Emirates Investment Bank P.J.S.C.

Report and consolidated financial statements
for the year ended 31 December 2021

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REPORT OF THE BOARD OF DIRECTORS
For the year ended 31 December 2021

The Directors are pleased to place before the shareholders of Emirates Investment Bank PJSC (the "Bank") the consolidated financial statements for the year ended 31 December 2021.

The Bank has been repositioned with the objective of becoming a leading regional bank offering investment advisory and wealth management solutions while serving a selected client base of high net worth individuals and institutional clients. During 2021, upon validation of our strategy, we continued to execute on this strategy while simultaneously building the infrastructure required for growth.

The Bank closed 2021 with an annual net profit of AED 30.6 million (2020: annual net loss of AED 29.3 million), while maintaining a healthy Capital Adequacy Ratio ("CAR") at 27.85% (36.63% in 2020). Over this period, customer deposits increased by 8% to reach AED 1,979 million (AED 1,833 million in 2020), while total balance sheet assets reached AED 2,870 million, an increase of 16% over the previous year (AED 2,483 million).

The fundamentals of the Bank remain sound, as demonstrated by the CAR and the client deposits, and the Bank is well positioned to take full advantage of the improving economic environment, thanks to enhanced product offerings and a new leadership.

The value of the Bank's fiduciary assets increased by 37% to AED 3,431 million (AED 2,510 million in 2020) contributing to total assets under the Bank's management of AED 6,301 million (AED 4,993 million in 2020).

As we continue our journey to build a leading regional bank offering investment advisory and wealth management solutions, we extend our gratitude to our clients for their support and to our staff for their dedication and hard work.

Board of Directors
2 March 2022

Dubai, United Arab Emirates

Independent auditor's report to the shareholders of Emirates Investment Bank P.J.S.C. Group

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Mohamed ElBorno, Jacques Fakhoury, Douglas O'Mahony, Murad Alnsour and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy

Independent auditor's report to the shareholders of Emirates Investment Bank P.J.S.C. Group (continued)

Our audit approach

Overview

Key Audit Matter	• Measurement of Expected Credit Losses (ECL)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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.

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses ("ECL"): The Group records a provision for ECL on all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which include probability of default, loss given default and determining exposure at default for both funded and unfunded exposures as well as forward looking adjustments and staging criteria. For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Group's impairment policy as per IFRS 9 is presented in Note 4 to the consolidated financial statements.	We performed the following audit procedures on the computation of the provision for ECL and the IFRS 7 and IFRS 9 disclosures included in the Group's consolidated financial statements for the year ended 31 December 2021: ➢ We involved our experts to assess the following areas: • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. • Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk. • For a sample of loan exposures and investments, we checked the appropriateness of determining Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) including the consideration of repayments and the resultant arithmetical calculations. ➢ We tested the completeness and accuracy of the data used in the calculation of ECL.

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Independent auditor's report to the shareholders of Emirates Investment Bank P.J.S.C. Group (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions, particularly when determining the staging criteria applied to the financial assets and in developing its ECL models. The level of judgment involved has also increased as a result of Covid-19.	➢ For a sample of loan exposures and investments, we checked the appropriateness of the Group's application of the staging criteria. ➢ In addition, for the Stage 3 portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. ➢ We assessed the disclosures in the consolidated financial statements for compliance with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of COVID-19 on ECL.

Other information

The Directors are responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, the Directors are 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 the Directors 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.

Independent auditor's report to the shareholders of Emirates Investment Bank P.J.S.C. Group (continued)

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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of Directors' 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, actions taken to eliminate the threat or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Independent auditor's report to the shareholders of Emirates Investment Bank P.J.S.C. Group (continued)

Report on other regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, as amended, we report that:

- 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 Group has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the books of account of the Group;
- note 8 to the consolidated financial statements discloses the shares purchased by the Group during the financial year ended 31 December 2021;
- note 23 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021; and
- based on the information that has been available to us, no social contributions were made during the year.

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

PricewaterhouseCoopers
2 March 2022

Murad Alnsour
Registered Auditor Number 1301
Place: Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Notes	*2021 AED'000*	*2020 AED'000*
ASSETS			
Cash and balances with UAE Central Bank	5	276,385	536,529
Due from banks, net	6	271,146	299,858
Loans and advances, net	7	914,473	418,455
Investments, net	8	1,361,376	1,205,002
Other assets	10	42,676	19,067
Property, equipment and intangible assets	11	3,935	4,270
TOTAL ASSETS		2,869,991	2,483,181
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	12	350,996	171,678
Customer deposits	13	1,978,735	1,832,718
Other liabilities	14	59,151	23,658
TOTAL LIABILITIES		2,388,882	2,028,054
EQUITY			
Share capital	15	70,000	70,000
Legal reserve	15	35,000	35,000
Special reserve	15	44,251	44,251
Credit impairment reserve		13,412	4,885
Cumulative changes in fair value		10,241	14,878
Retained earnings		307,977	285,885
Equity attributable to equity holders of the Parent		480,881	454,899
Non-controlling interests		228	228
TOTAL EQUITY		481,109	455,127
TOTAL LIABILITIES AND EQUITY		2,869,991	2,483,181

The consolidated financial statements were approved by the Board of Directors on 2 March 2022 and signed on its behalf by:

Omar Abdulla Al Futtaim (Chairman)	Edward Quinlan (Director)	Gaurav Shah (Chief Executive Officer)

The accompanying notes from pages 13 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Notes	2021 AED'000	2020 AED'000
Interest income	16	**36,012**	40,188
Net income from investments	17	**63,051**	28,795
		99,063	68,983
Interest expense		**(28,252)**	(31,107)
INTEREST AND INVESTMENT INCOME,NET		**70,811**	37,876
Fee, commission and other income	18	**21,549**	18,764
Exchange gain, net		**2,043**	2,245
OPERATING INCOME		**94,403**	58,885
General and administrative expenses	19	**(68,295)**	(70,475)
Net impairment reversal/(loss) on financial assets	9.1	**4,511**	(17,725)
OPERATING EXPENSES		**(63,784)**	(88,200)
PROFIT/(LOSS) FOR THE YEAR		**30,619**	(29,315)
Attributable to:			
Equity holders of the Parent		**30,619**	(29,315)
Non-controlling interests		**-**	-
PROFIT/(LOSS) FOR THE YEAR		**30,619**	(29,315)
BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in AED per share)	21	**43.74**	(41.88)

The accompanying notes from pages 13 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 AED'000	2020 AED'000
PROFIT/(LOSS) FOR THE YEAR	**30,619**	(29,315)
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	**4,109**	(5,688)
Gain on sale of investment	**37**	-
Items that may be reclassified subsequently to profit or loss		
Changes in the fair value of debt instruments at fair value through other comprehensive income, net	**(8,783)**	(3,076)
Other comprehensive loss for the year	**(4,637)**	(8,764)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**25,982**	(38,079)
Attributable to:		
Equity holders of the Parent	**25,982**	(38,079)
Non-controlling interests	**-**	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**25,982**	(38,079)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share Capital	*Legal reserve*	*Special reserve*	*Credit impairment reserve**	*Cumulative changes in fair values*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
At 1 January 2021	**70,000**	**35,000**	**44,251**	**4,885**	**14,878**	**285,885**	**454,899**	**228**	**455,127**
Profit for the year	-	-	-	-	**-**	**30, 619**	**30,619**	**-**	**30, 619**
Other comprehensive loss for the year	**-**	**-**	**-**	**-**	**(4,637)**	**-**	**(4,637)**	**-**	**(4,637)**
Total comprehensive (loss)/ profit for the year	**-**	**-**	**-**	**-**	**(4,637)**	**30, 619**	**25,982**	**-**	**25,982**
Transfer to credit impairment reserve	-	-	-	**8,527**	**-**	**(8,527)**	**-**	-	**-**
Balance at 31 December 2021	**70,000**	**35,000**	**44,251**	**13,412**	**10,241**	**307,977**	**480,881**	**228**	**481,109**

** In accordance with the requirements of CBUAE, the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance calculated under IFRS 9 is transferred to 'credit impairment reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends.*

The accompanying notes from pages 13 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2021

	Share Capital	*Legal reserve*	*Special reserve*	*Credit impairment reserve**	*Cumulative changes in fair values*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
At 1 January 2020	70,000	35,000	44,251	23,742	23,642	296,343	492,978	228	493,206
Loss for the year	-	-	-	-	-	(29,315)	(29,315)	-	(29,315)
Other comprehensive loss for the year	-	-	-	-	(8,764)	-	(8,764)	-	(8,764)
Total comprehensive loss for the year	-	-	-	-	(8,764)	(29,315)	(38,079)	-	(38,079)
Transfer from credit impairment reserve	-	-	-	(18,857)	-	18,857	-	-	-
Balance at 31 December 2020	70,000	35,000	44,251	4,885	14,878	285,885	454,899	228	455,127

The accompanying notes from pages 13 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 AED'000	2020 AED'000
OPERATING ACTIVITIES			
Profit/(loss) for the year		**30,619**	(29,315)
Adjustments for:			
Depreciation on property and equipment	11	**1,845**	1,899
Amortisation of intangible assets	11	**156**	457
Depreciation on right-of-use assets	20	**3,409**	4,036
Loss on disposal of property and equipment		**-**	19
Net impairment (reversal)/loss on financial assets	9.1	**(4,511)**	17,725
Operating profit/(loss) before changes in operating assets and liabilities		**31,518**	(5,179)
Change in UAE Central Bank statutory deposits	5	**(10,025)**	133,951
Change in loans and advances (net)	7	**(493,452)**	454,788
Change in investments (net)	8	**(159,228)**	234,643
Change in other assets	10	**(27,018)**	27,793
Change in due to banks	12	**179,318**	(754,972)
Change in customer deposits	13	**146,017**	186,854
Change in other liabilities	14	**35,493**	(31,066)
Net cash (used in)/generated from operating activities		**(297,377)**	246,812
INVESTING ACTIVITIES			
Purchase of property and equipment	11	**(1,666)**	(548)
Proceeds from the disposal of property and equipment		**-**	7
Net cash used in investing activities		**(1,666)**	(541)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(299,043)**	246,271
Cash and cash equivalents at 1 January		**820,983**	574,712
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**521,940**	820,983
Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less:			
Cash and balances with the UAE Central Bank (excluding statutory deposits)	5	**250,286**	520,455
Due from banks	6	**271,654**	300,528
		521,940	820,983
Operational cash flows from interest and dividends			
Interest paid		**9,979**	33,879
Interest received (including interest from investments)		**73,833**	80,555
Dividends received		**8,018**	9,148

The accompanying notes from pages 13 to 66 form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Emirates Investment Bank P.J.S.C. (the "Bank") was incorporated on 17 February 1976 in Dubai, United Arab Emirates by a decree of HH The Ruler of Dubai. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) Of 1984 (as amended) as a Public Joint Stock Company.

The Bank is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended.

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Bank has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No 32 of 2021.

The Bank is engaged in the business of investment advisory and wealth management. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

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

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 52.85% (2020: 52.85%) of the shares in the Bank.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

2.1 New and revised IFRS applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in the consolidated financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior years.

- **Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** - The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:
  - Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

  - End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

  - Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

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

2.1 New and revised IFRS applied on the consolidated financial statements (continued)

- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Refer to page 59 of the consolidated financial statements for the impact of IBOR reform on the Group.

- **Amendment to IFRS 16, 'Leases' - Covid-19 related rent concessions -** As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

  The impact of the above amendment is immaterial on the consolidated financial statements of the Group.

2.2 New and revised IFRS in issue but not yet effective and not early adopted

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

New and revised IFRS	Effective for annual periods beginning on or after
Amendments to IAS 1, Presentation of financial statements' on classification of liabilities - These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The impact of the above amendment is expected to be immaterial on the consolidated financial statements of the Group.	Deferred until accounting periods starting not earlier than 1 January 2024
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8- The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The impact of the above amendment is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2023
Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction- These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductable temporary differences. The impact of the above amendment is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2023

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

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

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

New and revised IFRS	Effective for annual periods beginning on or after
Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 9 and IFRS 16	1 January 2022
Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.	
Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.	
Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.	
Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'.	
The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.	

There are no other relevant applicable new standards and amendments to published standards or IFRS Interpretation Committee ("IFRS IC") interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2021 that would be expected to have a material impact on the consolidated financial statements of the Group.

3 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared on the historical cost basis except for debt securities, equity shares and derivatives that are classified as either fair value through profit and loss (FVPL) or fair value through other comprehensive income (FVOCI) that are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) which is also the functional currency of the Bank and all values are rounded to the nearest thousands AED, except where otherwise indicated.

The accounting policies used in the preparation of this consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2020, except where otherwise indicated.

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS IC interpretations as issued by International Accounting Standards Board ("IASB") and comply with the guidance of the CBUAE and applicable requirements of the laws of the United Arab Emirates ("UAE").

3 BASIS OF PREPARATION (continued)

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2021. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if, and only if, the Bank has:

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

The Bank reassesses 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 listed above. When the Bank has less than a majority of the voting or similar rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from the contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiary is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of a subsidiary to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3 BASIS OF PREPARATION (continued)

3.2 Basis of consolidation (continued)

The following subsidiary in which the Bank exercises control are consolidated in these consolidated financial statements based on the financial statements of the subsidiary:

Name of subsidiary	*Country*	*% Holding*		*Principal activities*
		2021	2020	
EIB Investment Co. LLC*	U.A.E	**24%**	24%	Investment in commercial, industrial and agricultural enterprises and their respective management.

*The Bank has the ability to exercise control over EIB Investment Co. LLC (the entity) as it has rights to variable returns and has the ability to affect the returns. As the Bank has control over the entity, it has been consolidated in these consolidated financial statements. The entity has the wholly owned subsidiary namely EIB Investment Management Cayman Ltd. The entity is dormant entity with no operation for the year ended 31 December 2021 and 2020.

Special purpose entities (SPE)
A SPE is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. SPEs are entities that often have restricted activities and are created to accomplish a narrow and well-defined objective such as the securitisation of assets or the execution of a specific financing transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risk and rewards, the Group concludes that it controls the SPE.

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

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over a SPE is carried out at inception and reassessed at each statement of financial position date.

3.3 Significant management judgments and estimates

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

3 BASIS OF PREPARATION (continued)

3.3 Significant management judgments and estimates (continued)

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

Classification of financial assets
In accordance with IFRS 9 guidance, the Group classifies its financial assets based on the assessments of the business models in which the asset are held at a portfolio level and whether cash flows generated by assets constitute Solely Payments of Principal and Interest (SPPI). This requires significant judgement in evaluating how the Group manages its business model and on whether or not a contractual clause in all debt instruments of a certain type breaches SPPI and results in a material portfolio being recorded at FVPL.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Liquidity
The Group manages its liquidity by maintaining an adequate ratio of net liquid assets to liabilities which is set out in a table in the liquidity risk disclosure in note 26. The table requires judgment with regards to whether assets can be considered liquid.

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- recent arm’s length market transaction;
- current fair value of another investment that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimations. The Group calibrates the valuation techniques periodically and tests them for validity using either process from observable current market transactions in the same investment or from other available observable market data.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition
For all financial instruments measured at amortised cost and other interest bearing financial instruments including financial instruments classified as fair value through other comprehensive income, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission, custody and management on fiduciary assets and advisory fees. Other fee income and expenses are recognised when earned or incurred.

Dividend income is recognised in the consolidated statement of profit or loss when the Group's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Financial instruments

Initial recognition and measurement
At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transactions costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fee and commissions. Transactions costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortised cost and at FVOCI, which results in accounting loss being recognized in statement of profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
b) In all other cases, the difference is deferred and the time of recognition of deferred day one profit or loss is determined individually. It is either amortised over life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Amortised cost and effective interest rate
The amortised cost 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 using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Amortised cost and effective interest rate (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

Interest income
Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Financial assets

Classification and subsequent measurement
The Group classifies its financial assets in the following measurement categories:
- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI);and
- Amortised cost

The classification requirements for debt and equity instruments are described below:

Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and advances and investments in debts securities as well the Sukuk.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the assets; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in 'Net income from investments' using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognized in statement of profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Gain/ (loss) on disposal of investment measured at FVOCI'. Interest income from these financial assets is included under 'Net income from investments' using the effective interest rate method.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement (continued)

Debt instruments (continued)

- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in statement of profit loss and debt instruments that were designated at fair value are presented under 'Net gain/loss from investment securities measured at fair value through profit or loss'. Interest income from these financial assets is included in 'Net income from investments'.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement i.e. profit includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments
Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity instruments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity instrument at fair value through other comprehensive income. The Group's policy is to designate equity instruments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to statement of profit or loss, including on disposal. On disposal of these equity investments, any related balance within the FVOCI reserve in reclassified to retained earnings. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in the statement of profit or loss as other income when the Group's right to receive payments is established.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment
The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Modification of loans
The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in the statement of profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in the statement of profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

Derecognition other than on a modification
Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities

Classification and subsequent measurement
Financial liabilities (including money markets deposits and balances due to banks, repurchase agreements with banks, and customer deposits) are initially recognised at fair value and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby the financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition
Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

Trade and settlement date accounting

Accounting policy from 1 January 2021
All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is received from or delivered to the counter party except for certain debt instruments classified under FVPL that are recognised on trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place. In accordance with IAS 8, this change in accounting policy has been adopted prospectively.

Accounting policy before 1 January 2021
All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is received from or delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents for the purpose of consolidated statement of cash flows comprise balances with maturities of three months or less from the date of acquisition including cash and balances with UAE Central Bank and due from banks.

Due from banks
Due from banks are stated at amortised cost using the effective interest method less allowance for impairment, if any.

Sale and repurchase agreements
Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral, the counterparty liability is included in due to banks.

Fair value
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 a principal market, in the most advantageous market for the asset or liability.

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.

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices at the close of business on the statement of financial position date. Bid prices are used for assets and offer prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm's length market transactions, or is based on expected discounted cash flows or derived using other accepted valuation models.

The fair value of forward foreign exchange contracts is calculated by reference to forward exchange rates for contracts with similar maturities.

Property, equipment and intangible assets

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, equipment and intangible assets (continued)

Depreciation is recognised so as to write off the cost of assets (other than land and capital work in progress), using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	Years
Furniture and computer equipment	4
Motor vehicles	4

Intangible assets
Computer 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.

Amortization on computer software is recognised so as to write off the cost of the assets (other than capital work in progress), using the straight line method over the estimated useful life of the respective assets from the date that it is available for use.

	Years
Computer software	4

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

One year after property and equipment are fully depreciated, they are maintained at a net book value of one currency unit by setting off accumulated depreciation against cost.

Capital work-in-progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Capital work in progress are not depreciated.

Employees' end of service benefits
Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the financial position date. In addition, in accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE labour law. The expected liability at the date of leaving the service has been discounted to net present value using an appropriate discount rate and management's assumption of average annual increment/promotion costs. The present value of the obligation as at 31 December 2021 is not materially different from the provision computed in accordance with the UAE Labour Law.

The provision arising is disclosed as 'provision for employees' end of service indemnity' in the consolidated statement of financial position under 'other liabilities' (note 14).

Pension and national contribution for UAE citizens are made by the Group in accordance with Federal Law No. 7 of 1999 and no further liability exists.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognised in the consolidated statement of profit or loss in 'Other income' on a straight line basis over the life of the guarantee.

Leases
Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign exchange gains and losses

The fair value of financial assets denominated in foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVPL, the foreign exchange component is recognised in the consolidated statement of profit or loss;
- for financial assets that are monetary items and designated as at FVOCI, any foreign exchange component is recognized in the consolidated statement of profit or loss;
- for financial assets that are non-monetary items and designated as at FVOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and
- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

Offsetting of financial assets and liabilities

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

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transaction. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at the exchange rate ruling at the reporting date. Any resultant gains and losses are taken to the consolidated statement of profit or loss.

Segment reporting

The Group's reporting is based on the following operating segments: Investment and Banking Services.

Operating segments are reported in a manner consistent with the internal reporting provided which is regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources and assess the performance of the operating segments of an entity.

Derivative financial instruments

The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps, credit default swaps and options in the foreign exchange, interest rate and capital markets. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 financial instruments (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVPL.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not recognised in the consolidated statement of financial position.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

5 CASH AND BALANCES WITH UAE CENTRAL BANK

	2021 AED'000	2020 AED'000
Cash in hand	**282**	451
Balances with UAE Central Bank:		
Current account	**4**	4
Placement	**250,000**	520,000
Reserve requirements	**26,099**	16,074
	276,385	536,529

The average yield on placement was 0.13% per annum (2020: 0.10% per annum).

The reserve requirements are kept with the UAE Central Bank in AED and can be withdrawn entirely on any day for daily settlement purposes, provided that the daily average requirements over a 14 day reserve maintenance period is maintained. Cash in hand and current accounts are non-interest-bearing.

6 DUE FROM BANKS, NET

	2021 AED'000	2020 AED'000
Domestic	**33,294**	29,556
Regional	**5,329**	7,687
International	**233,031**	263,285
	271,654	300,528
Less: allowance for impairment (note 9)	**(508)**	(670)
	271,146	299,858

No balances with banks were pledged as collateral with banks against credit facilities (31 December 2020: AED 17,849 thousand). Refer note 12.1 for the detail of credit facilities as at reporting date.

7 LOANS AND ADVANCES, NET

	2021 AED'000	2020 AED'000
Gross loans and advances	**941,609**	446,805
Less: allowance for impairment (note 9)	**(23,970)**	(26,536)
Less: interest and fees in suspense	**(3,166)**	(1,814)
Loans and advances, net	**914,473**	418,455

8 INVESTMENTS, NET

	2021 AED'000	2020 AED'000
Investment at fair value through profit or loss		
Debt instruments		
Quoted	**34,386**	5,273
Equity instruments		
Quoted	**60,121**	23,469
Unquoted	**96,750**	90,008
	156,871	113,477
Total investments measured at fair value through profit or loss	**191,257**	118,750
Investments at fair value through other comprehensive income		
Debt instruments		
Quoted	**433,737**	340,160
Equity instruments		
Quoted	**52,706**	47,119
Unquoted	**6,352**	-
	59,058	47,119
Total investments measured at fair value through other comprehensive income	**492,795**	387,279
Investments at amortised cost		
Debt instruments		
Quoted	**686,219**	709,775
Total investments measured at amortised cost	**686,219**	709,775
Gross investments	**1,370,271**	1,215,804
Less: allowance for impairment (note 9)	**(8,895)**	(10,802)
Investments, net	**1,361,376**	1,205,002

Part of the proprietary investment portfolio of the Group having a carrying value of AED 438,001 thousand (2020: AED 203,389 thousand) is pledged as collateral with banks against credit facilities. Refer note 12.1 for the details of the credit facilities as at reporting date.

The Group purchased equity shares during the year ended 31 December 2021 amounting to AED 70 thousand (2020: Nil).

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no transfer between levels during the year ended 31 December 2021 and 2020.

8 INVESTMENTS, NET (continued)

As at 31 December 2021, the Group held the following investments measured as follows:

	Total 2021 AED'000	**Investments carried at fair value Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Investments carried at amortised cost AED'000**
Debt instruments:					
Domestic	**128,086**	**22,168**	**-**	**-**	**105,918**
Regional	**205,594**	**98,215**	**-**	**-**	**107,379**
International	**820,662**	**347,740**	**-**	**-**	**472,922**
Equity instruments:					
Domestic	**58,255**	**35,784**	**4**	***22,467**	**-**
Regional	**779**	**779**	**-**	**-**	**-**
International	**156,895**	**60,121**	**96,774**	**-**	**-**
Gross investments	**1,370,271**	**564,807**	**96,778**	**22,467**	**686,219**
Less: allowance for impairment (note 9)	**(8,895)**				
Investments, net	**1,361,376**				

The fair value of debt investments carried at amortised cost as at 31 December 2021 amounts to AED 680,582 thousand (31 December 2020: AED 722,512 thousand) and this would be classified as level 1 within the fair value heirarchy.

During the year, the Group has reviewed its portfolio and sold certain investments measured at amortised cost amounting to AED 23,996 thousand and recognized a gain of AED 92 thousand (2020: Nil).

* Key inputs used in the valuation techniques for these investments are comparable sales transaction with appropriate haircut. Discounted cash flows (DCF) include significant unobservable inputs of hair cut for comparable transactions and interest rate. In term of relationship of unobservable inputs to fair value, any changes in comparable sale transaction and interest rate change in DCF will directly impact the fair value.

As at 31 December 2020, the Group held the following investments measured as follows:

	Total 2020 AED'000	Investments carried at fair value Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Investments carried at amortised cost AED'000
Debt instruments:					
Domestic	123,887	59,121	-	-	64,766
Regional	268,448	151,195	-	-	117,253
International	662,873	135,117	-	-	527,756
Equity instruments:					
Domestic	54,125	33,125	5	*20,995	-
Regional	787	787	-	-	-
International	105,684	22,755	82,929	-	-
Gross investments	1,215,804	402,100	82,934	20,995	709,775
Less: allowance for impairment (note 9)	(10,802)				
Investments, net	1,205,002				

8 INVESTMENTS, NET (continued)

The following table shows a reconciliation of the opening and closing amounts of level 3 investments recorded at fair value:

	2021 **AED'000**	2020 AED'000
At the beginning of the year	**20,995**	25,098
Net unrealised gain/(loss) recognised in other comprehensive income	**1,472**	(4,610)
Net unrealised gain recognised in profit or loss	**-**	507
At the end of the year	**22,467**	20,995

The Group has assessed the sensitivity of the fair value measurement of investments under level 3 due to changes in inputs used. Such an assessment is performed on a quarterly basis by reviewing the changes in unobservable inputs which might result in higher or lower fair value measurement.

9 ALLOWANCE FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Movement in allowances for impairment losses

	2021 **AED'000**	2020 AED'000
Allowance on due from banks		
At 1 January	**670**	1,023
Net impairment reversal for the year	**(162)**	(353)
At 31 December	**508**	670
Allowance on loans and advances		
At 1 January	**26,536**	10,187
Net impairment (reversal)/allowance for the year	**(2,566)**	16,349
At 31 December	**23,970**	26,536
Allowance on Investments – measured at amortised cost		
At 1 January	**10,802**	5,959
Net impairment (reversal)/allowance for the year	**(1,907)**	4,843
At 31 December	**8,895**	10,802

9 ALLOWANCE FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS (continued)

Expected credit losses

The analysis of expected credit losses by stage for loans and advances, investment in debt instruments measured at amortised cost and due from banks is as follows:

	2021 AED'000	2020 AED'000
Expected credit losses -Lifetime ECL (Stage 3)	**24,649**	27,328
Expected credit losses- 12-months ECL (Stage 1)	**5,072**	3,521
Expected credit losses- lifetime ECL (Stage 2)	**3,652**	7,159
Expected credit losses (Stage 1 and 2)	**8,724**	10,680
Total expected credit losses	**33,373**	38,008

9.1 – Net impairment reversal/(loss) on financial assets

	2021 AED'000	2020 AED'000
Impairment reversal/(loss) on loans and advances	**2,566**	(16,349)
Impairment reversal/(loss) on investments measured at amortized cost	**1,907**	(4,843)
Impairment (loss)/reversal on investments measured at FVOCI	**(124)**	3,338
Impairment reversal on due from banks	**162**	353
Impairment loss on other assets	**-**	(224)
	4,511	(17,725)

10 OTHER ASSETS

	2021 AED'000	2020 AED'000
Interest receivable	**13,495**	10,030
Right-of-use assets (note 20)	**16,147**	2,181
Other receivables and prepayments	**13,034**	6,856
	42,676	19,067

11 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

2021

	Property and equipment		**Intangible assets**		
	Furniture and computer equipment AED'000	**Motor vehicles AED'000**	**Computer software AED'000**	**Capital work-in-progress AED'000**	**Total AED'000**
Cost					
At 1 January 2021	**17,384**	**83**	**5,525**	**195**	**23,187**
Additions	**783**	**-**	**-**	**883**	**1,666**
Transfers	**178**	**-**	**-**	**(178)**	**-**
At 31 December 2021	**18,345**	**83**	**5,525**	**900**	**24,853**
Depreciation/amortisation:					
At 1 January 2021	**13,609**	**83**	**5,225**	**-**	**18,917**
Charge for the year	**1,845**	**-**	**156**	**-**	**2,001**
At 31 December 2021	**15,454**	**83**	**5,381**	**-**	**20,918**
Net carrying values:					
At 31 December 2021	**2,891**	**-**	**144**	**900**	**3,935**

2020

	Property and equipment		Intangible assets		
	Furniture and computer equipment AED'000	Motor vehicles AED'000	Computer software AED'000	Capital work-in-progress AED'000	Total AED'000
Cost					
At 1 January 2020	16,558	83	5,278	1,135	23,054
Additions	286	-	29	233	548
Transfers	955	-	218	(1,173)	-
Disposals	(415)	-	-	-	(415)
At 31 December 2020	17,384	83	5,525	195	23,187
Depreciation/amortisation:					
At 1 January 2020	12,099	83	4,768	-	16,950
Charge for the year	1,899	-	457	-	2,356
Disposals	(389)	-	-	-	(389)
At 31 December 2020	13,609	83	5,225	-	18,917
Net carrying values:					
At 31 December 2020	3,775	-	300	195	4,270

12 DUE TO BANKS

	2021 AED'000	2020 AED'000
Term deposits	**146,900**	157,939
Repurchase agreements	**204,096**	13,739
	350,996	171,678

12.1 Information on collateral

	Balance 2021 AED'000	**Collateral value 2021 AED'000**	Balance 2020 AED'000	Collateral value 2020 AED'000
Term deposits:				
Collateralized by investments	**146,900**	**203,780**	141,875	189,373
Collateralized by due from banks	**-**	**-**	16,064	17,849
	146,900	**203,780**	157,939	207,222
Repurchase agreements:				
Collateralized by debt instruments	**204,096**	**234,221**	13,739	14,016

The average cost on deposits and repurchase agreements were 0.70% per annum for the year ended 31 December 2021 (2020: 1.6% per annum).

13 CUSTOMER DEPOSITS

	2021 AED'000	2020 AED'000
Time deposits	**1,273,979**	1,267,566
Call accounts	**704,756**	565,152
	1,978,735	1,832,718

14 OTHER LIABILITIES

	2021 AED'000	2020 AED'000
Interest payable	**25,166**	6,893
Lease liabilities (note 20)	**15,818**	2,293
Employees' end of service benefits (a)	**5,568**	5,991
Fees payable	**511**	830
Others	**12,088**	7,651
	59,151	23,658

14 OTHER LIABILITIES (continued)

(a) In accordance with the UAE Labour Law, the Group provides for end of service benefits for its expatriate employees. Movements in the liability recognised in the consolidated statement of financial position in respect of end of service benefits are as follows:

	2021 AED'000	2020 AED'000
At 1 January	**5,991**	8,168
Charges for the year	**1,611**	1,322
Amount paid	**(2,034)**	(3,499)
At 31 December	**5,568**	5,991

15 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2020: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 700,000 ordinary shares of AED 100 each (2020: 700,000 ordinary shares of AED 100 each).

b) Legal reserve

In accordance with the UAE Federal Law No. 2 of 2015 and the Bank's Articles of Association, 10% of the profit for the year is transferred to legal reserve till the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

c) Special reserve

The disposition of the Special reserve shall be in accordance with a resolution made by the Board of Directors in the interests of the Bank.

16 INTEREST INCOME

	2021 AED'000	2020 AED'000
Loans and advances	**35,793**	39,357
Bank placements	**219**	831
	36,012	40,188

17 NET INCOME FROM INVESTMENTS

	2021 AED'000	2020 AED'000
Interest income on investments in debt instruments	**41,286**	39,615
Net loss from interest rate swaps	**-**	(5,127)
Dividend income	**8,018**	9,148
Net realised gain on investments measured at amortised cost and FVOCI	**7,407**	532
Net gain/(loss) from investment securities measured as fair value through profit or loss	**7,139**	(14,631)
Portfolio management fee paid to other financial institutions	**(799)**	(742)
	63,051	28,795

18 FEE, COMMISSION AND OTHER INCOME

	2021 AED'000	2020 AED'000
Fee from custody and advisory services	**11,770**	13,087
Product fees and transaction charges	**8,822**	5,213
Commission and other income	**957**	464
	21,549	18,764

19 GENERAL AND ADMINISTRATIVE EXPENSES

	2021 AED'000	2020 AED'000
Staff costs	**50,342**	49,747
Depreciation on right-of-use assets (note 20)	**3,409**	4,036
Consultancy charges	**1,436**	3,736
Communication and subscriptions	**3,920**	3,471
Depreciation on property and equipment (note 11)	**1,845**	1,899
Amortisation of intangible assets (note 11)	**156**	457
Others	**6,753**	7,129
	68,295	70,475

20 LEASES

The Group has lease contracts in relation to office premises. The Group's obligation under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group also has leases of other assets with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for those leases.

(i) Amounts recognised in the consolidated statement of financial position

Below are the carrying amounts of the right-of-use assets recognised and movements during the year:

	2021 AED'000	2020 AED'000
At 1 January	**2,181**	6,217
Additions during the year	**17,375**	-
Depreciation charge for the year	**(3,409)**	(4,036)
At 31 December	**16,147**	2,181

20 Leases (continued)

(i) Amounts recognised in the consolidated statement of financial position (continued)

Set out below is the carrying amount of lease liabilities and the movement during the year

	2021 AED'000	2020 AED'000
At 1 January	**2,293**	6,362
Additions during the year	**17,375**	-
Accretion of interest	**259**	244
Lease payments	**(4,109)**	(4,313)
	15,818	2,293
Current	**3,446**	2,293
Non-current	**12,372**	-
	15,818	2,293

(ii) Amounts recognised in consolidated statement of profit or loss

	2021 AED'000	2020 AED'000
Depreciation charge for the year (note 19)	**3,409**	4,036
Accretion of interest	**259**	244
Expense related to short term leases	**434**	371
	4,102	4,651

The total cash outflow for leases in 2021was AED 4,109 thousand (2020: AED 4,313 thousand).

21 BASIC AND DILUTED EARNINGS/ LOSS PER SHARE

Basic earnings per share of AED 43.74 (31 December 2020: Basic loss per share of AED 41.88) is calculated by dividing the profit attributable to the equity holders of the parent of AED 30,619 thousand for the year ended 31 December 2021 (31 December 2020: loss of AED 29,315 thousand) by the weighted average number of shares outstanding during the year of 700,000 shares of AED 100 each (31 December 2020: 700,000 shares of AED 100 each).

The figure for basic and diluted earning/loss per share is the same as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

22 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments and contingent liabilities
Credit-related commitments include commitments to extend credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Guarantees and acceptances commit the Group to make payments on behalf of customers, contingent upon the failure of the customers to perform under the terms of the contract.

22 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Group has the following credit related contingent liabilities and commitments.

	2021 AED'000	2020 AED'000
Guarantees	**17,695**	24,112
Unutilised committed credit facilities*	**26,878**	6,709
	44,573	30,821

The Group has commitments of AED 21,055 thousand on account of investment in equity instruments (31 December 2020: AED 30,416 thousand).

* Unutilised committed credit facilities represent a contractual commitment to permit draw downs on a facility within a defined year subject to conditions precedent and termination clauses. As commitments may expire without being drawn down and since conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent exact future cash requirements.

Court cases in which the Group is a defendant, one in respect of a client's investment in a commercial paper, and the other in respect of a client's property held on a nominee basis are still in progress. In both cases the Group obtained initial court judgements in its favour. The Group has performed an assessment and has concluded that it has no legal obligation to the counterparties in respect of these matters. Accordingly, no provisions have been maintained by the Group as at 31 December 2021.

23 RELATED PARTY TRANSACTIONS

The Group enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. Transactions with such related parties are done on an arm's length basis, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Pricing policies and terms of related parties' transactions are approved by the Group's management.

The significant balances outstanding in respect of related parties included in the consolidated financial statements are as follows:

	2021 AED'000	2020 AED'000
Balances with shareholders and their related companies:		
Customers' deposits	**1,077,695**	1,061,726
Loans and advances	**422,018**	-
Other liabilities	**21,824**	3,709
Other assets	**1,753**	-
Commitments and contingencies	**13,885**	16,894
Balances with directors, key management personnel and other related parties:		
Investments	-	2,405
Customers' deposits	**282**	585
Other liabilities	-	2

23 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2021 AED'000	2020 AED'000
Shareholders and their related companies:		
Interest income	**14,852**	-
Interest expense	**(20,657)**	(17,555)
Fee, commission and other income	**3,497**	1,324
General and administrative expenses	**(6,637)**	(6,974)
Directors, key management personnel and other related parties:		
Interest income	**-**	3
Interest expense	**-**	(143)
Fee, commission and other income	**17**	112
Director fees	**(30)**	(540)

Outstanding balances at the year end arise in the normal course of business. For the year ended 31 December 2021, the Group has not recorded any impairment on amounts owed by related parties (2020: Nil).

Compensation of key management personnel:

	2021 AED'000	2020 AED'000
Salaries and other benefits	**12,046**	15,594

24 SEGMENTAL ANALYSIS

For operating purposes, the Group is organised into two major business segments: (a) Investments, which is principally involved in managing the Group's own investment portfolio and provides treasury services; and (b) Banking Services, which principally manages clients' investment portfolios, provides credit facilities, accepts deposits from corporate and individual customers. These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses. The Group operations are primarily within the UAE.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

	Investments		***Banking Services***		***Total***	
	2021 AED'000	*2020 AED'000*	***2021 AED'000***	*2020 AED'000*	***2021 AED'000***	*2020 AED'000*
Revenue *	**68,731**	28,923	**58,435**	43,344	**127,166**	72,267
Expenses	**(28,111)**	(43,622)	**(68,436)**	(57,960)	**(96,547)**	(101,582)
Profit/(loss) for the year	**40,620**	(14,699)	**(10,001)**	(14,616)	**30,619**	(29,315)

* Revenue comprises of interest income, net income from investments, fee commission and other income and exchange gain less net impairment on financial assets.

24 SEGMENTAL ANALYSIS (continued)

	Investments		*Banking Services*		*Total*	
	2021 AED'000	*2020 AED'000*	***2021 AED'000***	*2020 AED'000*	***2021 AED'000***	*2020 AED'000*
Segment assets	**1,925,724**	2,051,452	**944,267**	431,729	**2,869,991**	2,483,181
Segment liabilities and equity	**402,740**	172,099	**2,467,251**	2,311,082	**2,869,991**	2,483,181

Non-current assets include property, equipment and intangible assets and leases. The additions to non-current assets during the year relate to property & equipment and leases which has been disclosed in note 11 and 20. Refer to note 11 and 20 for depreciation and amortisation.

25 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The purpose of derivative financial instruments in the Group's business is to mitigate the risks arising from default, currency and interest fluctuations and other market variables. The Group uses forward foreign exchange contracts and options to mitigate the currency risk on certain investments.

There were no derivative instruments held by the Group as of 31 December 2021 (31 December 2020: Nil).

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have an impact on the profit or loss of the Group. The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

Derivative product type

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

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

Swaps
Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal.

Derivative related credit risk
Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group. With gross–settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation, but the counterparty fails to deliver the counter value.

Changes in counterparty credit risk have no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

26 RISK MANAGEMENT

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Board of Directors holds the ultimate responsibility for the risk exposures. The Group has adopted a risk governance suggesting a "three line of defence approach" to risk management, which involves top management and business lines, strong risk management function, and capable independent internal audit.

The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks and information security risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors 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) and Board Audit Committee (BAC).

The management level committees also actively manage risk particularly the Credit Committee (CC), Asset and Liability Management Committee (ALCO) and the Risk Management department.

Board Risk Committee
BRC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, and policies for enhancement of the Group's risk management framework to best practice standards, monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc.) and compliance with the regulatory requirements.

Board Audit Committee
The primary role of the BAC is to have an oversight and review of financial audit and internal control issues as well as to oversee the independence and performance of Group's external and internal auditors.

Asset and Liability Management Committee
ALCO is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also responsible for managing the funding and liquidity risks of the Group.

Credit Committee
CC is management level committee which carries out credit lending decisions including, but not limited to, approval and renewal of credit facilities, review and monitoring of loan portfolio performance, decisions on loan settlement, provisioning write off and amendments to pricing and grading.

Risk Management Department
Risk management department within the Group is responsible for identifying, monitoring, and managing the risk related to Credit, Market, Operational and information security risks. The department monitors the risk on a day-to-day basis according to the Board of Directors approved risk appetite framework. The risk management department is responsible for reporting any deviation from policy and regulatory guidelines to senior management and ultimately to the BRC.

Internal Audit
Risk management processes throughout the Group are subject to an internal audit that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the BAC.

26 RISK MANAGEMENT (continued)

Risk management structure (continued)

Risk measurement and reporting systems
Monitoring and controlling risks is primarily performed based on limits and the parameters established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled is examined and processed to analyse, identify, and control early risks. This information, which includes aggregate credit exposure, liquidity ratios and risk profile changes, is presented to the management committees and ultimately to the BRC.

Periodic briefing is given by the Risk management department, to the relevant committees on the utilisation of limits, proprietary investments, and liquidity, plus any other risk developments.

Risk mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage risks associated with the changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Group also constantly monitors its portfolio and ensures it remains diversified to mitigate risk in relation to concentration of exposure towards a particular business or geographical segment.

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

To avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Group. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies, and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, 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, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using the concept of Expected Loss which requires the following measures:

Probability of Default (PD)
Loss Given Default (LGD)
Exposure at Default (EAD)

Credit risk grading

The Group has an internal credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established using a credit risk classification system, which assigns each counterparty a risk rating. The credit grades are calibrated such that the risk of default increases exponentially at each higher-grade risk. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

Borrower risk ratings are mapped into the following grades:

Grade	**Definition**
Prime and high grade	Low risk
Standard grade	Satisfactory risk
Sub-standard grade	Watch List
Past due	Loss/Impaired

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

- A financial instrument that is not credit-impaired on initial recognition 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. The SICR is measured as a change in one year probability of default between the date of inception of the facility and the date that the IFRS9 ECL is calculated.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to the expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk (SICR)
The Group considers a financial asset to have experienced a significant increase in credit risk when a significant change in one year probability of default occurs between the origination date of a specific exposure and the date that the IFRS 9 ECL is calculated.

Quantitative criteria

Loans and advances:
A borrower experiences a significant increase in credit risk if the following quantitative factors are triggered:
- Accounts being overdue between 30 to 90 days;
- Adverse findings for an account/borrower as per credit bureau data;

Investments:
- Significant increase in probability of default of the underlying instrument;
- Significant deterioration in credit rating of the underlying instrument.

Due from banks:
- Significant change in the expected performance and behaviour of the counterparty.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

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

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

According to the Basel definition, default is considered to have occurred with regard to particular obligors when any one of the following events has taken place:

- The Group considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Bank to actions like realizing security (if held).
- The Group puts the credit obligation on a non-accrued status.
- The Group makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure.
- The Group sells the credit obligation at a material credit-related economic loss.
- The Group consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest, and other fees.
- The Group has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Group.
- The obligor is past due more than 90 days on any material credit obligation to the Group.

An instrument is considered to no longer be in default (i.e., to have cured) when it meets the cooling period criteria provided by CBUAE and in line with IFRS 9. Any exposure is not directly upgraded from Stage 3 to Stage 1, it is upgraded to Stage 2 followed by a cooling period of 12-months to confirm risk has decreased sufficiently before upgrading such exposure to Stage 1. With regards to restructured accounts (where any sort of relaxation provided to customer on re-payment structure), Group observes a probationary period of minimum 3 instalments and 12 months whichever is longer before upgrading from Stage 3 to Stage 2.

Measuring ECL – Explanation of inputs, assumptions, and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Group has adopted a forward exposure method for computing the ECL for each facility. The Group has opted for a quarterly granular computation of PD, EAD and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure.
  LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a lifetime basis, where lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Lifetime expected credit losses are expected credit losses resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

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

There have been no significant changes in estimation techniques or significant assumptions made during the year.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

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

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the UAE Central Bank and provide the best estimate view of the economy over the next three years.

LGD is as per Foundation IRB guidelines and EAD is estimated as the outstanding exposure at the time of default.

The Group has calculated ECL at an individual instrument level, hence does not require any grouping of instruments in the process of loss calculation.

COVID-19 impact on credit risk
The economic fallout of COVID-19 crisis has been significant since its emergence and is still evolving from time to time. Regulators and governments across the globe have introduced various fiscal and economic stimulus measures to mitigate its impact. The Central Bank of UAE ("CBUAE") also announced multiple economic support measures and incentives. In this regard, a Zero Cost Funding scheme amounting to AED 256 billion was announced to support the banking and financial institutions, corporates and individuals in the UAE impacted by this crisis. Under this scheme the Targeted Economic Support Scheme ("TESS") program was introduced in which the customers were allowed deferrals in the repayment of their loan's instalments.

To assess the impact of the TESS program and other discretional deferrals as allowed by the banks and financial institutions on their own, the CBUAE, the DFSA and FSRA issued a Joint Guidance on the treatment of IFRS 9 provisions. Under the provisions of these guidelines, the customers benefitting from payment deferrals were allowed a flexible grouping approach rather than the more stringent staging using SICR criteria. Under this approach, these customers were divided into two groups.

Group 1: included those customers that were not expected to face substantial changes in their credit worthiness beyond liquidity issues and were temporarily and mildly impacted by the Covid-19 crisis. For those clients, the payment deferrals turned out to be effective and thus helped the corporate and individual back to normalcy without materially affecting the economic value of the facilities. Those customers remained in their respective IFRS 9 stage, at least for the duration of the crisis, or their distress, whichever was shorter.

Group 2: included those customers that faced substantial changes in their creditworthiness, in addition to liquidity issues . For those customers, sufficient deterioration in credit risk triggered IFRS 9 stage migration.

However, on 7 January 2022, the CBUAE formally terminated the TESS program and has allowed a transitional period of 6 months (i.e., till 30 June 2022), to bring all such customers benefiting from the deferrals in line with business-as-usual SICR criteria as applied by the banks before the application of this Joint Guidance. During this transitional period, all the banks are required to make a realistic assessment of the credit worthiness of their clients that are still benefitting from deferral programs.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

COVID-19 impact on credit risk (continued)

The table below contains analysis of the deferral amount and outstanding balance of UAE customers benefiting from deferrals.

	2021	*2020*
	AED'000	*AED'000*
Deferrals amount		
Loans and advances	**-**	13,739
Exposures		
Loans and advances	**-**	13,739
Less: Expected credit losses	**-**	(27)
	-	13,712
Number of customers	**-**	3

As of 31 December 2021, the Group does not have any customers benefitting from the deferrals. All such customers who were allowed any deferrals during the period have now been brought under the normal payment terms and are being monitored under the provisions of the IFRS 9 as usual. (As of 31 December 2020, based on the assessment performed by the Group, all the customers benefitting from payment deferrals were under Group 1).

COVID-19 impact on measurement of ECL

The IFRS 9 framework requires the estimation of Expected Credit Loss (ECL) based on observed and forward-looking economic conditions. To assess ECL under forecast economic conditions, the Group utilizes a range of economic scenarios (baseline, downturn, and upturn) of varying severity, and with appropriate weightings, to ensure that ECL estimates are representative of a range of possible economic outcomes. The Group has closely been reviewing the potential impact of COVID-19 outbreak on the inputs and assumptions for IFRS 9 ECL measurement in light of best available information. Overall, the COVID-19 situation had been fluid and is still evolving. The Group conducts frequent reviews of the Loan to Value ("LTV") ratios on the collateral held against loans given to customers. Accordingly, all staging and grouping decisions are subject to regular review to ensure these reflect an accurate view of the Group's assessment of the customers' creditworthiness, staging and grouping as of the reporting date.

The Group has reassessed its loans and advances portfolio of customers and investments portfolio for credit quality and its staging as at 31 December 2021 and has evaluated whether there is any further deterioration as compared to 31 December 2020. Based on ratings from external rating agencies, reviewing the repayment behaviour of the customer and assessment of probability of default thereof, the Group has concluded that overall there has been a decrease in credit risk as compared to 31 December 2020 which is reflected as part of the ECL on investments and loans and advances at 31 December 2021.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position (excluding cash in hand and investments in equity instruments) including guarantees. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and before allowance and impairment, if any.

	2021	2020
	AED'000	AED'000
Balances with UAE Central Bank (note 5)	**276,103**	536,078
Due from banks (note 6)	**271,654**	300,528
Loans and advances (note 7)	**941,609**	446,805
Investments in debt instruments (note 8)	**1,154,342**	1,055,208
Other assets	**23,743**	14,436
	2,667,451	2,353,055
Guarantees (note 22)	**17,695**	24,112
Total credit risk exposure	**2,685,146**	2,377,167

26 RISK MANAGEMENT (continued)

Credit risk (continued)

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by customer/counterparty and by geographical region. The maximum credit exposure to any customer or counterparty (excluding balances with UAE Central Bank) as of 31 December 2021 was AED 422,000 thousand (2020: AED 114,361 thousand) before taking account of collateral or other credit enhancements.

The Group's financial assets (excluding cash in hand and investments in equity securities) including guarantees, before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions:

	2021		2020	
	Assets AED'000	**Guarantees AED'000**	Assets AED'000	Guarantees AED'000
United Arab Emirates	**1,531,671**	**17,695**	1,353,502	24,112
North America	**79,794**	**-**	84,160	-
Europe	**287,058**	**-**	307,282	-
GCC & other ME	**381,753**	**-**	337,680	-
Others	**387,175**	**-**	270,431	-
	2,667,451	**17,695**	2,353,055	24,112

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality of the Group's financial assets (excluding cash in hand and investments in equity instruments), based on the Group's internal credit rating system.

	Neither past due nor impaired				
	Prime and high grade AED'000	**Standard grade AED'000**	**Sub-standard grade AED'000**	**Past due AED'000**	**Total AED'000**
2021					
Balances with UAE Central Bank (note 5)	**276,103**	**-**	**-**	**-**	**276,103**
Due from banks (note 6)	**143,985**	**123,894**	**3,775**	**-**	**271,654**
Loans and advances (note 7)	**-**	**913,734**	**1,720**	**26,155**	**941,609**
Investments in debt instruments (note 8)	**79,289**	**515,624**	**559,429**	**-**	**1,154,342**
Other assets	**4,343**	**11,445**	**7,955**	**-**	**23,743**
	503,720	**1,564,697**	**572,879**	**26,155**	**2,667,451**

26 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

	Neither past due nor impaired				
	Prime and high grade AED'000	Standard grade AED'000	Sub-standard grade AED'000	Past due AED'000	Total AED'000
2020					
Balances with UAE Central Bank (note 5)	536,078	-	-	-	536,078
Due from banks (note 6)	184,384	111,879	4,265	-	300,528
Loans and advances (note 7)	-	307,523	110,509	28,773	446,805
Investments in debt instruments (note 8)	236,665	456,873	361,670	-	1,055,208
Other assets	1,637	9,008	3,791	-	14,436
	958,764	885,283	480,235	28,773	2,353,055

Credit risk exposure of the Group's financial assets (excluding cash in hand and investments in equity instruments) for each internal risk rating.

	Moody's equivalent grades	**Total 2021 AED'000**	Total 2020 AED'000
Prime and high grade	Aaa-A3	**503,720**	958,764
Standard grade	Baa1-Baa3	**1,564,697**	885,283
Sub-standard grade	Ba1-B3	**572,879**	480,235
Past due	**-**	**26,155**	28,773
		2,667,451	2,353,055

It is the Group's policy to maintain accurate and consistent risk ratings across the credit and investment portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across lines of business, geographic regions, and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain exposures in each risk rating class as a number of them are based on the Group's internal rating.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment
The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

		ECL staging		
	Stage 1 12-month ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**Total AED'000**
As at 31 December 2021				
Balances with UAE Central Bank (note 5)	**276,103**	**-**	-	**276,103**
Due from banks (note 6)	**271,654**	**-**	-	**271,654**
Loans and advances (note 7)	**913,734**	**1,720**	**26,155**	**941,609**
Investments in debt instruments (note 8)	**1,050,894**	**67,402**	**1,660**	**1,119,956**
Other assets	**23,743**	-	-	**23,743**
Total	**2,536,127**	**69,122**	**27,815**	**2,633,065**
Guarantees (note 22)	**17,695**	**-**	-	**17,695**
Total credit risk exposure	**2,553,822**	**69,122**	**27,815**	**2,650,760**

		ECL staging		
	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	Total AED'000
As at 31 December 2020				
Balances with UAE Central Bank (note 5)	536,078	-	-	536,078
Due from banks (note 6)	300,528	-	-	300,528
Loans and advances (note 7)	307,523	110,509	28,773	446,805
Investments in debt instruments (note 8)	705,865	338,046	6,024	1,049,935
Other assets	14,436	-	-	14,436
Total	1,864,430	448,555	34,797	2,347,782
Guarantees (note 22)	24,112	-	-	24,112
Total credit risk exposure	1,888,542	448,555	34,797	2,371,894

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and product parameters. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are generally cash, investment securities and real estate properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

The table below details the fair value of the collateral, which is updated regularly:

	2021 AED'000	2020 AED'000
Against individually impaired loans and advances		
Secured by marketable securities	**9,450**	9,450
Secured by real estate	-	3,640
Total	**9,450**	13,090
Against loans and advances not impaired		
Secured by marketable securities	**992,410**	839,450
Secured by real estate	**525,315**	432,065
Secured by cash	**445,000**	5,961
Total	**1,962,725**	1,277,476

Collaterals 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 are as included in the above table. Collaterals are revalued regularly as per the Group's credit policy. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately managed.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

Movement in gross carrying amount

The following table explains the changes in the gross carrying amount from 1 January 2021 to 31 December 2021:

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Due from banks				
Gross carrying amount as at 1 January 2021	**300,528**	**-**	**-**	**300,528**
New financial assets originated	**344**	**-**	**-**	**344**
Repayment and other movements	**(29,218)**	**-**	**-**	**(29,218)**
Gross carrying amount as at 31 December 2021	**271,654**	**-**	**-**	**271,654**

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Gross carrying amount as at 1 January 2021	**307,523**	**110,509**	**28,773**	**446,805**
New financial assets originated	**556,731**	**-**	**-**	**556,731**
Transfers				
Transfer from Stage 1 to Stage 2	**(1,744)**	**1,744**	**-**	**-**
Transfer from Stage 2 to Stage 1	**108,799**	**(108,799)**	**-**	**-**
Repayment and other movements	**(57,575)**	**(1,734)**	**(2,618)**	**(61,927)**
Gross carrying amount as at 31 December 2021	**913,734**	**1,720**	**26,155**	**941,609**

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Investments – measured at amortised cost				
Gross carrying amount as at 1 January 2021	**442,933**	**260,818**	**6,024**	**709,775**
New financial assets originated	**224,983**	**-**	**-**	**224,983**
Transfers				
Transfer from Stage 1 to Stage 2	**(54,266)**	**54,266**	**-**	**-**
Transfer from Stage 2 to Stage 1	**91,363**	**(91,363)**	**-**	**-**
Repayment and other movements	**(84,044)**	**(160,131)**	**(4,364)**	**(248,539)**
Gross carrying amount as at 31 December 2021	**620,969**	**63,590**	**1,660**	**686,219**

26 RISK MANAGEMENT (continued)

Credit risk (continued)

Movement in gross carrying amount (continued)

The following table explains the changes in the gross carrying amount from 1 January 2020 to 31 December 2020:

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Due from banks				
Gross carrying amount as at 1 January 2020	365,467	-	-	365,467
New financial assets originated	604	-	-	604
Repayment and other movements	(65,543)	-	-	(65,543)
Gross carrying amount as at 31 December 2020	300,528	-	-	300,528

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Gross carrying amount as at 1 January 2020	739,844	81,872	80,788	902,504
New financial assets originated	10,334	-	-	10,334
Transfers				
Transfer from Stage 1 to Stage 2	(83,417)	83,417	-	-
Transfer from Stage 2 to Stage 3	-	(1,661)	1,661	-
Repayment and other movements	(359,238)	(53,119)	(53,676)	(466,033)
	307,523	110,509	28,773	446,805

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Investments – measured at amortised cost				
Gross carrying amount as at 1 January 2020	461,853	124,750	71,460	658,063
New financial assets originated	300,137	-	-	300,137
Transfers				
Transfer from Stage 1 to Stage 2	(171,979)	171,979	-	-
Transfer from Stage 3 to Stage 2*	-	35,874	(35,874)	-
Transfer from Stage 2 to Stage 3	-	(1,848)	1,848	-
Repayment and other movements	(147,078)	(69,937)	(31,410)	(248,425)
Gross carrying amount as at 31 December 2020	442,933	260,818	6,024	709,775

*During the year, the Group has reassessed the staging of these securities.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

Movement in loss allowance

The following table explain the changes in the loss allowance from 1 January 2021 to 31 December 2021:

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Due from banks				
Loss allowance as at 1 January 2021	**670**	**-**	**-**	**670**
Changes in PDs/LGDs/EADs	**(162)**	**-**	**-**	**(162)**
Loss allowance as at 31 December 2021	**508**	**-**	**-**	**508**

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Loss allowance as at 1 January 2021	**608**	**580**	**25,348**	**26,536**
New financial assets originated	**265**	**-**	**-**	**265**
Transfers				
Transfer from Stage 1 to Stage 2	**(3)**	**3**	**-**	**-**
Transfer from Stage 2 to Stage 1	**571**	**(571)**	**-**	**-**
Changes in PDs/LGDs/EADs	**(469)**	**(3)**	**(2,359)**	**(2,831)**
Loss allowance as at 31 December 2021	**972**	**9**	**22,989**	**23,970**

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Investments – measured at amortised cost				
Loss allowance as at 1 January 2021	**2,243**	**6,579**	**1,980**	**10,802**
New financial assets originated	**3,821**	**-**	**-**	**3,821**
Transfers				
Transfer from Stage 1 to Stage 2	**(3,418)**	**3,418**	**-**	**-**
Transfer from Stage 2 to Stage 1	**4,938**	**(4,938)**	**-**	**-**
Changes in PDs/LGDs/EADs	**(3,992)**	**(1,416)**	**(320)**	**(5,728)**
Loss allowance as at 31 December 2021	**3,592**	**3,643**	**1,660**	**8,895**

All guarantees issued by the Group are collateralised by cash and classified as stage 1 within the ECL model as at 31 December 2021 and 2020.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

Movement in loss allowance (continued)

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Due from banks				
Loss allowance as at 1 January 2020	1,023	-	-	1,023
New financial assets originated	97	-	-	97
Changes in PDs/LGDs/EADs	(450)	-	-	(450)
Loss allowance as at 31 December 2020	670	-	-	670

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Loss allowance as at 1 January 2020	172	368	9,647	10,187
New financial assets originated	20	-	-	20
Changes in PDs/LGDs/EADs	416	212	15,701	16,329
Loss allowance as at 31 December 2020	608	580	25,348	26,536

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Investments – measured at amortised cost				
Loss allowance as at 1 January 2020	1,109	957	3,893	5,959
New financial assets originated	4,059	-	-	4,059
Transfers				
Transfer from Stage 1 to Stage 2	(1,662)	1,662	-	-
Transfer from Stage 3 to Stage 2	-	1,051	(1,051)	-
Transfer from Stage 2 to Stage 3	-	(96)	96	-
Changes in PDs/LGDs/EADs	(1,263)	3,005	(958)	784
Loss allowance as at 31 December 2020	2,243	6,579	1,980	10,802

26 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory reserve with the Central Bank of UAE which can be withdrawn entirely on any day for daily settlement purposes, provided that the daily average requirements over a 14 day reserve maintenance period is maintained. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

Maturities of assets and liabilities at the date of the statement of financial position are set out in the table on the next page based on the remaining period to the contractual maturity date without taking account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

COVID 19 impact on liquidity management

Global stress in the markets brought on by the COVID-19 crisis had affected liquidity in global and regional markets. In that environment, the Group continued to focus on high level of liquidity and strengthened its liquidity buffer through selective disbursals, raising local deposits, as well as adding new counterparties for secured funding.

The CBUAE had adopted a proactive approach in order to ensure flow of credit to the economy, especially sectors severely impacted by the COVID-19 crisis. The CBUAE announced a comprehensive TESS on 6 April 2020, allowing UAE Banks to access zero cost funding and pass on the benefit through Principal and Interest deferrals to their customers.

The CBUAE had introduced several measures to improve liquidity in order to help banks support the economy that included a reduction in the CB reserve requirement for demand liabilities from 14% to 7% and a reduction in the minimum level required for LCR/ELAR by 30%. The combination of the above measures by the CBUAE along with prudent management of liquidity helped the Group to meet its customers' banking services requirements effectively and without disruption, even during a prolonged period of reduced access to the foreign funding markets.

However , with the economic situation getting back to normalcy, CBUAE has decided to withdraw its relaxation on CB reserve requirement and minimum levels required for regulatory ratios to pre COVID 19 levels from the start of the new financial year 2022.

26 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
31 December 2021									
ASSETS									
Cash and balances with UAE Central Bank	**276,385**	**-**	**-**	**276,385**	**-**	**-**	**-**	**-**	**276,385**
Due from banks, net	**271,146**	**-**	**-**	**271,146**	**-**	**-**	**-**	**-**	**271,146**
Loans and advances, net	**132,057**	**133,440**	**212,376**	**477,873**	**436,600**	**-**	**436,600**	**-**	**914,473**
Investments, net	**53,863**	**72,769**	**62,406**	**189,038**	**638,205**	**290,027**	**928,232**	**244,106**	**1,361,376**
Other assets	**10,912**	**6,463**	**3,633**	**21,008**	**18,113**	**-**	**18,113**	**3,555**	**42,676**
Property, equipment and intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,935**	**3,935**
Total assets	**744,363**	**212,672**	**278,415**	**1,235,450**	**1,092,918**	**290,027**	**1,382,945**	**251,596**	**2,869,991**
LIABILITIES AND EQUITY									
Due to banks	**259,183**	**55,088**	**36,725**	**350,996**	**-**	**-**	**-**	**-**	**350,996**
Customer deposits	**1,209,097**	**40,839**	**159,115**	**1,409,051**	**569,684**		**569,684**		**1,978,735**
Other liabilities	**13,836**	**2,473**	**3,502**	**19,811**	**33,772**		**33,772**	**5,568**	**59,151**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**481,109**	**481,109**
Total liabilities and equity	**1,482,116**	**98,400**	**199,342**	**1,779,858**	**603,456**	**-**	**603,456**	**486,677**	**2,869,991**
Net liquidity gap	**(737,753)**	**114,272**	**79,073**	**(544,408)**	**489,462**	**290,027**	**779,489**	**(235,081)**	

The liquidity gap of the Group is closely monitored by the ALCO. The Group has unused money market limits to raise sufficient funding to manage unexpected outflows. The Group continues to monitor its liquidity positions to ensure it has sufficient liquidity.

26 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
31 December 2020									
ASSETS									
Cash and balances with UAE Central Bank	536,529	-	-	536,529	-	-	-	-	536,529
Due from banks, net	299,858	-	-	299,858	-	-	-	-	299,858
Loans and advances, net	290,772	46,454	975	338,201	80,254	-	80,254	-	418,455
Investments, net	78,901	151,595	145,824	376,320	461,917	216,971	678,888	149,794	1,205,002
Other assets	7,190	3,045	4,971	15,206	305	-	305	3,556	19,067
Property, equipment and intangible assets	-	-	-	-	-	-	-	4,270	4,270
Total assets	1,213,250	201,094	151,770	1,566,114	542,476	216,971	759,447	157,620	2,483,181
LIABILITIES AND EQUITY									
Due to banks	171,678	-	-	171,678	-	-	-	-	171,678
Customer deposits	1,168,295	43,120	50,395	1,261,810	570,908	-	570,908	-	1,832,718
Other liabilities	10,574	1,573	667	12,814	4,853	-	4,853	5,991	23,658
Equity	-	-	-	-	-	-	-	455,127	455,127
Total liabilities and equity	1,350,547	44,693	51,062	1,446,302	575,761	-	575,761	461,118	2,483,181
Net liquidity gap	(137,297)	156,401	100,708	119,812	(33,285)	216,971	183,686	(303,498)	

26 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at the year-end based on remaining contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be 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, accordingly, the table below does not reflect the expected cash flows based on Group's deposit retention history.

31 December 2021

	On demand AED'000	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Total AED'000**
Due to banks	**-**	**259,280**	**92,378**	**-**	**351,658**
Customer deposits	**704,766**	**504,602**	**202,228**	**604,983**	**2,016,579**
Other liabilities	**-**	**13,881**	**6,095**	**33,937**	**53,913**
	704,766	**777,763**	**301,790**	**638,920**	**2,422,150**

31 December 2020

	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Total AED'000
Due to banks	-	171,746	-	-	171,746
Customer deposits	565,152	603,544	94,833	625,151	1,888,680
Other liabilities	-	10,574	2,240	10,844	23,658
	565,152	785,864	97,073	635,995	2,084,084

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Asset and Liability Management Committee.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period.

The Board has established levels of interest rate risk by setting interest rate sensitivity limits.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate financial assets and financial liabilities held at the year end. The sensitivity of equity is calculated by revaluing fixed rate financial assets at year-end for the effect of assumed changes in interest rates. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve.

26 RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. The project is being led by the Head of Investments and Treasury, assisted by other senior representatives from functions across the Group including the client facing teams, Legal, Finance, Operations and Technology.

Following the progress made during 2021, the Group is confident that it has the operational capability to process the transitions to Risk Free Rates ("RFRs") for those interest rate benchmarks that will cease to be available. For other benchmark interest rates such as USD LIBOR, the 1 week and 2 months tenors have ceased to be available, however, all other tenors (O/N, 1 month, 3 months, 6 months and 1 year) will continue to be available till 30 June 2023. After which time USD LIBOR will be replaced by SOFR for all tenors.

IBOR reform exposes the Group to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available

The following table shows the Group's exposure at the year-end to significant IBORs subject to reform that have yet to transition to RFRs.

Financial instruments exposed to USD LIBOR

	Carrying value as at 31 December 2021	
	Assets AED'000	**Liabilities AED'000**
Loans and advances	**61,795**	-
Due to banks	**-**	**350,996**

All the above exposures to IBOR are yet to transition to an alternative benchmark interest rate. All the exposures will expire before transition is required.

There are no loan commitments and financial guarantees as at 31 December 2021 and 2020 which are referenced to LIBOR.

Hedge accounting:
As at 31 December 2021 and 2020 the Group did not hold any hedged instruments which reference USD LIBOR and have not yet transitioned to an alternative interest rate.

26 RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

Interest rate repricing profile

The following table provides an analysis of the Group's interest rate risk exposure on financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates.

31 December 2021

	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	over 5 years AED'000	Undated AED'000	Non-interest bearing AED'000	Total AED'000
Cash and balances with UAE Central Bank	250,000	-	-	-	-	26,385	276,385
Due from banks, net	271,146	-	-	-	-	-	271,146
Loans and advances, net	459,927	17,946	436,600	-	-	-	914,473
Investments, net	53,863	135,175	638,205	290,027	28,177	215,929	1,361,376
Other Assets	-	-	-		-	23,741	23,741
	1,034,936	153,121	1,074,805	290,027	28,177	266,055	2,847,121
				-			
Due to banks	259,183	91,813	-	-	-	-	350,996
Customer deposits	1,209,097	199,954	569,684	-	-	-	1,978,735
Other liabilities	-	3,445	12,373	-	-	43,333	59,151
	1,468,280	295,212	582,057	-	-	43,333	2,388,882
Interest sensitivity gap	(433,344)	(142,091)	492,748	290,027	28,177	222,722	458,239

26 RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

Interest rate repricing profile (continued)

31 December 2020

	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	over 5 years AED'000	Undated AED'000	Non-interest bearing AED'000	Total AED'000
Cash and balances with UAE Central Bank	520,000	-	-		-	16,529	536,529
Due from banks, net	299,858	-	-		-	-	299,858
Loans and advances, net	290,772	47,429	80,254	-	-	-	418,455
Investments, net	78,901	297,419	461,917	216,971	-	149,794	1,205,002
Other assets	-	-	-	-	-	19,067	19,067
	1,189,531	344,848	542,171	216,971	-	185,390	2,478,911
				-			
Due to banks	171,678	-	-	-	-	-	171,678
Customer deposits	1,168,295	93,515	570,908	-	-	-	1,832,718
Other liabilities	-	2,293	-	-	21,365	-	23,658
	1,339,973	95,808	570,908	-	21,365	-	2,028,054
Interest sensitivity gap	(150,442)	249,040	(28,737)	216,971	(21,365)	185,390	450,857

26 RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)
The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's statement of profit or loss and equity.

	Impact on net profit 2021 AED'000	**Impact on equity 2021 AED'000**	Impact on net profit 2020 AED'000	Impact on equity 2020 AED'000
Increase in 100 basis points	**947**	**(14,715)**	(1,766)	(14,240)

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. Positions are monitored on a daily basis and strategies used to ensure positions are maintained within established limits.

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

	2021 Long/(short) AED'000	2020 Long/(short) AED'000
Euro	**380**	241
Pound Sterling	**31**	9
Swiss Francs	**20**	116
US Dollars	**753,804**	425,070

Since the UAE Dirham is pegged to the US Dollar, management believes that presently the Group is not exposed to any significant foreign currency risk in respect of the US Dollar.

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's equity investment portfolio.

The effect on quoted equities due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in equity price 2021 %	**Effect on equity 2021 AED'000**	Change in equity price 2020 %	Effect on equity 2020 AED'000
Abu Dhabi Securities Market	**+/-10**	**598**	+/-10	613
Dubai Financial Market	**+/-10**	**4,595**	+/-10	4,091
Others	**+/-10**	**78**	+/-10	79

Operational risk
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates.

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

	At fair value through profit or loss AED'000	At fair value through OCI AED'000	Loans and receivables AED'000	Amortised cost AED'000	Total AED'000
2021					
Financial assets					
Cash and balances with UAE Central Bank	**-**	**-**	**-**	**276,385**	**276,385**
Due from banks	**-**	**-**	**-**	**271,654**	**271,654**
Loans and advances	**-**	**-**	**941,609**	**-**	**941,609**
Investments, net	**191,257**	**492,795**	**-**	**686,219**	**1,370,271**
Others	**-**	**-**	**-**	**23,743**	**23,743**
	191,257	**492,795**	**941,609**	**1,258,001**	**2,883,662**
Financial liabilities					
Due to banks	**-**	**-**	**-**	**350,996**	**350,996**
Customer deposits	**-**	**-**	**-**	**1,978,735**	**1,978,735**
Others	**-**	**-**	**-**	**59,151**	**59,151**
	-	**-**	**-**	**2,388,882**	**2,388,882**
2020					
Financial assets					
Cash and balances with UAE Central Bank	-	-	-	536,529	536,529
Due from banks	-	-	-	300,528	300,528
Loans and advances	-	-	446,805	-	446,805
Investments, net	118,750	387,279	-	709,775	1,215,804
Others	-	-	-	14,436	14,436
	118,750	387,279	446,805	1,561,268	2,514,102
Financial liabilities					
Due to banks	-	-	-	171,678	171,678
Customer deposits	-	-	-	1,832,718	1,832,718
Others	-	-	-	23,658	23,658
	-	-	-	2,028,054	2,028,054

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy:
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value hierarchy of investments is disclosed under note 8.

With the exception of debt investments measured at amortised cost (where the fair values are disclosed in note 8), management considers that the carrying amounts of financial assets and liabilities measured at amortised cost in the consolidated financial statements approximate their fair values as these are substantially short term in nature and carry market rates of interest.

28 CAPITAL ADEQUACY

The Central Bank of UAE ('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%. CCyB is not in effect and is not required to keep for 2021.

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

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- T2 capital comprises undisclosed reserves.

28 CAPITAL ADEQUACY (continued)

The capital adequacy ratio as per Basel III framework is given below:

	2021 AED'000	2020 AED'000
Common Equity Tier 1 capital		
Issued capital	**70,000**	70,000
Legal reserve	**35,000**	35,000
Special reserve	**44,251**	44,251
Retained earnings	**307,977**	285,885
Fair value reserve	**4,592**	6,695
Regulatory deductions	**(19,549)**	-
Total CET I capital	**442,271**	441,831
Tier II capital		
Eligible general provisions	**18,446**	12,971
Total tier II capital	**18,446**	12,971
Total eligible capital	**460,717**	454,802
Risk weighted exposure		
Credit risk	**1,475,710**	1,037,665
Market risk	**7,576**	6,872
Operational risk	**170,965**	196,963
Total	**1,654,251**	1,241,500

	Minimum capital requirement 2021	**2021**	2020
Capital Ratio			
Total capital ratio	13.00%	**27.85%**	36.63%
Tier I ratio	11.00%	**26.74%**	35.59%
CET I ratio	9.50%	**26.74%**	35.59%

Capital management policies, stress testing and capital management
The Bank has a robust capital adequacy assessment, monitoring and reporting process and is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel III.

The forward-looking internal capital adequacy assessment process (ICAAP) is based on the Bank's financial budget projections. Various stress scenarios are considered to assess the strength of the Bank's capital adequacy over a three year period.

The implemented ICAAP is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the form of cushion against unexpected losses. The Bank's quantification models have been subject to external scrutiny and validation.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

29 FIDUCIARY ASSETS

	2021 **AED'000**	2020 AED'000
Balance of fiduciary assets	**3,430,595**	2,510,461

The Group provides custody services for its customers' assets. These assets are held by the Group in a fiduciary capacity and are, accordingly, not included in these consolidated financial statements as assets of the Group.

30 SUBSEQUENT EVENTS

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements.