are recognised in equity. Related income tax is accounted for in accordance with IAS 12 – Income taxes.

(ii) Share issue costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(y) Earnings per share

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for interest expense on Tier I capital notes) of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Operating segments

For management purposes, the Group is organised into operating segments based on their products, services and certain subsidiaries which are independently managed by the respective segment managers responsible for the performance of the segments under their charge.

The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 36.

(aa) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries:

- controls, is controlled by, or is under common control with, the Group;
- has an interest in the Group that gives it significant influence over the Group; or
- has joint control over the Group;

(b) the party is an associate;
(c) the party is a jointly controlled entity;
(d) the party is a member of the key management personnel of the Group;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(ab) Revenue recognition

Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group also operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained.

8 STANDARDS ISSUED BUT NOT YET ADOPTED

Certain new standards (IFRS 17 *"Insurance Contracts"*), amendments to standards and interpretations (annual improvements to IFRS, amendments to IFRS 3, IFRS 4, IAS 1, IAS 8, IAS 12 and IAS 37) are not yet effective for the year ended 31 December 2021, with the Group not opting for early adoption.

The Group anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of Group in the period of initial application.

9 CASH AND DEPOSITS WITH CENTRAL BANKS

	2021 AED 000	2020 AED 000
Cash	6,023,245	4,488,333
Statutory and other deposits with Central Banks	45,176,256	42,942,928
Interest-bearing placements with Central Banks	203,074	218,096
Murabahas and interest-bearing certificates of deposits with Central Banks	19,353,171	53,195,536
Less: Expected credit losses	(2,133)	(2,997)
	70,753,613	100,841,896

The reserve requirements which are kept with the Central Banks of the countries in which the Group operates are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the relevant Central Bank. The level of reserves required changes periodically in accordance with the directives of the respective Central Banks.

Murabahas and certificates of deposits with Central Banks amounting to AED Nil (2020: AED 5,150 million) were collateralized for the purpose of obtaining Zero Cost Funding from the CBUAE amounting to AED Nil (2020: AED 5,058 million) presented under 'Due to banks'.

10 DUE FROM BANKS

31 December 2021	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	4,751,682	34,352,744	39,104,426
Overnight, call and short notice	83,247	6,208,316	6,291,563
Gross due from banks	4,834,929	40,561,060	45,395,989
Less: Expected credit losses			(52,741)
			45,343,248

31 December 2020	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	3,089,380	27,387,759	30,477,139
Overnight, call and short notice	216,770	4,424,333	4,641,103
Gross due from banks	3,306,150	31,812,092	35,118,242
Less: Expected credit losses			(120,562)
			34,997,680

The average yield on the above placements averaged 0.75% p.a. (2020: 1.69% p.a.).

11 INVESTMENT SECURITIES

	Domestic*	Regional**	International***	Total
31 December 2021	AED 000	AED 000	AED 000	AED 000
TRADING SECURITIES MEASURED AT FVTPL				
Government Bonds	1,000,906	876,759	61,900	1,939,565
Corporate Bonds	207,487	146,810	33,517	387,814
Equity	-	-	156,687	156,687
Others	-	-	8,294	8,294
	1,208,393	1,023,569	260,398	2,492,360
DESIGNATED AS AT FVTPL				
Equity	41,135	118,505	1,776	161,416
Others	2,267	4,441	84,027	90,735
	43,402	122,946	85,803	252,151
MEASURED AT AMORTISED COST				
Government Bonds	51,427,892	21,887,432	7,605,506	80,920,830
Corporate Bonds	2,505,241	971,605	1,584,718	5,061,564
	53,933,133	22,859,037	9,190,224	85,982,394
Less: Expected credit losses				(17,364)
				85,965,030
MEASURED AT FVOCI - DEBT INSTRUMENTS				
Government Bonds	-	2,545,951	8,373,459	10,919,410
Corporate Bonds	3,845,219	932,724	1,211,388	5,989,331
	3,845,219	3,478,675	9,584,847	16,908,741
Less: Expected credit losses				(23,053)
				16,885,688
MEASURED AT FVOCI - EQUITY INSTRUMENTS				
Equity	97,241	63,606	400,810	561,657
	97,241	63,606	400,810	561,657
Gross Investment securities	59,127,388	27,547,833	19,522,082	106,197,303
Net Investment securities				106,156,886

*Domestic: These are securities issued within the UAE.
**Regional: These are securities issued within the Middle East excluding the UAE.
***International: These are securities issued outside the Middle East region.

Investment securities with a carrying value of AED Nil (2020: AED 184 million) were collateralized for the purpose of obtaining Zero Cost Funding from the CBUAE amounting to AED Nil (2020: AED 184 million) presented under ‘Due to banks’.

11 INVESTMENT SECURITIES (CONTINUED)

31 December 2020	Domestic* AED 000	Regional** AED 000	International*** AED 000	Total AED 000
TRADING SECURITIES MEASURED AT FVTPL				
Government Bonds	370,832	2,195,355	457,835	3,024,022
Corporate Bonds	1,133,655	978,181	648,545	2,760,381
Equity	-	-	108,608	108,608
Others	-	-	2,891	2,891
	1,504,487	3,173,536	1,217,879	5,895,902
DESIGNATED AS AT FVTPL				
Equity	44,635	112,397	43,222	200,254
Others	543	3,041	75,529	79,113
	45,178	115,438	118,751	279,367
MEASURED AT AMORTISED COST				
Government Bonds	12,791,415	20,801,015	12,026,255	45,618,685
Corporate Bonds	2,130,368	1,288,540	562,324	3,981,232
	14,921,783	22,089,555	12,588,579	49,599,917
Less: Expected credit losses				(22,394)
				49,577,523
MEASURED AT FVOCI - DEBT INSTRUMENTS				
Government Bonds	-	1,685,804	10,162,174	11,847,978
Corporate Bonds	3,247,792	641,219	745,619	4,634,630
	3,247,792	2,327,023	10,907,793	16,482,608
Less: Expected credit losses				(30,690)
				16,451,918
MEASURED AT FVOCI - EQUITY INSTRUMENTS				
Equity	1,715	54,708	434,154	490,577
	1,715	54,708	434,154	490,577
Gross Investment securities	19,720,955	27,760,260	25,267,156	72,748,371
Net Investment securities				72,695,287

*Domestic: These are securities issued within the UAE.
**Regional: These are securities issued within the Middle East excluding the UAE.
***International: These are securities issued outside the Middle East region.

12 LOANS AND RECEIVABLES

		2021	2020
(a)	By Type	AED 000	AED 000
	Gross loans and receivables	459,457,866	478,526,280
	Less: Expected credit losses	(37,185,476)	(34,984,811)
		422,272,390	443,541,469

	2021	2020
At Amortised Cost	AED 000	AED 000
Overdrafts	141,178,599	147,606,488
Time loans	227,088,997	244,809,965
Loans against trust receipts	9,236,631	7,915,401
Bills discounted	3,892,605	3,594,752
Credit card receivables	13,353,455	12,842,426
Gross loans - conventional	394,750,287	416,769,032
Murabaha	41,489,900	39,841,875
Ijara	20,862,452	20,263,477
Wakala	975,081	454,006
Istisna'a	873,178	1,141,483
Credit cards receivable	1,646,713	1,483,910
Others	675,088	293,847
Less: Deferred income	(1,814,833)	(1,721,350)
Gross Islamic financing receivables	64,707,579	61,757,248
Gross loans and receivables	459,457,866	478,526,280
Total of credit impaired loans and receivables	29,159,717	29,817,914

		2021	2020
(b)	By Business Units	AED 000	AED 000
	Corporate and Institutional banking	314,574,572	341,275,968
	Retail banking	107,697,818	102,265,501
		422,272,390	443,541,469

Corporate Ijara assets amounting to AED 2.3 billion (2020: AED 4.6 billion) and Murabaha assets amounting to AED Nil (2020: AED 0.2 billion) were securitised for the purpose of issuance of Sukuk liability (refer Note 19 and 13 b).

Expected credit losses on Loans and receivables have been disclosed in further detail in Note 46 (I).

13 LOANS SECURITISATION

(a) Incorporation of Emirates NBD Asset Finance Companies in Ireland and Cayman Islands for asset securitisation

As at 31 December 2021, the corporate loans and receivables balance transferred to ENBD Asset Finance Company No.1 Designated Activity Company (DAC) and ENBD Asset Finance Company No. 2 Limited is AED 918 million (2020: AED 918 million) and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 918 million (2020: AED 918 million). The principal activity of these companies is to purchase portfolio of loans through issuance of notes.

Since the Group is exposed to variable returns from its involvement in the SPEs and has the ability to affect those returns through its power over the SPEs, these SPEs are consolidated in compliance with IFRS 10.

(b) Securitisation of Islamic Financing Receivables

The Group transferred certain identified Ijara and Murabaha assets totaling to AED 3.7 billion (the “co-owned assets”) of its Subsidiary, Emirates Islamic Bank, to EIB Sukuk Company Limited – (the “Issuer”), a special purpose vehicle formed for the issuance of these sukuk. This medium term finance is carried at amortised cost. As at 31 December 2021 the total outstanding sukuk payable is AED 3.7 billion (2020: AED 5.5 billion).

In substance, the co-owned assets remain in control of the Group; accordingly these assets continue to be recognised by the Group. In case of any default, the Group has provided an undertaking to make good all losses to the sukuk holders. The assets are in the control of the Group and shall continue to be serviced by the Group.

14 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles on Acquisition				Total
		Banking license	Customer relationships	Core deposit intangibles	Brands	
31 December 2021	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cost						
Balance as at 1 January	5,561,714	163,079	471,438	895,473	279,370	7,371,074
Foreign exchange movement*	(38)	(102)	(25,260)	(18,611)	(124,373)	(168,384)
	5,561,676	162,977	446,178	876,862	154,997	7,202,690
Less: Amortisation and impairment						
Balance as at 1 January	4,903	-	290,691	762,309	-	1,057,903
Amortisation and impairment for the year	-	-	94,024	69,272	-	163,296
Balance as at 31 December	4,903	-	384,715	831,581	-	1,221,199
Net Goodwill and Intangibles	**5,556,773**	**162,977**	**61,463**	**45,281**	**154,997**	**5,981,491**

	Goodwill	Banking license	Customer relationships	Core deposit intangibles	Brands	Total
31 December 2020						
Cost	5,561,714	163,079	471,438	895,473	279,370	7,371,074
Less: Amortisation and impairment	4,903	-	290,691	762,309	-	1,057,903
Net Goodwill and Intangibles	**5,556,811**	**163,079**	**180,747**	**133,164**	**279,370**	**6,313,171**

*Foreign exchange movement relates to translation of acquired Goodwill and intangibles pertaining to Emirates NBD Egypt and DenizBank using the period end exchange rate.

The goodwill and intangibles were acquired through business combinations. Goodwill and brands have indefinite life and are reviewed annually for impairment.

14 GOODWILL AND INTANGIBLES (CONTINUED)

Impairment testing of goodwill

The goodwill acquired through business combinations with indefinite life is reviewed annually for impairment by comparing the recoverable amount based on value-in-use calculations for cash generating units (CGUs) to which goodwill has been allocated with its carrying value.

The goodwill has been allocated to four cash-generating units:

- Corporate and Institutional banking
- Retail banking and Wealth Management
- Global Markets and Treasury
- Emirates NBD Egypt S.A.E.

Key assumptions used in impairment testing for goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period and by applying a terminal growth rate thereafter.

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the projection period;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product ("GDP"); and
- Local inflation rates.

Interest margins

Interest margins are based on prevailing market rates at the start of the budget period. These are changed over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed ("ROCE") required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital ("WACC").

14 GOODWILL AND INTANGIBLES (CONTINUED)

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

The recoverable amount of goodwill of CGUs, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with an appropriate terminal growth rate applied thereafter. The forecast cash flows have been discounted using the WACC (4.23% for UAE and 21.88% for Egypt) in the jurisdiction where the CGU operates. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount of the CGUs as mentioned in the table below:

Cash generating units (CGUs)	Goodwill allocated to CGUs	Recoverable amount (AED million)	One percentage change in discount rate (AED million)	One percentage change in terminal growth rate (AED million)
Corporate and Institutional banking	3,589	193,185	60,138	55,174
Retail banking and Wealth Management	1,700	198,537	61,804	56,702
Global Markets and Treasury	206	96,725	30,110	27,625
Emirates NBD Egypt S.A.E	62	2,653	136	68

Based on the current impairment assessment, goodwill is not impaired as at 31 December 2021.

Intangibles

Acquired intangibles are recognised at their “fair value” upon initial recognition.

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles excluding banking license and brand are amortised using the straight-line method over the useful life of the asset, which is estimated to be between 3 and 11 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

The banking license and brand has an indefinite life and is tested for impairment annually. For impairment testing purposes, the banking license and brand are allocated to the relevant cash generating unit. Based on the current assessment, banking license and brand is not impaired as at 31 December 2021.

15 OTHER ASSETS

	2021	2020
	AED 000	AED 000
Accrued interest receivable	3,107,720	4,784,330
Islamic profit receivable	187,898	129,884
Prepayments and other advances	837,789	909,724
Sundry debtors and other receivables	1,938,780	3,046,706
Inventory	1,529,478	1,266,689
Deferred tax asset	929,142	882,845
Investments in associates*	-	201,628
Investment properties	440,351	584,724
Others	2,207,764	1,276,275
	11,178,922	13,082,805

*During the year, the Group disposed its entire holding 36.72% in National General Insurance Company (P.J.S.C) for a net consideration of AED 179 million.

16 DUE TO BANKS

	2021	2020
	AED 000	AED 000
Demand and call deposits	1,982,456	4,075,248
Balances with correspondent banks	1,311,937	1,154,569
Repurchase agreements with banks*	2,364,908	5,988,940
Time and other deposits	38,095,906	40,453,311
	43,755,207	51,672,068

The interest incurred on the above averaged 1.14% p.a. (2020: 1.83% p.a).

*This includes Zero Cost Funding obtained from the CBUAE under its ‘Targeted Economic Support Scheme (TESS)’ program amounting to AED Nil (2020: AED 5,242 million) which was fully utilized to provide payment relief to the impacted customers.

17 CUSTOMER DEPOSITS

		2021	2020
(a)	By Type	AED 000	AED 000
	Demand, call and short notice	216,604,708	185,134,537
	Time	166,428,337	215,270,129
	Savings	63,671,856	56,743,192
	Others	9,778,987	7,049,176
		456,483,888	464,197,034

		2021	2020
(b)	By Business Units	AED 000	AED 000
	Corporate and Institutional banking and Treasury	199,292,439	211,960,138
	Retail banking	257,191,449	252,236,896
		456,483,888	464,197,034

Included in the above customer deposits are Islamic deposits totalling to AED 67,190 million (2020: 86,678 million)

The interest incurred and profit distribution to depositors on the above deposits averaged 1.33% p.a (2020: 1.52% p.a.).

18 DEBT ISSUED AND OTHER BORROWED FUNDS

	2021	2020
	AED 000	AED 000
Medium term note programme	54,560,648	46,408,605
Term loans from banks	6,405,566	7,335,940
Borrowings raised from loan securitisations	2,421,014	918,125
	63,387,228	54,662,670

Some of the Debts issued and other borrowed funds have been hedged for cash flow and fair value risks and amount to AED 27,937 million (2020: AED 25,187 million). For details of hedging instruments please refer to Note 35.

	2021	2020
	AED 000	AED 000
Balance as at 1 January	54,662,670	49,317,315
New issues	25,636,942	18,264,098
Repayments	(13,313,409)	(13,487,491)
Other movements*	(3,598,975)	568,748
Balance at end of year	63,387,228	54,662,670

*Represents exchange rate and fair value movements on debts issued in foreign currency. The Group hedges the foreign currency risk on public issuances through derivative financial instruments.

As at 31 December 2021, the outstanding medium term borrowings totalling AED 63,387 million (2020: AED 54,663 million) is falling due as below:

	2021	2020
	AED millions	AED millions
2021	-	13,396
2022	12,640	10,347
2023	7,398	3,235
2024	10,145	2,374
2025	7,098	6,721
Beyond 2025	26,106	18,590
	63,387	54,663

The interest rate paid on the above averaged 3.41% p.a in 2021 (2020: 3.32% p.a).

19 SUKUK PAYABLE

	2021 AED 000	2020 AED 000
Balance as at 1 January	5,510,933	3,679,921
New issues	1,836,250	1,836,250
Repayments	(3,672,500)	-
Other movements	(2,183)	(5,238)
Balance at end of year	3,672,500	5,510,933

During the year, the Group repaid Sukuk amounting to AED 3,673 million on maturity.

As at 31 December 2021, the outstanding Sukuk payable totalling AED 3,673 million (31 December 2020: AED 5,511 million) is falling due as follows:

	2021 AED million	2020 AED million
2021	-	3,675
2025	1,836	1,836
2026	1,837	-
	3,673	5,511

The profit rate paid on the above averaged 2.58% p.a in 2021 (2020: 3.27% p.a).

20 OTHER LIABILITIES

	2021 AED 000	2020 AED 000
Accrued interest payable	1,783,235	2,951,170
Profit payable to Islamic depositors	109,477	89,488
Managers' cheques	1,509,281	1,482,690
Trade and other payables	4,369,047	4,172,156
Staff related liabilities	1,405,347	1,326,558
Provision for taxation (refer Note 33)	226,940	311,961
Others	6,624,936	7,479,692
	16,028,263	17,813,715

21 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 6,316,598,253 ordinary shares of AED 1 each (2020: 6,316,598,253 ordinary shares).

At the forthcoming Annual General Meeting, the Group is proposing a cash dividend of AED 0.50 per share for the year (2020: AED 0.40 per share) amounting to AED 3,158 million (2020: AED 2,527 million).

22 TIER I CAPITAL NOTES

The Group has issued a number of regulatory Tier 1 capital notes with details mentioned in the table below. The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default. The notes carry no maturity date and have been classified as equity.

Issuance Month/year	Issued Amount	Coupon rate
May 2021	USD 750 million (AED 2.75 billion)	Fixed interest rate with a reset after six years
July 2020	USD 750 million (AED 2.75 billion)	Fixed interest rate with a reset after six years
March 2019	USD 1 billion (AED 3.67 billion)	Fixed interest rate with a reset after six years

During the year, the Group has exercised its option to call back Tier 1 capital notes amounting to AED 4 billion issued in 2009.

23 RESERVES

Legal and statutory reserves

In accordance with the Bank's Articles of Association, and in compliance with Decretal Federal Law No. (14) of 2018, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Since the legal and statutory reserve is equal to 50% of the Bank's issued capital, profit was not appropriated to the legal and statutory reserve during the year.

Other reserve

10% of the profit is also transferable to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital. Since the regular reserve is equal to 10% of the Bank's issued capital, profit was not appropriated to the regular reserve during the year.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2021	3,158,299	631,660	2,313,733	6,103,692
Transfer from retained earnings*	-	-	-	-
At 31 December 2021	3,158,299	631,660	2,313,733	6,103,692

*Prior year comparatives are shown in the consolidated statement of changes in equity.

Fair value reserve

Fair value reserve includes the net change in fair value of FVOCI financial assets and the net effective portion of changes in fair value of cash flow hedges.

Currency translation reserve

Currency translation reserve represents the exchange differences arising from re-translating the opening net investment in foreign operations.

24 NET INTEREST INCOME

	2021 AED 000	2020 AED 000
Interest and similar income		
Loans and receivables to customers	20,682,642	21,815,102
Loans and receivables to banks	544,387	1,181,785
Investment securities at FVOCI	1,140,994	943,310
Investment securities at amortised cost	975,134	1,140,980
Trading securities and designated at FVTPL investment securities	148,034	116,849
Others	172,318	30,075
Total interest income	23,663,509	25,228,101
Interest and similar expense		
Deposits from customers	(5,702,153)	(5,959,148)
Borrowings from banks and financial institutions	(639,311)	(916,690)
Debt issued and other borrowed funds	(2,408,283)	(2,103,703)
Others	(179,970)	(212,221)
Total interest expense	(8,929,717)	(9,191,762)
Net interest income	14,733,792	16,036,339

25 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2021	2020
	AED 000	AED 000
Murabaha	1,273,602	1,358,502
Ijara	595,960	695,626
Istisna'a	40,199	48,041
Others	912,248	687,206
	2,822,009	2,789,375

26 DISTRIBUTION ON ISLAMIC DEPOSITS AND PROFIT PAID TO SUKUK HOLDERS

	2021	2020
	AED 000	AED 000
Distribution to depositors	537,834	1,202,568
Profit paid to sukuk holders	93,407	135,946
	631,241	1,338,514

Distribution on Islamic deposits represents the share of income between depositors and equity holders. The allocation and distribution to depositors is approved by the Internal Shari'ah Supervision Committee of the Group and the Islamic banking subsidiary respectively.

Profit paid to sukuk holders represents the distribution of returns received in respect of leased assets transferred to the EIB Sukuk Company Limited which was specifically formed for this transaction.

27 NET FEE AND COMMISSION INCOME

	2021 AED 000	2020 AED 000
Commission income on Trade finance products / services	831,195	817,001
Fee income*	5,304,812	4,631,953
Brokerage fees	62,474	34,124
Portfolio and other management fees	276,564	143,545
Total fee and commission income	6,475,045	5,626,623
Fee and commission expense	(2,639,234)	(1,972,060)
	3,835,811	3,654,563

*This also includes fee related to asset management, earned by the Group on trust and fiduciary activities in which the Bank holds or invests assets on behalf of its customers.

28 NET GAIN ON TRADING SECURITIES

	2021 AED 000	2020 AED 000
Realised gain / (loss) on trading securities	164,528	211,643
Unrealised gain / (loss) on trading securities	(13,710)	(31,599)
	150,818	180,044

29 OTHER OPERATING INCOME

	2021 AED 000	2020 AED 000
Dividend income on equity investment measured at FVOCI	1,604	5,228
Dividend income on equity investments measured at FVTPL	17,138	16,831
Gain from sale of debt investment securities measured at FVOCI	182,728	71,795
Gain / (loss) from investment securities designated at fair value through profit or loss	12,282	(314,973)
Rental income	27,921	32,618
Gain / (loss) on sale of properties (investment properties / inventories)	(3,063)	(34)
Foreign exchange income / (loss)*	(3,011,929)	1,855,252
Derivative income / (loss)	4,740,191	(82,617)
Other income (net)**	943,589	304,801
	2,910,461	1,888,901

*Foreign exchange income / (loss) comprises trading and translation gain / (loss) and gain / (loss) on dealings with customers.

**Includes gain on sale of Dubai Bank (P.J.S.C) amounting to AED 0.3 billion.

30 GENERAL AND ADMINISTRATIVE EXPENSES

	2021 AED 000	2020 AED 000
Staff cost	4,565,721	4,616,680
Occupancy cost	275,830	321,071
Equipment and supplies	197,258	220,854
Information technology cost	361,392	312,638
Communication cost	267,563	265,037
Service, legal and professional fees	282,528	224,881
Marketing related expenses	162,317	165,251
Depreciation	780,682	840,285
Amortisation of intangibles	163,296	163,296
Others	934,934	726,314
	7,991,521	7,856,307

31 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The charge to the income statement for the net impairment loss on financial assets is made up as follows:

	2021 AED 000	2020 AED 000
Net impairment of cash and deposits with central bank	(878)	122
Net impairment of due from banks / other assets	23,166	123,349
Net impairment of investment securities	(12,481)	22,955
Net impairment of loans and receivables (refer note 46 I)	6,234,860	7,875,539
Net impairment of unfunded exposures	64,678	70,914
Bad debt written off / (recovery) - net	(410,488)	(156,770)
	5,898,857	7,936,109

32 DIRECTORS FEES

This comprises of fees payable to the directors of the Group of AED 31 million (2020: AED 31 million).

33 TAXATION

At 31 December 2021 provisions for tax primarily relates to overseas branch operations and subsidiaries amounting to AED 227 million (2020: AED 312 million) (refer Note 20).

34 EARNINGS PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for interest expense on Tier I capital notes) of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

	2021 AED 000	2020 AED 000
Profit for the year attributable to equity holders	9,297,537	6,959,545
Deduct : Interest on Tier 1 capital notes	(592,233)	(651,088)
Net profit attributable to equity holders	8,705,304	6,308,457
Weighted average number of equity shares in issue ('000)	6,310,696	6,310,696
Earnings per share* (AED)	1.38	1.00

*The diluted and basic EPS were the same at the year end.

35 DERIVATIVES

A. Derivatives held for risk management

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

31 December 2021 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	2,142,481	(1,458,166)	269,347,059	161,826,589	77,373,217	24,824,851	4,862,058	460,344
Foreign exchange options	37,110	(19,760)	1,893,060	1,059,083	345,905	161,496	10,210	316,366
Interest rate swaps/caps	7,914,734	(6,449,639)	484,834,455	45,455,049	80,667,671	141,775,625	126,784,706	90,151,404
Commodity options	38,693	(38,708)	1,020,200	186,344	648,764	185,092	-	-
	10,133,018	(7,966,273)	757,094,774	208,527,065	159,035,557	166,947,064	131,656,974	90,928,114
Derivatives held as cash flow hedges:								
Interest rate swaps	238,462	(121,895)	29,221,176	6,218,187	7,308,105	4,769,661	8,217,356	2,707,867
Derivatives held as fair value hedges:								
Interest rate swaps	287,445	(1,088,283)	30,004,652	1,382,532	412,667	5,325,231	6,776,742	16,107,480
Derivatives held as hedge of a net investment in foreign operations:								
Forward foreign exchange contracts	-	(9,870)	452,876	-	452,876	-	-	-
Total	10,658,925	(9,186,321)	816,773,478	216,127,784	167,209,205	177,041,956	146,651,072	109,743,461

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain Loans and receivables amounting to AED 13,569 million (note 12), Investment securities amounting to AED 5,897 million (note 11), customer deposits amounting to AED 11,823 million (note 17) and Debt issued and borrowed funds amounting to AED 27,937 million (note 18). All the hedges were determined to be effective as on 31 December 2021.

The hedged forecast cash flows which are expected to occur over the future years and are expected to affect profit or loss are insignificant.

35 DERIVATIVES (CONTINUED)

A. Derivatives held for risk management (continued)

31 December 2020 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	1,824,632	(1,435,225)	284,477,968	185,325,169	68,300,374	25,946,875	4,533,446	372,104
Foreign exchange options	23,029	(28,850)	5,000,963	3,807,260	436,641	276,106	64,878	416,078
Interest rate swaps/caps	9,854,841	(8,343,567)	437,154,696	43,250,310	84,381,622	119,865,584	99,118,642	90,538,538
Commodity options	18,117	(18,508)	1,052,878	74,488	508,469	469,921	-	-
	11,720,619	(9,826,150)	727,686,505	232,457,227	153,627,106	146,558,486	103,716,966	91,326,720
Derivatives held as cash flow hedges:								
Interest rate swaps	549,448	(106,004)	40,741,351	7,806,808	13,797,719	8,169,901	6,003,404	4,963,519
Derivatives held as fair value hedges:								
Interest rate swaps	1,427,332	(804,474)	26,699,467	35,620	615,838	4,814,034	5,365,134	15,868,841
Derivatives held as hedge of a net investment in foreign operations:								
Forward foreign exchange contracts	-	(38,603)	520,792	-	520,792	-	-	-
Total	13,697,399	(10,775,231)	795,648,115	240,299,655	168,561,455	159,542,421	115,085,504	112,159,080

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain Loans and receivables amounting to AED 12,805 million (note 12), Investment securities amounting to AED 6,486 million (note 11), customer deposits amounting to AED 21,907 million (note 17) and Debt issued and borrowed funds amounting to AED 25,187 million (note 18). All the hedges were determined to be effective as on 31 December 2020.

The hedged forecast cash flows which are expected to occur over the future years and are expected to affect profit or loss are insignificant.

35 DERIVATIVES (CONTINUED)

A. Derivatives held for risk management (continued)

Derivative product types

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

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

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

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group and potential future fluctuations. The majority of the fair value of favourable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities, and in many cases are collateralized under Credit Support Annex (CSA). The Group takes a Credit Value Adjustment (CVA) on outstanding derivative transactions. The methodology for CVA calculation relies on three components: the probability of default of the counterparty, the expected positive exposure and the recovery rate. CVA is computed on all asset classes including Foreign Exchange, Interest Rates and Commodities.

Derivatives held or issued for trading purposes

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

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

The Group designates its derivatives held or issued for hedging purposes as:

- Fair value hedges: Hedges of the fair value of recognised assets or liabilities or firm commitments;
- Cash flow hedges: Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction; and
- Net investment hedges: Hedges of net investments in foreign operations.

35 DERIVATIVES (CONTINUED)

A. Derivatives held for risk management (continued)

Further, in terms of the hedging transactions carried out by the Group, the Group documents:

- At the inception of the transaction, the relationship between hedging instruments and hedged items, the risk being hedged and the Group's risk management objective and strategy for undertaking a hedge transaction.
- The manner in which effectiveness will be measured throughout the life of the hedge relationship.
- The Group's assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge effectiveness is measured by the Group on a prospective basis at inception, as well as retrospectively (where applicable) and prospectively over the term of the hedge relationship. Sources of ineffectiveness in hedge accounting include the impact of derivative related credit risk on the valuation of the hedging derivative and hedged item. To mitigate this credit risk, the Group executes hedging derivatives with high quality counterparties and the majority of the Group's hedging derivatives are collateralised.

Fair value hedges:

The Group uses interest rate swaps to hedge against changes in value of investment securities due to interest rate movements. These are designated by the Group as fair value hedges and, therefore the fair value hedge accounting is applied to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk, as well as assets and liabilities subject to foreign exchange risk.

Subsequent to initial designation, changes in the fair value of derivatives designated as fair value hedges are accounted for in the 'other operating income', along with any changes in the fair value of the hedged asset or liability attributable to the hedged risk.

Cash flow hedges:

The Group uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate customer deposits and medium-term borrowings. Interest rate swaps are also used to hedge against the cash flow risks arising on certain floating rate loans and receivables. These are designated by the Group as cash flow hedges, and, as such, the Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities, and assets and liabilities subject to foreign exchange risk.

The effective portion of changes in the fair value of derivatives designated as cash flow hedges are recognised in the fair value reserve within equity. Any gain or loss relating to the ineffective portion is recognised immediately in the Group consolidated income statement.

Net investment hedges:

Net investment hedging instruments often consist of derivatives such as forward rate which are accounted for in the same manner as cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the Group consolidated income statement.

36 OPERATING SEGMENTS

The Group is organised into the following main businesses:

(a) Corporate and Institutional banking represents current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate customers, investment banking, Islamic products under ENBD Islamic and structured financing primarily in the UAE, Egypt and KSA;

(b) Retail banking and Wealth Management represents retail loans and deposits, private banking and wealth management, equity broking services, asset management and consumer financing primarily in the UAE, Egypt and KSA;

(c) Global Markets and Treasury activities comprise of managing the Group's portfolio of investments, funds management and interbank treasury operations primarily in the UAE, Egypt and KSA;

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiaries;

(e) DenizBank is considered as a separate operating segment; and

(f) Other operations of the Group include Tanfeeth, property management, operations and support functions.

36 OPERATING SEGMENTS (CONTNUED)

31 December 2021	Corporate and Institutional banking	Retail banking and Wealth Management	Global Markets and Treasury	Islamic banking	DenizBank	Others	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Net interest income and income from Islamic products net of distribution to depositors	4,199,243	5,518,032	(216,717)	1,711,189	5,272,441	440,372	16,924,560
Net fees, commission and other income	1,464,281	2,527,172	155,701	686,806	1,770,038	293,092	6,897,090
Total operating income / (loss)	5,663,524	8,045,204	(61,016)	2,397,995	7,042,479	733,464	23,821,650
General and administrative expenses	(541,257)	(2,238,878)	(158,473)	(1,191,100)	(2,212,750)	(1,649,063)	(7,991,521)
Net impairment loss on financial assets	(2,035,267)	(565,731)	7,938	(383,810)	(2,716,672)	(205,315)	(5,898,857)
Share of profit of associate and loss on its disposal	-	-	-	-	-	(21,137)	(21,137)
Taxation charge	37,289	(41,961)	(71,708)	-	(469,847)	(57,938)	(604,165)
Group profit / (loss) for the year	3,124,289	5,198,634	(283,259)	823,085	1,643,210	(1,199,989)	9,305,970
Segment Assets	301,695,302	66,235,113	145,602,347	63,463,244	108,914,256	1,526,356	687,436,618
Segment Liabilities and Equity	185,785,664	179,366,620	23,285,818	54,878,900	100,504,660	143,614,956	687,436,618

36 OPERATING SEGMENTS (CONTNUED)

31 December 2020	Corporate and Institutional banking	Retail banking and Wealth Management	Global Markets and Treasury	Islamic banking	DenizBank	Others	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Net interest income and income from Islamic products net of distribution to depositors	4,570,556	5,481,502	(561,939)	1,693,952	5,667,153	635,976	17,487,200
Net fees, commission and other income	1,350,970	2,282,842	129,757	394,069	1,589,583	(23,713)	5,723,508
Total operating income / (loss)	5,921,526	7,764,344	(432,182)	2,088,021	7,256,736	612,263	23,210,708
General and administrative expenses	(605,071)	(2,049,943)	(170,637)	(1,083,942)	(2,266,354)	(1,680,360)	(7,856,307)
Net impairment loss on financial assets	(1,905,637)	(1,159,178)	(18,399)	(1,486,304)	(3,348,176)	(18,415)	(7,936,109)
Share of profit of associate and loss on its disposal	-	-	-	-	-	12,173	12,173
Taxation charge	(44,561)	(65,959)	(54,380)	-	(273,555)	(26,841)	(465,296)
Group profit / (loss) for the year	3,366,257	4,489,264	(675,598)	(482,225)	1,368,651	(1,101,180)	6,965,169
Segment Assets	315,166,839	60,679,005	123,448,106	67,286,626	131,011,659	495,238	698,087,473
Segment Liabilities and Equity	189,956,732	166,853,227	31,151,233	57,165,818	119,058,802	133,901,661	698,087,473

37 SUBSIDIARIES

The direct subsidiaries of the Group are as follows:

		Group % Share holding	Nature of business	Country of incorporation
As at 31 December 2021				
	Subsidiaries:			
1	Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
2	DenizBank Anonim Sirketi	100	Banking	Turkey
3	Emirates Funds LLC	100	Asset management	Dubai, U.A.E.
4	Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey, England
5	Emirates Islamic Bank PJSC	99.9	Islamic banking	Dubai, U.A.E.
6	Emirates Money Consumer Finance LLC	100	Consumer finance	Dubai, U.A.E.
7	Emirates NBD Asset Management Limited	100	Asset management	Dubai, U.A.E.
8	Emirates NBD Capital (KSA) LLC	100	Investment services	KSA
9	Emirates NBD Capital PSC	100	Investment services	Dubai, U.A.E.
10	Emirates NBD Egypt S.A.E.	100	Banking	Egypt
11	Emirates NBD Global Funding Limited	100	Medium term borrowing and money market transactions	Cayman Islands
12	Emirates NBD Properties LLC	100	Real estate management	Dubai, U.A.E.
13	Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
14	Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey, England
15	ENBD London Branch Nominee Company	100	Asset management	England
16	Tanfeeth LLC	100	Shared services organization	Dubai, U.A.E.
17	The Emirates National Dubai Real Estate Company LLC	100	Nominee company for mortgage business	KSA

Other entities consolidated by the Group based on an assessment of control are as follows:

	Names	Nature of business
1	Group tranche of Emblem Finance Company No. 2 Limited	SPE for asset securitization
2	Emirates NBD Global Markets Limited	SPE for funding purpose
3	ENBD Asset Finance Company No.1 DAC (under liquidation)	SPE for asset securitization
4	ENBD Asset Finance Company No.2 Limited	SPE for asset securitization
5	Emirates NBD Tier 1 Limited	SPE for funding purpose
6	Emirates NBD 2014 Tier 1 Limited	SPE for funding purpose
7	EIB Sukuk Company Limited	SPE for asset securitization
8	EI Funding Limited	SPE for asset securitization

38 COMMITMENTS AND CONTINGENCIES

(a) At 31 December 2021, the Group's commitments and contingencies are as follows:

	2021 AED 000	2020 AED 000
Letters of credit	19,545,126	10,731,079
Guarantees	56,705,248	58,473,299
Liability on risk participations	218,757	113,037
Irrevocable loan commitments*	39,998,828	33,506,436
	116,467,959	102,823,851

* Irrevocable loan commitments represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and 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 exact future cash requirements.

As at 31 December 2021 ECL on unfunded exposures amounted to AED 472 million (2020: AED 598 million) in Stage 1 with exposure of AED 88,952 million (2020: AED 80,262 million) and AED 160 million (2020: AED 104 million) in Stage 2 with exposure of AED 6,807 million (2020: AED 6,670 million).

Unfunded exposure includes guarantees, standby letter of credits and irrevocable loan commitments.

(b) Acceptance

Under IFRS 9, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off-balance sheet commitment for acceptances.

(c) Capital Commitments

The Group has commitments as at 31 December 2021 for branch refurbishments and automation projects of AED 531 million (2020: AED 699 million).

39 RELATED PARTY TRANSACTIONS

Emirates NBD Group is partly owned by Investment Corporation of Dubai (55.75%), a company in which the Government of Dubai is the majority shareholder.

Deposits from and loans to government related entities, other than those that have been individually disclosed, amount to 5% (2020: 6%) and 6% (2020: 5%) respectively, of the total deposits and loans of the Group. These entities are independently run business entities, and all financial dealings with the Group are on normal commercial terms.

The Group has also entered into transactions with certain other related parties who are non government related entities. Such transactions were also made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party balances and transactions are carried out on normal commercial terms and are as follows:

	2021 AED 000	2020 AED 000
Loans and receivables:		
To majority shareholder of the parent	148,117,393	157,723,504
To parent	1,273,898	1,487,463
To directors and related companies	872,993	850,367
	150,264,284	160,061,334

	2021 AED 000	2020 AED 000
Customer and Islamic deposits:		
From majority shareholder of the parent	5,367,019	4,423,770
From parent	1,967,593	1,797,459
From associates	-	90,675
	7,334,612	6,311,904

39 RELATED PARTY TRANSACTIONS (CONTINUED)

	2021	2020
	AED 000	AED 000
Investment in Government of Dubai bonds	6,481,084	6,474,854
Commitments to associates	-	78,877
Payments made to associates	99	14,754
Payments made to other related parties	17,967	20,871
Fees received in respect of funds managed by the Group	18,034	13,812
Directors sitting fee	16,808	16,836
Key management compensation:		
Short term employment benefits	83,189	95,858
Post-employment benefits	1,540	1,435
	84,729	97,293

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

40 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into account any collateral held or other credit enhancement, can be analysed by the following regions:

31 December 2021	UAE	Other GCC	International	Total
	AED 000	AED 000	AED 000	AED 000
ASSETS				
Cash and deposits with Central Bank	42,244,298	4,146,128	24,363,187	70,753,613
Due from banks	4,834,929	12,248,650	28,259,669	45,343,248
Investment securities	59,127,388	20,175,549	26,853,949	106,156,886
Loans and receivables	328,037,488	12,498,961	81,735,941	422,272,390
Positive fair value of derivatives	2,200,217	143,170	8,315,538	10,658,925
Customer acceptances	9,648,628	92,737	1,602,157	11,343,522
Property and equipment	2,287,472	80,854	1,379,295	3,747,621
Goodwill and Intangibles	5,495,529	-	485,962	5,981,491
Other Assets	4,815,549	212,028	6,151,345	11,178,922
TOTAL ASSETS	**458,691,498**	**49,598,077**	**179,147,043**	**687,436,618**
LIABILITIES				
Due to Bank	11,443,506	9,114,975	23,196,726	43,755,207
Customer deposits	305,108,929	34,000,997	117,373,962	456,483,888
Debt issued and other borrowed funds	-	-	63,387,228	63,387,228
Sukuk Payable	3,672,500	-	-	3,672,500
Negative fair value of derivatives	1,251,465	209,085	7,725,771	9,186,321
Customer acceptances	9,648,628	92,737	1,602,157	11,343,522
Other liabilities	10,327,023	424,355	5,276,885	16,028,263
Total equity	**83,579,689**	**-**	**-**	**83,579,689**
TOTAL LIABILITIES AND EQUITY	**425,031,740**	**43,842,149**	**218,562,729**	**687,436,618**
Geographical distribution of letters of credit and guarantees	46,149,314	5,306,499	24,794,561	76,250,374

31 December 2020				
Geographical distribution of assets	455,260,985	45,053,317	197,773,171	698,087,473
Geographical distribution of liabilities and equity	412,568,691	49,190,448	236,328,334	698,087,473
Geographical distribution of letters of credit and guarantees	39,168,388	5,005,808	25,030,182	69,204,378

41 FINANCIAL ASSETS AND LIABILITIES

A. Classification of financial assets and financial liabilities

The table below sets out the Group's classification of each class of financial assets and liabilities, and their carrying values.

31 December 2021	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Hedging instruments	Total carrying value*
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Financial assets							
Cash and deposits with Central Banks	-	-	-	-	70,753,613	-	70,753,613
Due from banks	-	-	-	-	45,343,248	-	45,343,248
Investment securities	2,492,360	252,151	16,885,688	561,657	85,965,030	-	106,156,886
Loans and receivables	-	-	-	-	422,272,390	-	422,272,390
Positive fair value of derivatives	10,133,018	-	-	-	-	525,907	10,658,925
Others	-	-	-	-	18,785,684	-	18,785,684
	12,625,378	252,151	16,885,688	561,657	643,119,965	525,907	673,970,746
Financial liabilities							
Due to banks	-	-	-	-	43,755,207	-	43,755,207
Customer deposits	-	-	-	-	456,483,888	-	456,483,888
Debt issued and other borrowed funds	-	-	-	-	63,387,228	-	63,387,228
Sukuk payable	-	-	-	-	3,672,500	-	3,672,500
Negative fair value of derivatives	7,966,273	-	-	-	-	1,220,048	9,186,321
Others	-	-	-	-	27,371,785	-	27,371,785
	7,966,273	-	-	-	594,670,608	1,220,048	603,856,929

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

41 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

A. Classification of financial assets and financial liabilities (continued)

31 December 2020	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Hedging instruments	Total carrying value*
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Financial assets							
Cash and deposits with Central Banks	-	-	-	-	100,841,896	-	100,841,896
Due from banks	-	-	-	-	34,997,680	-	34,997,680
Investment securities	5,895,902	279,367	16,451,918	490,577	49,577,523	-	72,695,287
Loans and receivables	-	-	-	-	443,541,469	-	443,541,469
Positive fair value of derivatives	11,720,619	-	-	-	-	1,976,780	13,697,399
Others	-	-	-	-	18,074,919	-	18,074,919
	17,616,521	279,367	16,451,918	490,577	647,033,487	1,976,780	683,848,650
Financial liabilities							
Due to banks	-	-	-	-	51,672,068	-	51,672,068
Customer deposits	-	-	-	-	464,197,034	-	464,197,034
Debt issued and other borrowed funds	-	-	-	-	54,662,670	-	54,662,670
Sukuk payable	-	-	-	-	5,510,933	-	5,510,933
Negative fair value of derivatives	9,826,150	-	-	-	-	949,081	10,775,231
Others	-	-	-	-	26,651,439	-	26,651,439
	9,826,150	-	-	-	602,694,144	949,081	613,469,375

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

41 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments

The table below analyses financial instruments measured at fair value on a recurring basis. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

31 December 2021	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Investment securities				
Trading securities at FVTPL				
Government Bonds	1,939,565	-	-	1,939,565
Corporate Bonds	387,814	-	-	387,814
Equity	156,687	-	-	156,687
Others	8,294	-	-	8,294
	2,492,360	-	-	2,492,360
FVOCI - debt instruments				
Government Bonds	10,903,144	16,266	-	10,919,410
Corporate Bonds	5,989,331	-	-	5,989,331
	16,892,475	16,266	-	16,908,741
FVOCI - equity instruments	459,840	869	100,948	561,657
Designated at FVTPL				
Corporate Bonds	-	-	-	-
Equity	9,782	-	151,634	161,416
Others	90,010	-	725	90,735
	99,792	-	152,359	252,151
Positive fair value of derivatives				
Derivatives held for trading	-	10,133,018	-	10,133,018
Derivatives held as cash flow hedges:				
Interest rate swaps	-	238,462	-	238,462
Derivatives held as fair value hedges:				
Interest rate swaps	-	287,445	-	287,445
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	-	-	-
	-	10,658,925	-	10,658,925
Negative fair value of derivatives				
Derivatives held for trading	-	(7,966,273)	-	(7,966,273)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(121,895)	-	(121,895)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(1,088,283)	-	(1,088,283)
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	(9,870)	-	(9,870)
	-	(9,186,321)	-	(9,186,321)
	19,944,467	1,489,739	253,307	21,687,513

41 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instrument	FVOCI– equity instrument	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2021	-	161,928	-	5,765	167,693
Total gains or losses:					
- in profit or loss	-	(8,843)	-	-	(8,843)
- in other comprehensive income	-	-	-	(222)	(222)
Purchases	-	-	-	95,526	95,526
Issues	-	-	-	-	-
Settlements and other adjustments	-	(726)	-	(121)	(847)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance as at 31 December 2021	-	152,359	-	100,948	253,307

41 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments (continued)

31 December 2020	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Investment securities				
Trading securities at FVTPL				
Government Bonds	3,024,022	-	-	3,024,022
Corporate Bonds	2,760,381	-	-	2,760,381
Equity	108,608	-	-	108,608
Others	2,891	-	-	2,891
	5,895,902	-	-	5,895,902
FVOCI - debt instruments				
Government Bonds	11,831,792	16,186	-	11,847,978
Corporate Bonds	4,562,585	72,045	-	4,634,630
	16,394,377	88,231	-	16,482,608
FVOCI - equity instruments	483,941	871	5,765	490,577
Designated at FVTPL				
Corporate Bonds	-	-	-	-
Equity	40,941	-	159,313	200,254
Others	76,498	-	2,615	79,113
	117,439	-	161,928	279,367
Positive fair value of derivatives				
Derivatives held for trading	-	11,720,619	-	11,720,619
Derivatives held as cash flow hedges:				
Interest rate swaps	-	549,448	-	549,448
Derivatives held as fair value hedges:				
Interest rate swaps	-	1,427,332	-	1,427,332
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	-	-	-
	-	13,697,399	-	13,697,399
Negative fair value of derivatives				
Derivatives held for trading	-	(9,826,150)	-	(9,826,150)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(106,004)	-	(106,004)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(804,474)	-	(804,474)
Derivatives held as hedge of a net investment in foreign operations:				
Forward foreign exchange contracts	-	(38,603)	-	(38,603)
	-	(10,775,231)	-	(10,775,231)
	22,891,659	3,011,270	167,693	26,070,622

41 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instrument	FVOCI– equity instrument	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2020	-	525,669	-	5,343	531,012
Total gains or losses:					
- in profit or loss	-	(367,699)	-	-	(367,699)
- in other comprehensive income	-	-	-	422	422
Purchases	-	4,515	-	-	4,515
Issues	-	-	-	-	-
Settlements and other adjustments	-	(557)	-	-	(557)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance as at 31 December 2020	-	161,928	-	5,765	167,693

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental.

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2021 and 31 December 2020.

42 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

	2021 AED 000	2020 AED 000
(a) Analysis of changes in cash and cash equivalent during the year		
Balance at beginning of year	20,911,912	32,291,487
Net cash inflow / (outflow)	7,820,431	(11,379,575)
Balance at end of year	28,732,343	20,911,912
(b) Analysis of cash and cash equivalents		
Cash and deposits with Central Banks	70,753,613	100,841,896
Due from banks	45,343,248	34,997,680
Due to banks	(43,755,207)	(51,672,068)
	72,341,654	84,167,508
Less: deposits with Central Banks for regulatory purposes	(45,176,256)	(42,942,928)
Less: certificates of deposits / placements with Central Banks maturing after three months	(3,000,000)	(33,500,000)
Less: amounts due from banks maturing after three months	(23,450,016)	(20,784,914)
Add: amounts due to banks maturing after three months	28,016,961	33,972,246
	28,732,343	20,911,912
(c) Adjustment for non-cash items		
Impairment loss / (reversal) on cash and deposits with central banks	(878)	122
Impairment loss on loans and receivables	6,234,860	7,875,539
Impairment loss / (reversal) on investment securities	(12,481)	22,955
Impairment loss on unfunded exposures	64,678	70,914
Impairment loss / (reversal) on due from banks / other assets	23,166	123,349
Amortisation of fair value	130,209	123,015
Premium / (discount) on Investment securities	(63,176)	(4,087)
Unrealised foreign exchange loss / (gain)	4,194,239	(763,131)
Depreciation of property and equipment / investment property	800,969	856,895
Share of (profit) / loss of associates and loss on its disposal	21,137	(12,173)
Unrealized (gain) / loss on investments	935	342,319
Dividend income on equity investments	(18,742)	(22,059)
Unrealized gain or loss on FV Hedged item	(1,581,806)	1,460,021
Loss / (gain) on sale of properties (investment properties/inventories)	3,063	34
Amortisation of intangibles	163,296	163,296
Gain on disposal of a subsidiary	(329,305)	-
	9,630,164	10,237,009

43 CAPITAL MANAGEMENT AND ALLOCATION

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

Minimum Capital Requirements

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

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

For 2021, as per the TESS standards, until June 2022, CCB is required to be kept at 1.5% of the Capital base. CCyB is not in effect and is not required to be kept for 2021.

Over and above additional capital buffers, the Group as a Domestic Systematically Important Bank (D-SIB) is required to keep an additional D-SIB buffer of 1.5% of the Capital base, however this requirement is exempt as per the TESS standards until June 2022.

Regulatory Capital

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

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

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

- T2 capital comprises qualifying subordinated debt, and undisclosed reserve.

43 CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

The capital overview as per Basel III framework is given below:

	2021 AED 000	2020 AED 000
Available capital		
Common equity tier 1 capital	67,463,976	67,134,947
Tier 1 capital	76,592,628	77,514,733
Total eligible capital	81,504,429	82,434,262
Risk-weighted assets		
Credit risk	392,944,100	393,562,281
Market risk	10,945,304	14,600,122
Operational risk	42,492,456	38,291,452
Total risk-weighted assets	446,381,860	446,453,855

<u>**Capital Ratio**</u>	2021	2020
a. Total capital ratio for consolidated Group	18.26%	18.46%
b. Tier 1 ratio only for consolidated Group	17.16%	17.36%
c. CET1 ratio only for consolidated Group	15.11%	15.04%

43 CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

The capital adequacy ratios as per Basel III capital regulation are given below:

	2021 AED 000	2020 AED 000
Common Equity Tier 1 (CET1) Capital		
Share Capital	6,316,598	6,316,598
Share premium account	17,954,164	17,954,164
Eligible reserves	(2,921,388)	2,710,530
Transitional arrangement: Partial addback of IFRS 9 ECL impact to CET1	2,469,467	2,002,738
Retained earnings	53,088,213	47,014,778
Dividend expected/proposed	(3,158,299)	(2,526,639)
Eligible amount of non-controlling interest	55,018	22,124
CET1 capital before the regulatory adjustments and threshold deduction	**73,803,773**	**73,494,293**
Less: Regulatory deductions	(6,339,797)	(6,359,346)
Total CET1 capital after the regulatory adjustments and threshold deduction	**67,463,976**	**67,134,947**
Total CET1 capital after transitional arrangement for deductions (CET1) (A)	**67,463,976**	**67,134,947**
Additional Tier 1 (AT1) Capital		
Eligible AT1 capital	9,128,652	10,379,786
Other AT1 Capital (e.g. Share premium, non-controlling interest)	-	-
Total AT1 capital	**9,128,652**	**10,379,786**
Total AT1 capital after transitional arrangements (AT1) (B)	**9,128,652**	**10,379,786**
Tier 2 (T2) Capital		
Tier 2 Instruments e.g. subordinated loan	-	-
Other Tier 2 capital (including General Provisions, etc.)	4,911,801	4,919,529
Total T2 Capital	**4,911,801**	**4,919,529**
Total T2 capital after transitional arrangements (T2) (C)	**4,911,801**	**4,919,529**
Total Regulatory Capital (A+B+C)	**81,504,429**	**82,434,262**

44 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group and further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 24,171 million at 31 December 2021 (2020: AED 20,754 million).

45 ASSETS HELD IN FIDUCIARY CAPACITY

The Group holds assets in a fiduciary capacity and provides custodian services for some of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the Group consolidated financial statements.

46 RISK MANAGEMENT

The primary risks to the Group arise from extending credit to corporate and institutional banking and retail banking customers. The Group is also exposed to a range of other risk types such as market, operational, liquidity, compliance, reputational, country, market conduct and legal that drive the direction of its risk management strategy, product range and risk diversification strategies.

Group Risk Management Framework (GRMF):

The GRMF enables the Group to manage group-wide risks with the objective of maximizing returns while adhering to our risk appetite.

The Group uses a three lines of defense model to support its approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities. The three lines of defense are summarized below:

- Business units: required to ensure the effective management of risks within the scope of their direct organizational responsibilities. All employees within the business units are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled. Each business unit primarily owns the risk that it underwrites and is equally responsible for designing and implementing necessary controls to mitigate risks emanating from its activities.
- Risk control units: responsible for implementing policies and procedures, monitoring risks taken to ensure all risks are within the Group's risk appetite. Appropriate controls are designed and implemented with adequate reporting in place to anticipate future risks and improve the level of preparedness across the management chain.
- Group Internal Audit: provides independent assurance and reports its findings to all relevant management and governance bodies, accountable line managers, relevant oversight function and committee(s) of the Board.

A. Risk governance

The risk governance structure of the group ensures central oversight and control with clear accountability for and ownership of risk.

The Board of Directors (the Board) has the ultimate responsibility for setting Group's risk appetite and for the establishment and oversight of the Group's risk management framework. This is managed through a number of committees; namely Board Risk Committee (BRC), Board Credit & Investment Committee (BCIC) and Board Audit Committee (BAC). The management level committees also actively manage risk particularly the Group Risk Committee (GRC), Management Credit Committee (MCC), Management Investment Committee (MIC), Retail Credit Committee (RCC) and Group Asset Liability Management Committee (Group ALCO).

46 RISK MANAGEMENT (CONTINUED)

A. Risk governance (continued)

BRC comprises of members of the Board and is responsible for risk oversight responsibilities of the Board with regards to risk governance, risk appetite and the risk management framework. The BRC receives reports on risk management including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy and is authorized to investigate or seek any information relating to any activity within its terms of reference.

BCIC supports Board to manage the credit and investment portfolio of the bank and is responsible for approval of credit and investment decisions above the MCC and MIC's authority. It oversees the execution of Group's credit risk management and reviews the credit profile of material portfolios to ensure that it is aligned with business strategy and risk appetite.

The primary role BAC is to have oversight and review of financial, audit and internal control issues as well as oversee the independence and performance of group's external and internal auditors.

MCC is management level committee which carries out credit lending decisions including but not limited to approval and renewal of credit facilities, review and monitor portfolio performance in line with the credit risk strategy, decisions on debt settlement, provisioning write off and amendments to pricing, grades and waiver.

The role of the MIC is to support the Board in the management of the Investment Portfolios of the Group to ensure they conform to the strategic vision of the same and support the Board in monitoring and reporting the performance of these portfolios.

The Group ALCO is responsible for balance sheet management and quality of the funding plan as well as the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk. The committee also approves the contingency funding plan as well as the funds transfer pricing among other things.

The GRC is responsible for the management of all risks other than those delegated to MCC, MIC and Group ALCO and ensures the effective management of risk throughout the group in support of the group's business strategy and group's risk appetite. The committee approves risk policies and analytical models to ensure effective management of credit, market, operational, business continuity and reputational, compliance, legal, market conduct and other risks confronting the group.

B. The risk function

The GRMF is managed by the Group Risk management function (Group Risk). The function is independent of the business (origination, trading and sales functions) to ensure that the necessary balance in risk/return decisions is not compromised by pressures for better results in terms of revenues and to ensure transparency of decisions in accordance with group standards and policies.

Group Risk assists in controlling and actively managing the Group's overall risk profile. The role of the function is:

- To ensure the risk management framework is effectively communicated and implemented across the Group and is appropriate to the Group's activities;
- To exercise direct ownership for various risk types including but not limited to credit, market, country, operational, reputational risks;
- To ensure that the Group's business strategies, risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- To ensure the integrity of the Group's risk/return decisions guaranteeing their transparency;
- To ensure that appropriate risk management architecture and systems are developed and implemented.

46 RISK MANAGEMENT (CONTINUED)

C. Risk appetite

The Group Risk Appetite Statement (Group RAS) is an articulation of the risk that the Group would be willing to accept, underwrite and/or be exposed to in the normal course of its business conduct.

The Group RAS is a critical component and extension of the GRMF. It is a mechanism used by the Group to proactively establish and subsequently monitor the group's risk profile using a set of pre-defined key risk metrics and respective thresholds.

D. Credit risk

Credit risk is the risk of financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligation to the Group. Credit risk arises mainly from interbank, corporate and institutional banking and retail banking loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letter of credit, endorsement and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures") including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

Credit risk management

Group's approach to credit risk management is based on the foundation of independence and integrity of risk management. This is ensured through a well-defined and robust organisation structure duly supported by various risk committees, forums, systems, policies, procedures and processes providing a strong risk infrastructure and management framework.

The Group's credit policy focuses on the core credit principles, lending guidelines and parameters, control and monitoring requirements, problem loan identification, management of high-risk counterparties and provisioning. Standard procedures specific to businesses are in place to manage various types of risks across different business segments, products and portfolios.

Portfolio performance is periodically measured against RAS parameters and breaches if any are actioned by the Group's Executive Committee.

46 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk management (continued)

Corporate and Institutional Banking, Business Banking and Private Banking credit risk management:

Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers amongst other things the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customers' credit worthiness and standing within the industry.

The credit facility administration process is undertaken by an independent function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collaterals.

Operations are managed by independent units responsible for processing transactions in line with credit approvals and standard operating guidelines.

Management of Early Alert (EA), Watch List (WL) & Impaired Non-Performing Loans (NPL) - The Group has a well-defined process for identification of EA, WL & NPL accounts and dealing with them effectively. There are policies which govern credit grading of EA, WL & NPL accounts and impairment, in line with IFRS and regulatory guidelines.

Retail banking credit risk management:

The Group has a structured management framework for retail banking risk management. The framework enables the Group in identification and evaluation of the significance of all credit risks that the Group faces, which may have an adverse material impact on its financial position.

In the retail banking portfolio, losses stem from outright default due to inability or unwillingness of a customer to meet commitments in relation to lending transactions.

The Group's provisioning policy, which is in line with the IFRS and the regulatory guidelines, allows the Group to prudently recognize impairment on its retail portfolios.

Model risk management and independent validation

The Group has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Group has implemented the Group Model Governance Framework (the Framework). The Framework is a group wide policy and is applicable to models in all entities and subsidiaries of the Group. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting, including Expected Loss (EL), Lifetime Expected Loss (LEL) and Regulatory requirements require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Group has an independent Group Model Validation (GMV) function that performs independent model validation. It provides Fit-for-Purpose (FFP), Conditional Approval (CA) or Not Fit-for-Purpose (NFFP) recommendation for the BRC or an appropriately delegated authority to approve the use of the new risk quantification / valuation models. In addition to new model validation, the validation function also evaluates the performance of existing models through an annual validation process. The independency of the team enables it to serve as an effective second line of defense for the bank.

46 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk management (continued)

Credit approving authorities

BCIC has delegated credit approving authorities to the MCC, MIC, RCC and members of senior management to facilitate and effectively manage the business. However, BCIC has retained the ultimate authority to approve credits beyond MCC authority.

Credit risk measurement

The estimation of credit risk for risk management purpose is complex and requires use of models, as the exposure varies with changes in market condition, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring and of the associated loss ratios. The Group measures credit risk using PD, EAD and LGD. This is similar to the approach used for the purpose of measuring ECL under IFRS 9.

Credit risk grading

The Group uses internal credit risk grading that reflects its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to various categories of counterparty. Borrower and loan specific information collected at the time of facility application (such as disposable income, and level of collateral for retail exposure; and turnover and industry type considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated, such that the risk of default increases exponentially at each higher risk grade. For example, the difference in the PD between a 1A and 2A rating grade is lower than the difference in the PD between a 3A and 4A rating grade.

The following are additional considerations for each type of portfolio held by the Group:

Retail:

After the date of initial recognition, for retail business, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. Any other known information about the borrower which impacts their credit worthiness such as: unemployment and previous delinquency history is also incorporated into the behavior score. This score is mapped to a PD.

Corporate and Institutional Banking, Business Banking and Private Banking:

Ratings are determined at the borrower level for these segments. A relationship manager incorporates any updated or new information/credit assessment into the credit system on an ongoing basis. In addition, the relationship manager also updates information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

46 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Treasury:

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realized default rates over the prior 12 months, as published by the rating agency.

The Group's rating method comprises 24 rating levels for instruments not in default (1 to 24) and 4 default classes (25 to 28). The Group's internal rating scale are mapped with external ratings. The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating models are reviewed for recalibration so that they reflect the latest projections in the light of all actually observed defaults.

ECL measurement

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

- A financial instrument that is not credit-impaired on initial recognized is classified in stage 1 and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.
- Financial instrument in stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on a lifetime basis.
- ECL is measured after factoring forward-looking information.
- ECL on Purchase or originated credit-impaired financial assets is measured on a lifetime basis.

Significant increase in credit risk

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

Quantitative criteria:

Corporate and Institutional Banking, Business Banking and Private Banking:

Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at reporting date.

46 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Retail:
Thresholds have been set for each portfolio based on historical default rates. Facilities exceeding the threshold are considered for significant increase in credit risk.

Qualitative criteria:
The Group also considers in its assessment of significant increase in credit risk, various qualitative factors like significant adverse changes in business, extension of term granted, actual and expected forbearance or restructuring, early sign of cash flows and liquidity problems.

Backstop:
A backstop is applied, and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Definition of default and credit-impaired assets
The Group defines a financial instrument as in default, which is fully aligned with definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative:
The borrower is more than 90 days past due on its contractual payments.

Qualitative:
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances like long-term forbearance, borrower is insolvent, borrower is entering bankruptcy etc.

Curing

The Group continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12 months ECL (Stage 1).

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

Measuring ECL- Explanations of input, assumptions and estimation techniques

ECL inputs (PD, EAD and LGD) are adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in earlier year) on annual basis. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in ECL computation is the original effective interest rate or an approximation thereof.

The Lifetime PDs are determined based on maturity profile. The maturity profile looks at how defaults develop on a portfolio throughout the remaining life of the loans. The maturity profile is based on historical observed data.

46 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Measuring ECL- Explanations of input, assumptions and estimation techniques (continued)

The EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over the 12 months and lifetime basis. This is also adjusted for any overpayments made by the borrower.
- For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default.

LGDs are computed at facility level. This is dependent upon information such as exposure, collateral, business segment characteristics and macro-economic outlook.

Forward looking economic information is also included in determining the 12 month and lifetime PD, EAD and LGD.

Forward-looking information incorporated in the ECL model

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio.

These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecast of these economic variables (the “base, upside and downside economic scenario along with scenario weighting”) are obtained externally on a quarterly basis.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

46 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Credit risk monitoring

Corporate and Institutional Banking, Business Banking and Private Banking: the Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, assessment of collateral and market intelligence and early alerts.

Early Alert accounts are identified based on oversight, vigilance and risk triggers. Account strategy and action plans on these accounts are regularly monitored and discussed in the Early Alert Committee meetings.

Additionally, for IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by IFRS 9 Governance Forum.

Retail banking: risks of the Group's loan portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Group credit risk mitigation strategy

The Group operates within prudential exposure ceilings set by the Board in line with UAE Central Bank guidelines. There are well laid out processes for exception management and escalation.

The Group has adopted measures to diversify the exposures to various sectors. Diversification is achieved by limiting concentration through setting customer, industry and geographical limits.

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the Group, where appropriate, to limit its exposure.

46 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Collateral management

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed, and the Group seeks to ensure enforceability of the collateral. Major categories of collaterals include cash/ fixed deposits, inventories, shares, guarantees (corporate, bank and personal guarantees), immovable properties, receivables, gold and vehicles.

Collaterals are revalued regularly as per the Group's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately managed. Security structures and legal covenants are also subject to regular review.

Please refer to Pillar 3 disclosures for additional information on collaterals.

Write offs

Loans and debt securities in corporate and institutional banking are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Non-performing consumer loans, except for mortgage facilities and home financing, are written off at 181 days past due. All receivables remain active on the loan management system for recovery and any legal strategy the Group may deem fit to use.

46 RISK MANAGEMENT (CONTINUED)

E. Analysis by economic activity for assets:

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2021 AED 000		2020 AED 000	
	Loans and Receivables	Others	Loans and Receivables	Others
Manufacturing	20,508,463	1,197,001	21,784,553	777,667
Construction	16,110,888	340,839	17,878,802	363,901
Trade	32,717,137	141,749	31,031,972	50,444
Transport and communication	12,892,388	1,166,102	13,398,550	746,580
Services	12,078,563	993,310	16,867,387	1,686,744
Sovereign	152,416,647	93,779,805	161,170,804	60,490,685
Personal	98,184,765	-	91,727,537	-
Real estate	49,337,859	43,402	56,180,802	543
Hotels and restaurants	11,723,275	-	14,919,257	-
Management of companies and enterprises	12,689,036	-	11,403,480	-
Financial institutions and investment companies	20,903,075	52,895,984	18,894,422	42,488,518
Agriculture	5,825,162	-	8,579,836	-
Others	15,885,441	1,035,100	16,410,228	1,463,159
Total Assets	461,272,699	151,593,292	480,247,630	108,068,241
Less: Deferred Income	(1,814,833)	-	(1,721,350)	-
Less: Expected credit loss	(37,185,476)	(93,158)	(34,984,811)	(173,646)
	422,272,390	151,500,134	443,541,469	107,894,595

Others includes due from banks, investment securities and investments in associates.

46 RISK MANAGEMENT (CONTINUED)

F. Classification of investment securities as per their external ratings

As of 31 December 2021

Ratings	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
AAA	-	1,777	-	-	2,634,781	2,636,558
AA- to AA+	1,134,004	-	770,629	-	53,040,210	54,944,843
A- to A+	315,837	-	3,058,561	-	9,170,187	12,544,585
Lower than A-	641,437	4,441	12,222,749	1,663	14,441,570	27,311,860
Unrated	401,082	245,933	856,802	559,994	6,695,646	8,759,457
Less: Expected credit loss	-	-	(23,053)	-	(17,364)	(40,417)
	2,492,360	252,151	16,885,688	561,657	85,965,030	106,156,886

Of which issued by:

	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Governments	1,939,565	-	10,919,410	-	80,920,830	93,779,805
Public sector enterprises	244,309	-	4,545,196	74	4,222,523	9,012,102
Private sector and others	308,486	252,151	1,444,135	561,583	839,041	3,405,396
Less: Expected credit loss	-	-	(23,053)	-	(17,364)	(40,417)
	2,492,360	252,151	16,885,688	561,657	85,965,030	106,156,886

46 RISK MANAGEMENT (CONTINUED)

F. Classification of investment securities as per their external ratings (continued)

As of 31 December 2020

Ratings	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
AAA	-	2,282	48,185	-	4,092,770	4,143,237
AA- to AA+	1,244,140	-	1,537,340	-	14,507,857	17,289,337
A- to A+	1,275,914	-	3,327,011	871	16,851,056	21,454,852
Lower than A-	2,731,698	3,041	11,229,881	801	7,692,034	21,657,455
Unrated	644,150	274,044	340,191	488,905	6,456,200	8,203,490
Less: Expected credit loss	-	-	(30,690)	-	(22,394)	(53,084)
	5,895,902	279,367	16,451,918	490,577	49,577,523	72,695,287

Of which issued by:

	Trading securities at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI– equity instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Governments	3,024,022	-	11,847,978	-	45,618,685	60,490,685
Public sector enterprises	2,442,923	-	3,237,837	74	2,876,280	8,557,114
Private sector and others	428,957	279,367	1,396,793	490,503	1,104,952	3,700,572
Less: Expected credit loss	-	-	(30,690)	-	(22,394)	(53,084)
	5,895,902	279,367	16,451,918	490,577	49,577,523	72,695,287

46 RISK MANAGEMENT (CONTINUED)

G. Risk gross maximum exposure:

The table below shows the gross maximum exposure to credit risk for the components of the Group consolidated statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2021 AED 000	2020 AED 000
Deposits with Central Banks	64,730,368	96,353,563
Due from banks	45,343,248	34,997,680
Investment securities	105,178,097	71,813,844
Loans and receivables	422,272,390	443,541,469
Positive fair value of derivatives	10,658,925	13,697,399
Customer acceptances	11,343,522	8,837,724
Total (A)	659,526,550	669,241,679
Contingent liabilities	76,469,131	69,317,415
Irrevocable loan commitments	39,998,828	33,506,436
Total (B)	116,467,959	102,823,851
Total credit risk exposure (A + B)	775,994,509	772,065,530

46 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis:

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

AED 000 31 December 2021	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at 1 January	421,733,474	26,974,892	29,817,914	478,526,280
Transfers from stage 1	(14,752,093)	14,209,710	542,383	-
Transfers from stage 2	3,425,263	(7,547,987)	4,122,724	-
Transfers from stage 3	-	360,866	(360,866)	-
New financial assets, net of repayments and others	(11,385,847)	(2,720,129)	(3,715,562)	(17,821,538)
Amounts written off during the year	-	-	(1,246,876)	(1,246,876)
Total gross loans and receivables*	399,020,797	31,277,352	29,159,717	459,457,866
Expected credit losses	(3,847,334)	(6,929,276)	(26,408,866)	(37,185,476)
Carrying amount	395,173,463	24,348,076	2,750,851	422,272,390
By business units				
Corporate Banking	294,532,676	26,350,574	26,035,691	346,918,941
Retail Banking	104,488,121	4,926,778	3,124,026	112,538,925
Total gross loans and receivables	399,020,797	31,277,352	29,159,717	459,457,866

AED 000 31 December 2020	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at 1 January	416,351,562	24,280,407	26,024,453	466,656,422
Transfers from stage 1	(12,209,451)	9,540,767	2,668,684	-
Transfers from stage 2	5,277,043	(8,287,282)	3,010,239	-
Transfers from stage 3	7,849	263,033	(270,882)	-
New financial assets, net of repayments and others	12,306,471	1,177,967	482,130	13,966,568
Amounts written off during the year	-	-	(2,096,710)	(2,096,710)
Total gross loans and receivables*	421,733,474	26,974,892	29,817,914	478,526,280
Expected credit losses	(4,612,683)	(5,697,198)	(24,674,930)	(34,984,811)
Carrying amount	417,120,791	21,277,694	5,142,984	443,541,469
By business units				
Corporate Banking	320,533,697	19,089,439	25,748,073	365,371,209
Retail Banking	101,199,777	7,885,453	4,069,841	113,155,071
Total gross loans and receivables	421,733,474	26,974,892	29,817,914	478,526,280

The stage 1 and stage 2 are performing loans having grades 1a- 4f while stage 3 and POCI are non-performing loans having grades 5a- 5d.

Corporate and Institutional banking – Performing includes AED 3,470 million (2020: AED 4,314 million) for exposure against watchlist customers.

*The credit-impaired loans and receivables of AED 29,160 million (2020: AED 29,818 million) comprises of AED 28,138 million (2020: AED 27,759 million) credit-impaired loans and receivables and AED 1,022 million (2020: AED 2,059 million) classified as POCI acquired at fair value.

46 RISK MANAGEMENT (CONTINUED)

I. Amounts arising from ECL

Loans and receivables

AED 000 **31 December 2021**	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at 1 January	4,612,683	5,697,198	24,674,930	34,984,811
Transfers from stage 1	(392,354)	368,971	23,383	-
Transfers from stage 2	559,417	(2,118,652)	1,559,235	-
Transfers from stage 3	-	77,741	(77,741)	-
Allowances for impairment made during the year	(687,483)	3,710,592	4,256,550	7,279,659
Write back / recoveries made during the year	-	-	(1,044,799)	(1,044,799)
Amounts written off during the year	-	-	(1,246,876)	(1,246,876)
Exchange and other adjustments	(244,929)	(806,574)	(1,735,816)	(2,787,319)
Closing Balance	**3,847,334**	**6,929,276**	**26,408,866**	**37,185,476**

AED 000 **31 December 2020**	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at 1 January	4,675,729	3,631,414	20,919,252	29,226,395
Transfers from stage 1	(252,932)	212,367	40,565	-
Transfers from stage 2	506,562	(1,692,522)	1,185,960	-
Transfers from stage 3	1,473	93,552	(95,025)	-
Allowances for impairment made during the year	(339,591)	3,145,012	5,655,053	8,460,474
Write back / recoveries made during the year	-	-	(584,935)	(584,935)
Amounts written off during the year	-	-	(2,096,710)	(2,096,710)
Exchange and other adjustments	21,442	307,375	(349,230)	(20,413)
Closing Balance	**4,612,683**	**5,697,198**	**24,674,930**	**34,984,811**

The contractual amount outstanding on loans and receivables which were written off during the year, and are still subject to enforcement activity amounted to AED 1,247 million (2020: AED 2,097 million).

46 RISK MANAGEMENT (CONTINUED)

J. Covid-19 and Expected Credit Loss (ECL)

Novel coronavirus (Covid-19) continues to disrupt businesses and economic activity in 2021. In response, governments and central banks extended economic support and relief measures (including payment deferrals) launched last year to lessen the impact on individuals and corporates.

In determination of 2021 ECL, the Group has considered potential impact caused by Covid-19 pandemic (based upon available information) and taken into account economic support and relief measures of governments and central banks. The Group has also considered the notices issued by the Central Bank of UAE with regards to the 'Targeted Economic Support Scheme (TESS)' and 'Treatment of IFRS9 Expected Credit Loss in the context of Covid-19 crisis' as well as the guidance issued by the International Accounting Standards Board (IASB).

The Group has a dedicated IFRS 9 governance process established to review and approve IFRS 9 Stage migrations, management overlays to ECL estimates, and macro-economic scenarios and weightings.

Significant Increase in Credit Risk (SICR)

Under IFRS 9, loans are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of SICR since origination. SICR occurs when there has been a significant increase in risk of default.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or long term.

The Group continues to support its impacted customers through a program of payment relief that was initiated in 2020 by deferring interest/principal due. These payment reliefs are considered as short-term liquidity support to address borrower cash flow issues. The Group believes that availing payment reliefs does not automatically trigger SICR where the impact on customer's business is expected to be short term. For all other customers, the Group continues to consider severity and extent of potential Covid-19 impact on economic sector and future outlook, cash flow and financial strength, agility and change in risk profile along with the past track record in determining SICR.

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

Forward Looking Information

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

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

46 RISK MANAGEMENT (CONTINUED)

K. Deferral amount and outstanding balances of UAE customers

During 2020, the Group drew AED 6,906 million of Zero Cost Funding under the CBUAE TESS program and repaid the full amount as at 31 December 2021.

As at 31 December 2021, the total deferrals provided to customers was AED 10,700 million out of which AED 8,221 million has been repaid till date resulting in active deferrals amounting to AED 2,479 million. Total outstanding exposure of the customers availing deferrals amounts to AED 47,358 million. No active deferrals relate to TESS program.

Analysis of customers benefiting from payment deferrals

Deferral amount and outstanding balances of UAE customers

	31 December 2021			
	Loans and receivables			
AED 000	Number of deferral customers /accounts	Payments deferred	Exposures	Expected Credit Losses
Corporate and Institutional banking				
Stage 1	459	6,733,711	25,768,643	764,360
Stage 2	74	1,690,585	7,603,974	3,014,883
Stage 3	31	523,497	2,842,448	1,896,116
	564	8,947,793	36,215,065	5,675,359
Group 1	478	7,041,108	27,381,521	1,653,556
Group 2	86	1,906,685	8,833,544	4,021,803
	564	8,947,793	36,215,065	5,675,359
Retail banking and Wealth Management				
Stage 1	120,465	1,446,054	10,269,306	320,608
Stage 2	9,968	267,602	644,179	154,904
Stage 3	26	38,950	229,403	104,099
	130,459	1,752,606	11,142,888	579,611
Group 1	120,835	1,478,258	10,353,791	343,957
Group 2	9,624	274,348	789,097	235,654
	130,459	1,752,606	11,142,888	579,611
Total	**131,023**	**10,700,399**	**47,357,953**	**6,254,970**

46 RISK MANAGEMENT (CONTINUED)

L. Impairment reserve under the CBUAE guidance

The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

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

	2021	2020
	AED 000	AED 000
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	5,894,162	5,903,434
Less: Stage 1 and Stage 2 provisions under IFRS 9	(10,776,610)	(10,309,881)
General provision transferred to the impairment reserve*	-	-
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	26,130,203	24,377,584
Less: Stage 3 provisions under IFRS 9	(26,408,866)	(24,674,930)
Specific provision transferred to the impairment reserve*	-	-
Total provision transferred to the impairment reserve	-	-

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

46 RISK MANAGEMENT (CONTINUED)

M. Market risk

Market risk is the risk that the value of financial instruments in the Group's books – with the inclusion of some other financial assets and liabilities could produce a loss because of changes in future market conditions.

The Group takes on Market Risks in the pursuit of its strategic and business objectives.

The Group predominantly pursues opportunities in the market that exposes itself to the following categories of market risk - which are actively managed and monitored:

1. Interest Rate Risk: losses in value due to changes in the level, slope and curvature of yield curves, the volatility of interest rates and changes in credit spreads;
2. FX Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of currency rates;
3. Credit Spread Risk: Losses in the value due to change in credit spreads driven by associated credit risk of the security issuer/underlying;
4. Commodity Price Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of commodities such as petrochemicals, base and precious metals, and food stocks.

Respective portfolio managers are accountable for managing market risk within the approved limits. These managers have extensive knowledge of markets and products, their risk exposures and of the financial instruments available to hedge their exposures.

The Group's risk exposures to market risk are segregated into Trading and Banking Books. The Trading Book include those financial instruments held with trading intent arising from market-making, position-taking and other so designated financial instruments accounted for at fair value daily. The Banking Book include financial instruments not held with trading intent that arise from the management of Interest Rate risk and FX risk from the Group's retail and corporate and institutional banking assets and liabilities, and other financial investments designated as either FVOCI or Amortised Cost.

Market risk oversight and management process

As part of the Group's enterprise-wide risk management framework, an extensive governance processes is applied to the market risk taking activities. This governance framework includes, inter alia:

- Approval by the Board Risk Committee and Group Asset-Liability Committee of a set of risk limits with appropriate monitoring, reporting and limits excesses' escalation procedures;
- Independent valuation of financial instruments in the Trading Book and measurement of market risk;
- A comprehensive set of policies, procedures and limits; and
- Monitoring a wide range of risk metrics appropriate for the respective trading activities - such as risk sensitivities, Gross and Net open positions, Value-at-Risk (VaR) and stop-loss limits.

46 RISK MANAGEMENT (CONTINUED)

M. Market risk (continued)

Market risk oversight and management process (continued)

The Group uses appropriate and independently validated market standard models for the revaluation and risk measurement of its linear and non-linear financial products and receives regular market information from independent market data providers in order to measure and monitor market risk.

Details of allocation of assets and liabilities subject to market risk between trading and non-trading portfolios are as follows:

	December 2021		
	Market risk measure		
		Trading Portfolio	Non Trading Portfolio
	AED 000	AED 000	AED 000
Assets subject to market risk			
Cash and deposits with Central Banks	70,753,613	-	70,753,613
Due from banks	45,343,248	-	45,343,248
Loans and receivables	422,272,390	-	422,272,390
Investment securities	106,156,886	2,492,360	103,664,526
Investments in associates	-	-	-
Positive fair value of derivatives	10,658,925	10,133,018	525,907
Liabilities subject to market risk			
Due to banks	43,755,207	-	43,755,207
Customer deposits	456,483,888	-	456,483,888
Debt issued and other borrowed funds	63,387,228	-	63,387,228
Sukuk payable	3,672,500	-	3,672,500
Negative fair value of derivatives	9,186,321	7,966,273	1,220,048

46 RISK MANAGEMENT (CONTINUED)

M. Market risk (continued)

Market risk oversight and management process (continued)

	December 2020		
		Market risk measure	
		Trading Portfolio	Non Trading Portfolio
	AED 000	AED 000	AED 000
Assets subject to market risk			
Cash and deposits with Central Banks	100,841,896	-	100,841,896
Due from banks	34,997,680	-	34,997,680
Loans and receivables	443,541,469	-	443,541,469
Investment securities	72,695,287	5,895,902	66,799,385
Investments in associates	201,628	-	201,628
Positive fair value of derivatives	13,697,399	11,720,619	1,976,780
Liabilities subject to market risk			
Due to banks	51,672,068	-	51,672,068
Customer deposits	464,197,034	-	464,197,034
Debt issued and other borrowed funds	54,662,670	-	54,662,670
Sukuk payable	5,510,933	-	5,510,933
Negative fair value of derivatives	10,775,231	9,826,150	949,081

The impact of sensitivity analysis on foreign exchange risk and equity price risk on the income statement and other comprehensive income is immaterial.

46 RISK MANAGEMENT (CONTINUED)

M. Market risk (continued)

Trading book oversight by Group Market & Treasury Credit Risk (MTCR)

MTCR monitors the limits' utilization in the Trading Book of the Group on a daily basis through a multi-layered Limit Monitoring System which uses independently sourced data and reports from the GM&T IT systems. Depending on the trading exposure and as appropriate, MTCR uses appropriate metrics including:

1. Non statistical metrics: Interest rate sensitivity, (DV01/PV01), FX sensitivity (FX01), Net open/ Net Gross outstanding positions, Maximum notional and tenor measures, Derivatives' Greek sensitivities (Delta, Gamma, Vega), and Stop Loss limits;

2. Statistical metrics: Value-at-Risk (VaR), by Desk as well as total for the whole Trading Book.

The Group is not significantly exposed to structural FX Risk - which is a component of market risk - since the majority of the assets and liabilities of the Group are denominated predominately in either AED or in USD-pegged currencies from other GCC countries.

Value-at-Risk

To better capture the multi-dimensional aspects of market risk, the Group's primary market risk metric is a statistical one, Value-at-Risk, which is used for short-term risk holding periods. VaR metrics are calculated daily for the specific Trading Desk, such as Interest Rate Desk VaR, Foreign Exchange Desk VaR and overall Trading Book VaR.

The Group's year-end VaR numbers reported below have been calculated using the following parameters:

- Statistical level of confidence: 99%
- Holding period: 1 business day
- Methodology: Full Revaluation, Historical Simulation using over 2 years of historical market data

	2021 **AED 000**				2020 **AED 000**			
	Average	Maximum	Minimum	Actual*	Average	Maximum	Minimum	Actual*
By Trading desk								
Interest rate risk	15,780	25,764	7,968	9,066	6,505	12,637	3,449	11,921
Foreign exchange risk	3,124	13,735	923	2,792	2,258	10,394	257	2,703
Credit trading risk	3,801	8,134	1,579	1,750	3,105	7,627	559	5,589
Total	17,007	29,354	7,218	9,283	8,017	14,714	4,378	12,890

* Note that the sum of asset class VaR metrics does not add up to the reported Total VaR metric due to diversification and cross correlation effects.

46 RISK MANAGEMENT (CONTINUED)

M. Market risk (continued)

Value-at-risk

Major currency-wise open positions of the Group are as follows:

	2021	2020
	Long / (Short)	Long / (Short)
	AED 000	AED 000
U.S. Dollar (USD)	204,537	(2,067,219)
Oman Riyal (OMR)	(79,601)	(273,127)
Euro (EUR)	943,525	1,735,894
Saudi Riyal (SAR)	(604,108)	(682,897)
Turkish Lira (TRY)	1,394	4,146
Egyptian Pound (EGP)	37,702	288,466
Bahraini Dinar (BHD)	(159,089)	(258,688)
Indian Rupee (INR)	155,969	157,788

N. Operational risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. This definition includes legal risks (described as exposure to fines, penalties and punitive damages resulting from supervisory actions, as well as private settlements), regulatory risks, and the risk arising from change initiatives.

Operational Risk Governance Framework

The Group applies a three line of defense model for operational risk management. The business and support units form the first line of defense. They have the primary responsibility and accountability for identifying operational risk in their areas and to promptly mitigate any issues.

The Group Operational Risk function as the second line of defense, provide consistent and standardized methods and tools to business and support functions for managing operational risk. The Group Operational Risk unit monitors the risk management process and compliance to the operational risk policies and procedures. It conducts independent analysis of the operational risk exposure and the bank’s mitigating strategies.

The Group’s Internal Audit as the third line of defense, provides independent assurance to the Board of Directors.

Operational Risk Management Process

The Group has set up the Group Operational Risk function within Group Risk to establish the framework and governance structure set out in the operational risk policy. The risk management process comprises mainly of the below elements,

- Risk Assessment
- Risk Monitoring and Review
- Risk Treatment
- Risk Reporting

This function develops and implements the methods for the identification, assessment and monitoring of Operational Risk throughout the Group and provides regular and comprehensive reporting on operational risks to senior management. The function supports business and other support units to monitor and manage their individual operational risks. Furthermore, the Group Operational Risk function also provides analysis and reports on operational risks to management committees (Board Risk Committee, Group Risk Committee, Local Risk Committee), and to the CBUAE as per regulations, guidelines / circulars and conducts independent oversight and monitoring of risks and mitigating measures.

46 RISK MANAGEMENT (CONTINUED)

N. Operational risk (continued)

Insurance Management

The Group obtains comprehensive and tailored insurance cover to protect the Group against unexpected and unforeseeable losses. Insurance cover is obtained from high rated insurance companies in the international reinsurance market. The requirements for insurance are reviewed periodically and the insurance cover is aligned to changes of the Group's risk exposure.

Fraud Management

The Board and Management are determined to build and maintain a credible defense to the threat posed by fraud.

In line with the evolving banking technologies and digital landscape, management has recognized the need for greater focus on anti-fraud capabilities of the Group. As such the bank is continuously investing into advanced systems and controls for the interdiction of frauds perpetrated against the bank. The bank has increased monitoring and enhanced detective controls to manage fraud risks, which arise from new technologies and new methods of banking.

The Group has a specialized Fraud Prevention and Investigation (FP&I) team which focuses on investigation of fraud attempts against the bank, spreading fraud awareness to stakeholders, identification and mitigation of fraud risks. The team has independent reporting to Board Risk Committee.

The Group has policies and procedures in place to ensure compliance with prevailing legislation and limit risk, including the risk of fraud.

Whistleblowing

The Group is committed to the highest standards of openness, integrity and accountability in the delivery of its services. Whilst the Group has instituted a wide range of rules, regulations, procedures and codes of practice to deliver on its commitments, fraud, malpractice, abuse and/or wrongdoing may unfortunately occur.

As such, the Group as part of 'Whistleblowers Policy', provides the platform to employees for reporting of malpractices. The policy is designed to encourage employees to report suspected internal fraud and other breaches, through specified channels, while safeguarding the employee from retribution.

Cyber Security Management

The Group considers Information and related processes, systems, and networks as an important and valuable asset. These assets are required to be protected to ensure their confidentiality, availability and integrity at all times.

The Group has established a comprehensive cyber security framework based on three line of defense model.

The framework ensures the Group is resilient to sustain cyber security threats in an evolving and increasingly complex digital environment.

46 RISK MANAGEMENT (CONTINUED)

N. Operational risk (continued)

Business Continuity Management

Business Continuity Management (BCM) is defined as a holistic management process that identifies potential threats to an organization and the impacts to business operations that those threats, if realized, might cause, and which provides a framework for building organizational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.

The business continuity process across the Group is based on the international standard ISO22301:2012 (E). The BRC is responsible for providing oversight and strategy for Business Continuity Management. Business and support units are responsible to ensure appropriate Business Continuity Plans are in place and tested for their respective areas. The effectiveness of the Business Continuity Plans is monitored independently by Group Operational Risk.

O. Liquidity risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they become due (Structural Funding Risk), or the inability to convert assets into cash at reasonable prices (Market Liquidity Risk). The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure

The objective of the Group’s liquidity and funding management framework is to ensure that all foreseeable funding commitments (under both normal and stressed conditions) can be met when due, and that access to the wholesale markets is coordinated and cost effective. To this end, the Group maintains a diversified funding base comprising core retail and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Group to respond quickly and smoothly to unforeseen liquidity requirements.

Policies and Procedures

Specifically, liquidity and funding management process includes:

- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- mis-match analysis between assets and liabilities for different periods with a focus on shorter time frames. These gap reports are based on contractual cash flow, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments;
- monitoring balance sheet liquidity and advances to deposits ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring customer depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of distress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimising adverse long-term implications for the business.

46 RISK MANAGEMENT (CONTINUED)

P. Maturity analysis of assets and liabilities

The table below summarizes the maturity profile of the Group's assets and liabilities based on their carrying value:

31 December 2021	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Undated and Over 5 years	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
ASSETS						
Cash and deposits with Central bank	66,201,858	4,551,755	-	-	-	70,753,613
Due from banks	30,877,869	11,963,699	1,248,007	318,230	935,443	45,343,248
Investment Securities	33,744,853	21,993,734	12,623,195	10,415,639	27,379,465	106,156,886
Loans and Receivable	203,296,817	46,955,260	89,692,282	43,900,598	38,427,433	422,272,390
Positive fair value of derivatives	2,043,446	1,270,422	2,569,133	1,924,787	2,851,137	10,658,925
Customer acceptances	11,343,522	-	-	-	-	11,343,522
Property and Equipment	-	-	-	-	3,747,621	3,747,621
Goodwill and Intangibles	-	-	-	-	5,981,491	5,981,491
Other Assets	6,072,183	335,000	-	-	4,771,739	11,178,922
TOTAL ASSETS	353,580,548	87,069,870	106,132,617	56,559,254	84,094,329	687,436,618

46 RISK MANAGEMENT (CONTINUED)

P. Maturity analysis of assets and liabilities (continued)

31 December 2021	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Undated and Over 5 years	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
LIABILITIES						
Due to banks	21,657,597	14,324,641	6,753,038	721,572	298,359	43,755,207
Customer deposits	376,251,400	69,173,892	7,292,793	3,256,415	509,388	456,483,888
Debt issued and other borrowed funds	5,362,193	7,278,320	17,543,288	13,316,470	19,886,957	63,387,228
Sukuk Payable	-	-	-	3,672,500	-	3,672,500
Negative fair value of derivatives	1,316,873	1,304,732	2,059,237	1,468,846	3,036,633	9,186,321
Customer acceptances	11,343,522	-	-	-	-	11,343,522
Other liabilities	3,524,992	5,878,327	-	-	6,624,944	16,028,263
Total equity	-	-	-	-	83,579,689	83,579,689
TOTAL LIABILITIES AND EQUITY	419,456,577	97,959,912	33,648,356	22,435,803	113,935,970	687,436,618
OFF BALANCE SHEET						
Letters of credit and guarantees	30,515,789	26,059,123	7,503,410	3,436,055	8,735,997	76,250,374

31 December 2020						
ASSETS	348,722,716	85,472,655	83,104,895	82,112,202	98,675,005	698,087,473
LIABILITIES AND EQUITY	411,161,461	112,362,264	38,400,506	20,743,857	115,419,385	698,087,473
OFF BALANCE SHEET ITEMS	28,892,649	20,557,314	8,896,108	804,956	10,053,351	69,204,378

46 RISK MANAGEMENT (CONTINUED)

Q. Analysis of financial liabilities by remaining contractual maturities

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

As at 31 December 2021

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	43,755,207	(45,282,934)	(22,759,954)	(14,532,555)	(6,924,132)	(730,189)	(336,104)
Customer deposits	456,483,888	(458,311,230)	(376,859,622)	(69,768,775)	(7,751,496)	(3,416,544)	(514,793)
Debt issued and other borrowed funds	63,387,228	(72,399,645)	(5,842,868)	(8,277,178)	(20,732,266)	(15,086,570)	(22,460,763)
Sukuk payable	3,672,500	(3,986,873)	(17,945)	(54,831)	(145,750)	(3,768,347)	-
	567,298,823	(579,980,682)	(405,480,389)	(92,633,339)	(35,553,644)	(23,001,650)	(23,311,660)
Letters of credit and guarantees	76,250,374	(76,250,374)	(30,515,789)	(26,059,123)	(7,503,410)	(3,436,055)	(8,735,997)
Irrevocable loan commitments	39,998,828	(39,998,828)	(15,623,032)	(11,923,883)	(11,127,355)	(465,712)	(858,846)

46 RISK MANAGEMENT (CONTINUED)

Q. Analysis of financial liabilities by remaining contractual maturities (continued)

As at 31 December 2020

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	51,672,068	(52,709,201)	(23,612,403)	(15,133,712)	(9,534,696)	(4,146,227)	(282,163)
Customer deposits	464,197,034	(466,284,972)	(372,502,213)	(75,918,239)	(13,655,389)	(3,707,182)	(501,949)
Debt issued and other borrowed funds	54,662,670	(64,538,113)	(1,841,542)	(13,712,800)	(15,997,014)	(11,076,141)	(21,910,616)
Sukuk payable	5,510,933	(5,726,239)	(40,908)	(3,721,776)	(68,148)	(1,895,407)	-
	576,042,705	(589,258,525)	(397,997,066)	(108,486,527)	(39,255,247)	(20,824,957)	(22,694,728)
Letters of credit and guarantees	69,204,378	(69,204,378)	(28,892,649)	(20,557,314)	(8,896,108)	(804,956)	(10,053,351)
Irrevocable loan commitments	33,506,436	(33,506,436)	(13,472,660)	(13,408,543)	(6,501,605)	(5,860)	(117,768)

46 RISK MANAGEMENT (CONTINUED)

R. Interest rate risk in the banking book

Interest Rate Risk in the Banking Book (IRRBB) is defined as the exposure of the non-trading products of the Group to interest rates. Non-trading portfolios include all banking book positions that arise from the interest rate on the Group's retail and corporate and institutional banking assets and liabilities, and financial investments designated as FVOCI and amortised cost / held to maturity. IRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of interest rate changes.

In order to manage this risk optimally, IRRBB in non-trading portfolios is transferred to Group Treasury under the supervision of the Group ALCO, through Funds Transfer Pricing (FTP) Systems. Group ALCO is required to regularly monitor all such interest rate risk positions to ensure they comply with interest rate risk limits.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating parallel shifts to the yield curve(s) ranging from 50 basis points to 200 basis points, and assessing the corresponding impact on its Net Interest Income.

	As at 31 December 2021		As at 31 December 2020	
	Amount	Variance	Amount	Variance
	AED 000	AED 000	AED 000	AED 000
Rates Up 200 bps	17,659,482	3,007,810	18,947,846	2,426,410
Base Case	14,651,672	-	16,521,436	-
Rates Down 200 bps	14,240,910	(410,762)	16,142,537	(378,899)

The interest rate sensitivities set out in the table above are based on a set scenario i.e. the projections above assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential effect on net interest income of some rates changing while others remain unchanged. The projections also make the assumption that all positions run to maturity. This effect does not incorporate actions that would be taken by Group Treasury or in the business units to mitigate the impact of this interest rate risk. In practice, Group Treasury seeks proactively to change the interest rate risk profile to minimize losses and optimize net revenues.

46 RISK MANAGEMENT (CONTINUED)

S. Interest rate repricing analysis*

31 December 2021	Less than 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year	Non-interest bearing	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
ASSETS							
Cash and deposits with Central Bank	13,354,729	1,647,628	3,801,172	750,583	-	51,199,501	70,753,613
Due from banks	18,770,447	10,485,196	3,905,721	4,126,699	773,231	7,281,954	45,343,248
Investment securities	13,382,382	22,341,786	13,831,475	9,109,258	46,513,196	978,789	106,156,886
Loans and receivables	222,169,756	85,094,250	23,252,950	18,576,480	73,178,954	-	422,272,390
Positive fair value of derivatives	-	-	-	-	-	10,658,925	10,658,925
Customer acceptances	-	-	-	-	-	11,343,522	11,343,522
Property and equipment	-	-	-	-	-	3,747,621	3,747,621
Goodwill and Intangibles	-	-	-	-	-	5,981,491	5,981,491
Other assets	-	-	-	-	-	11,178,922	11,178,922
TOTAL ASSETS	267,677,314	119,568,860	44,791,318	32,563,020	120,465,381	102,370,725	687,436,618

*Represents when the interest rate will be repriced for each class of assets and liabilities.

46 RISK MANAGEMENT (CONTINUED)

S. Interest rate repricing analysis* (continued)

31 December 2021	Less than 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year	Non-interest bearing	Total
	Actual	Actual	Actual	Actual	Actual	Actual	AED 000
LIABILITIES AND EQUITY							
Due to banks	13,832,630	8,276,237	4,045,221	9,937,151	4,110,460	3,553,508	43,755,207
Customer deposits	156,485,278	49,068,468	24,734,394	43,127,897	10,363,018	172,704,833	456,483,888
Debt issued and other borrowed funds	2,385,810	20,569,253	879,288	3,625,762	35,927,115	-	63,387,228
Sukuk payable	-	-	-	-	3,672,500	-	3,672,500
Negative fair value of derivatives	-	-	-	-	-	9,186,321	9,186,321
Customer acceptances	-	-	-	-	-	11,343,522	11,343,522
Other liabilities	-	-	-	-	-	16,028,263	16,028,263
Total equity	-	-	-	-	-	83,579,689	83,579,689
TOTAL LIABILITIES AND EQUITY	172,703,718	77,913,958	29,658,903	56,690,810	54,073,093	296,396,136	687,436,618
ON BALANCE SHEET GAP	94,973,596	41,654,902	15,132,415	(24,127,790)	66,392,288	(194,025,411)	-
OFF BALANCE SHEET GAP	(3,071,260)	(18,336,930)	258,176	715,008	20,435,006	-	-
INTEREST RATE SENSITIVITY GAP – 2021	91,902,336	23,317,972	15,390,591	(23,412,782)	86,827,294	(194,025,411)	-
CUMULATIVE PROFIT RATE SENSITIVITY GAP – 2021	91,902,336	115,220,308	130,610,899	107,198,117	194,025,411	-	-
CUMULATIVE PROFIT RATE SENSITIVITY GAP – 2020	99,264,676	102,970,064	110,880,631	88,675,568	177,026,311	-	-

*Represents when the interest rate will be repriced for each class of assets and liabilities.

46 RISK MANAGEMENT (CONTINUED)

T. Reputational risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution.

Reputational risk can arise as a consequence of failures with a strong negative perception amongst clients, shareholders, creditors or the public. The Group has measures to ensure a positive perception of the Group and that overall risk management ensures appropriate management of reputational risk.

U. ICAAP and Stress Testing:

Stress testing is an integral part of the Group's risk management process. It includes scenario analysis and is conducted regularly. In particular, the ICAAP (a group-wide exercise spanning risk types) is performed annually. On top of this, additional stress tests are carried out in response to microeconomic and macroeconomic conditions or portfolio and branch/ subsidiary level. Every stress test is documented and the results are discussed at the EXCO level and approved by the GRC and the BRC.

Stress testing alerts senior management to the Group's potential vulnerability to exceptional but plausible adverse events. As such, stress testing enables us to assess capital adequacy and identify potentially risky portfolio segments as well as inherent systematic risks. This then allows us to develop the right contingency plans, exit strategies and mitigating actions beforehand.

V. Regulatory/compliance risk

Regulatory/Compliance risk is the risk of reputational and/or financial losses due to the failure to comply with applicable laws, regulations or sanctions.

The Group has an independent Compliance function, with the necessary mandate and authority to enforce and monitor compliance on a Group wide basis. This includes compliance with the applicable laws and regulations across the various jurisdictions where the Group operates as well as those of the USD / EU clearing centres.

Compliance policies covering key areas such as Sanctions, Anti Money Laundering (AML), Counter Terrorist Financing (CTF), Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) are applicable Group wide and are supplemented where necessary to address any unique local requirements. These policies are supported by automated screening and monitoring systems and associated investigation teams to help comply with the Sanctions, AML, CTF, FATCA and CRS requirements. Independent Compliance Monitoring is undertaken to provide assurance over the effectiveness of controls. Mandatory Compliance Training is provided to all relevant staff both at onboarding and periodically thereafter to help ensure that key requirements are complied with.

46 RISK MANAGEMENT (CONTINUED)

W. IBOR transition

The key risks for the Group arising from the IBOR transition are:

Conduct risk: The transition to alternative benchmark rates could result in the risk of market or customer misconduct, which may lead to customer complaints, regulatory sanctions or reputational impact. This includes the risk of misleading clients, market abuse (including insider dealing and market manipulation), anti-competitive practices, both during and after transition (such as collusion and information sharing) and risks arising from conflicts of interest. The Group has in place strong project governance to oversee the transition to ensure this risk is mitigated.

Pricing risk: The transition to alternative benchmark rates and the discontinuation of interest rate benchmarks may impact the pricing mechanisms used by the Group. New RFR based pricing models have been be developed for financial instruments.

Interest rate basis risk: If the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of IBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into and is not captured by our interest rate risk management strategy. The Group is working closely with all counterparties to avoid this from occurring.

Liquidity risk: There are fundamental differences between IBORs and the various alternative benchmark rates which the Group will be adopting. IBORs are forward looking term rates published for a period at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk free overnight rates published at the end of the overnight period, with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

Management is running a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

X. Internal Audit's role in overall risk management

Group Internal Audit is an independent appraisal function established by the Board of Directors to examine and evaluate the activities of the Group including all aspects of the Group Risk Management. The department is organisationally independent of all other functions in the bank. The unit is headed by the Group Chief Audit Officer, who is accountable to the Board of Directors through the Board Audit Committee.

The primary objectives of Group Internal Audit is to provide assurance on risks to which the Group's businesses are exposed, evaluate the adequacy and effectiveness of financial/operating controls and the Corporate Governance environment, assess the extent to which assets are accounted for and safeguarded from losses and conduct follow-up activities to assess and report on the degree to which management has addressed risks and compliance with action plans previously agreed.

46 RISK MANAGEMENT (CONTINUED)

X. Internal Audit's role in overall risk management (continued)

The unit's mission is achieved through a risk based annual audit plan approved by the Board Audit Committee. A formal report is prepared at the end of each quarter which includes a summary of audit activity completed during the period and an update on the status of previously reported matters for Board Audit Committee attention.

The Board Audit Committee reviews and approves Group Internal Audit's plans and resources, and evaluates the effectiveness of the Internal Audit function. External advisers also periodically conduct an assessment of the function.

Y. Risk management framework and processes at Group entities

In establishing risk management policies & processes at the Group entities level, due consideration is given to the entities' specific regulatory environment.

Z. Risk Management at DenizBank

The Group has put in place strategic risk controls to oversee the existing risk management practices currently in place at DenizBank. The risk management framework is governed by the following policies:

- Credit Risk Policy
- Concentration Risk Policy
- Model Risk Policy
- Liquidity Risk Policy
- Structural Interest Rate Risk Policy
- Market Risk Policy
- Exchange Rate Risk Policy
- Operational Risk Policy
- Reputation Risk Policy
- Country Risk Policy
- Compliance Risk Policy
- Tax Risk Policy

All of these policies govern the following areas of risk:

Credit Risk

The Group has added an additional layer of supervision over and above the credit risk policies in force at DenizBank, this supervisory layer is conditional to exceptional approvals for substantial exposures. From a reporting standpoint all exposures (irrespective of materiality) are periodically reported to the Group by DenizBank for internal alignment within the Group.

For calculation of credit risk-weighted assets DenizBank complies with BRSA's and Basel II standards. While for Pillar II DenizBank calculates the annual general stress tests in accordance with its plans and scenarios that are compliant with Basel II's credit risk internal assessment methods.

46 RISK MANAGEMENT (CONTINUED)

Z. Risk Management at DenizBank (continued)

Credit Risk (continued)

The quantitative risk management disclosures comply with TFRS (Turkish Financial Reporting Standards) that are aligned to the IFRS (International Financial Reporting Standards) standards including IFRS 9 followed by the Group.

- Both on and off balance sheet instruments that are material to TFRS/IFRS 9 expected credit loss calculation are considered in the fınancial statements
- Models exist for PD, EAD and LGD that have long term calibrations and forward looking scenarios to adjust for economic assumptions
- New or re-structured processes of TFRS/IFRS 9 are advanced and complex in nature in order to ensure high quality implementation
- Estimations, assumptions and scenarios used in expected credit losses are fairly complex
- Complex and comprehensive disclosures are published in line with TFRS/IFRS 9 requirements

Enterprise Risk Management

DenizBank specifies its limiting setting, monitoring and reporting process in its risk appetite statement. It also includes the process of phased limit lists and prescribes the remediation actions in cases where the limit exceeds the limit in each phase. The document encompassing these policies are reviewed every year, and are approved by Board of Directors (BoD).

Market Risk

All trading activities related to money and capital markets are in accordance with the internally recognized measure of Value at Risk (VaR) method, which is also used by the Group to gauge changing market conditions. These VaR analysis are adequately supported by scenario analysis and stress tests.

Structural Interest Rate Risk and Foreign Exchange Risk

Interest rate and foreign exchange (FX) risks are monitored closely with the use of the metrics defined within the risk limit framework and managed as per the rules defined by BoD. DenizBank makes use of hedging transactions for risk mitigation where necessary.

Liquidity Risk

Liquidity adequacy is actively monitored as per the rules defined by BoD. The liquidity adequacy and the reserve opportunities are tested periodically against worst case scenarios and other scenarios, all of these assumptions are documented for traceability.

Operational Risk

Events that trigger operational risks are recorded along with the causes and impacts on specific functions and mitigation measures are taken to prevent reoccurrences of such events in the future. Events that are either frequent or significant are discussed within the relevant committees that include Audit and impacted departments. Business Continuity Plan is kept up to date and testing is of these plans are done periodically

Concerned risk teams are working to ensure comprehensive alignment in different spheres of risk keeping in view the local and European regulatory requirements. As part of this process policies and procedures are being reviewed for any necessary alignment with Group.

47 LEGAL PROCEEDINGS

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

48 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 57.7million (2020: AED 89.9 million).

49 DISPOSAL OF DUBAI BANK (P.J.S.C)

During the year, the Group sold a controlling interest in Dubai Bank (P.J.S.C) to Eradah Capital (L.L.C.). The carrying value of Dubai Bank’s total assets was AED 0.36 billion. The retained interest of 10% has been fair valued and recorded accordingly in the Group consolidated financial statements.

50 COMPARATIVE AMOUNTS

Certain prior year comparatives have been reclassified wherever necessary to conform to the presentation adopted in the current year.