Commercial Bank International P.S.C.

REPORTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

These audited consolidated financial statements are subject to approval of the Central Bank of the UAE and adoption by shareholders at the annual general meeting.

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Commercial Bank International P.S.C.
Board of Directors' Report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2021.

Incorporation and registered offices

Commercial Bank International P.S.C. (the "Bank") was incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The address of the registered office is P.O. Box 793, Ras Al-Khaimah, United Arab Emirates.

Principal activities

The principal activities of the Bank are retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management and these activities are carried out through its branches in the United Arab Emirates.

Financial position and results

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

The Group has earned net interest income and income from Islamic financing and investing activities amounting AED 376,075 thousands during the year ended 31 December 2021 (2020: AED 417,602 thousands) and had recorded a net profit of AED 130,555 thousands for the year ended 31 December 2021 (2020: AED 33,678 thousands).

Directors

The following were the Directors of the Bank at the end of year ended 31 December 2021:

Mr. Saif Ali Al Shehhi	Chairman
Mr. Ali Rashid Al-Mohannadi	Vice Chairman
Mr. Mubarak Bin Fahed	
Mr. Faisal Ali Al Tamimi	
Ms. Maitha Saeed Al Falasi	
Dr. Ghaith Hammel Alghaith Alqubaisi	
Mr. Mohamed Ali Musabbeh Al Nuaimi	
Mr. Hamad Salah Al Turkait	

Auditors

The consolidated financial statements for the year ended 31 December 2021 have been audited by Deloitte & Touche (M.E.) and, being eligible, offer themselves for reappointment.

By order of the Board of Directors

Saif Ali Al Shehhi
Chairman

31 January 2022

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Commercial Bank International P.S.C
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Commercial Bank International P.S.C (the "Bank") and its subsidiaries (together the "Group"), United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Cont'd…

Independent Auditor's Report to the Shareholders of Commercial Bank International P.S.C (continued)

Key Audit Matters

Key audit matter	How our audit addressed the key audit matter
IT systems and controls over financial reporting	
We identified IT systems and controls over the Bank's financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Bank and rely on the effective operation of automated and IT dependent manual controls. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.	Our audit approach relies on automated controls and therefore the following procedures were designed to test access and control over IT systems: We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications. We tested IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations. We examined computer generated information used in financial reports from relevant applications and key controls over their report logics. We performed testing on the key automated controls on significant IT systems relevant to business processes.
Measurement of expected credit losses	
The assessment of the Bank's determination of impairment allowances for finance receivable requires management to make judgements over the staging of financial assets and measurement of the Expected Credit Loss ("ECL"). The audit was focused on this matter due to the materiality of the finance receivables to customers (representing 56.7% of total assets) and the complexity of the judgements, assumptions and estimates used in the ECL models. Refer to Note 3.26 to the consolidated financial statements for the accounting policy and Note 39.1 for the credit risk disclosure.	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2021: • Gained an understanding of the credit risk management process and the estimation process of determining impairment allowances for loans and advances and tested the operating effectiveness of relevant controls within these processes. • For a sample of exposures, we performed a detailed credit review and challenged the appropriateness of the Group's application of the staging criteria. • Tested the completeness and accuracy of the data used in the calculation of ECL; • Assessed the Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9.

Independent Auditor's Report to the Shareholders of Commercial Bank International P.S.C (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of expected credit losses (continued)	
The finance receivables for retail and non-retail is assessed individually for the significant increase in credit risk ("SICR") and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging movements in accordance with the Bank's policies and the requirements of IFRS 9 Financial Instruments. The measurement of ECL amounts for retail and non-retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention, It is important that models (Probability of Default, Loss Given Default, Exposure at Default and macroeconomic adjustments) are valid throughout the reporting period and are subject to a validation process by an independent reviewer. For the defaulted exposures, management applies judgements to estimate the expected future cash flows related to individual exposures including the value of collateral. Measurement of ECL is considered a key audit matter as the Group applies significant judgements and makes a number of assumptions in developing ECL models.	• Assessed ECL modelling methodology, and reasonableness of the assumptions. • Inspected the calculation methodology and traced a sample back to source data for a sample of wholesale and retail exposures. • We evaluated post model adjustments and management overlays in order to assess the reasonableness of these adjustments. • The Bank performed an external validation of the Probability of Default and Loss Given Default models, including macro-economic models, used in calculating the ECL during the reporting period. We considered the process of this external validation of the models and its impact on the results of the impairment estimate. • For the stage 3 portfolio and for a sample of wholesale exposures we also assessed whether relevant impairment events had been identified in a timely manner and the appropriateness of the provisioning assumptions such as estimated future cash flows, collateral valuations and estimates of recovery. • We assessed the disclosure in the consolidated financial statements relating to this matter against the requirements of IFRSs.

Independent Auditor's Report to the Shareholders of Commercial Bank International P.S.C (continued)

Other information

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

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and their preparation in compliance with applicable provisions of 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

Independent Auditor's Report to the Shareholders of Commercial Bank International P.S.C (continued)

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report to the Shareholders of Commercial Bank International P.S.C (continued)

Report on Other Legal and Regulatory Requirements

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended);
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- Note 12 and 13 to the consolidated financial statements discloses the Bank purchases or investments in shares during the year ended 31 December 2021;
- Note 43 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021; and
- Note 32 to the consolidated financial statements discloses social contributions made during the year ended 31 December 2021.

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

Deloitte & Touche (M.E.)

Musa Ramahi
Registration No. 872
31 January 2022
Dubai
United Arab Emirates

Consolidated statement of financial position

as at

	Note	31 Dec 2021 AED '000	31 Dec 2020 AED '000 (restated)	1 Jan 2020 AED '000 (restated)
Assets				
Cash and balances with the Central Banks	6	3,303,280	1,522,628	2,410,568
Derivative financial instruments	41	16,917	33,506	26,792
Deposits and balances due from banks	7	97,842	79,863	190,313
Loans and advances to customers	8	11,157,347	9,778,359	11,524,325
Islamic financing and investing assets	9	621,423	593,485	241,095
Receivables and other assets	10	3,277,302	2,508,499	2,215,502
Property inventory	11	559,503	648,615	406,572
Investment securities measured at fair value	12	256,955	248,194	130,745
Investment securities measured at amortised cost	13	1,333,776	1,534,076	1,237,414
Investment in associates	14	-	-	5,324
Investment properties	15	38,824	52,277	56,127
Intangible assets	16	40,177	53,382	61,468
Property and equipment	17	70,742	75,645	87,740
Total assets		20,774,088	17,128,529	18,593,985
Liabilities and equity				
Liabilities				
Balance due to the Central Banks	6	16,182	306,048	-
Derivative financial instruments	41	17,976	35,584	27,409
Deposits and balances due to banks	18	2,262,654	1,292,987	1,692,742
Customers' deposits	19	11,344,137	10,024,423	11,254,271
Islamic customers' deposits	20	1,230,033	457,032	813,250
Payables and other liabilities	21	3,288,213	2,521,941	2,334,523
Total liabilities		18,159,195	14,638,015	16,122,195
Equity				
Share capital	22	1,737,383	1,737,383	1,737,383
Tier 1 Capital Securities	23	459,125	459,125	459,125
Reserves	24	471,366	422,556	479,666
Accumulated losses		(123,085)	(189,876)	(204,696)
Equity attributable to owners of the Bank		2,544,789	2,429,188	2,471,478
Non-controlling interests	25	70,104	61,326	312
Total equity		2,614,893	2,490,514	2,471,790
Total liabilities and equity		20,774,088	17,128,529	18,593,985

To the best of our knowledge, and in accordance with IFRS, the consolidated financial statements present fairly in all material respects the consolidated financial position, financial performance and cash flows of the Group.

....
Ali Sultan Rakkad Al Amri
Chief Executive Officer

....
Saif Ali Al Shehhi
Chairman

The accompanying notes and appendix form an integral part of these consolidated financial statements.

for the year ended 31 December

	Note	2021 AED '000	2020 AED '000
Interest income	26	512,824	666,529
Income from Islamic financing and investing assets	27	49,657	41,198
Total interest income and income from Islamic financing and investing assets		562,481	707,727
Interest expense	28	(177,737)	(274,841)
Distribution to Islamic depositors	29	(8,669)	(15,284)
Net interest income and income from Islamic financing and investing assets		376,075	417,602
Fee and commission income	30	135,964	161,311
Fee and commission expense	30	(14,820)	(15,380)
Net fee and commission income		121,144	145,931
Net gain from derecognition of financial asset measured at amortised cost	47	58,864	-
Other operating income, net	31	74,566	176,590
Net operating income		630,649	740,123
General and administrative expenses	32	(302,637)	(264,120)
Net impairment loss on financial assets	33	(198,021)	(399,831)
Net reversal/impairment loss on non-financial assets	34	564	(37,170)
Share of results of associates		-	(5,324)
Profit for the year		130,555	33,678
Profit for the year attributable to:			
Owners of the Bank		121,777	(27,336)
Non-controlling interests	25	8,778	61,014
		130,555	33,678
Earnings per share:			
Basic and diluted earnings per share - continuing operations (AED)	36	0.070	(0.016)
Basic and diluted earnings per share - continuing and discontinued operations (AED)	36	0.070	(0.016)

The accompanying notes and appendix form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December

	Note	2021 AED '000	2020 AED '000
Profit for the year		130,555	33,678
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of financial assets measured at fair value through other comprehensive income		(8,692)	(11,820)
Remeasurement of net defined benefit liability		2,516	(3,134)
Other comprehensive loss for the year		(6,176)	(14,954)
Total comprehensive income for the year		124,379	18,724
Total comprehensive income for the year attributable to:			
Owners of the Bank		115,601	(42,290)
Non-controlling interests	25	8,778	61,014
		124,379	18,724

Consolidated statement of changes in equity

for the year ended 31 December

	Share capital AED '000	Tier 1 Capital Securities AED '000	Reserves AED '000	Accumulated losses AED '000	Equity attributable to owners of the Bank AED '000	Non-controlling interests AED '000	Total AED '000
2021							
Balance as at 31 December 2020 - restated	1,737,383	459,125	422,556	(189,876)	2,429,188	61,326	2,490,514
Profit for the year	-	-	-	121,777	121,777	8,778	130,555
Other comprehensive loss for the year	-	-	(8,692)	2,516	(6,176)	-	(6,176)
Total comprehensive income for the year	-	-	(8,692)	124,293	115,601	8,778	124,379
Transfer to CBUAE specific provision reserve	-	-	57,502	(57,502)	-	-	-
Balance as at 31 December 2021	1,737,383	459,125	471,366	(123,085)	2,544,789	70,104	2,614,893

The accompanying notes and appendix form an integral part of these consolidated financial statements.

for the year ended 31 December

	Share capital AED '000	Tier 1 Capital Securities AED '000	Reserves AED '000	Accumulated losses AED '000	Equity attributable to owners of the Bank AED '000	Non-controlling interests AED '000	Total AED '000
2020							
Balance as at 31 December 2019 - as previously reported	1,737,383	459,125	481,884	(206,914)	2,471,478	312	2,471,790
Adjustments due to control reassessment policy (note 46.1)	-	-	(2,218)	2,218	-	-	-
Balance as at 1 January 2020 - restated	1,737,383	459,125	479,666	(204,696)	2,471,478	312	2,471,790
Profit for the year	-	-	-	(27,336)	(27,336)	61,014	33,678
Other comprehensive loss for the year	-	-	(11,820)	(3,134)	(14,954)	-	(14,954)
Total comprehensive income for the year	-	-	(11,820)	(30,470)	(42,290)	61,014	18,724
Transfer to statutory reserve	-	-	3,368	(3,368)	-	-	-
Transfer to general reserve	-	-	3,368	(3,368)	-	-	-
Transfer from general reserve to accumulated losses	-	-	(11,104)	11,104	-	-	-
Transfer to CBUAE specific provision reserve	-	-	(7,388)	7,388	-	-	-
Transfer to CBUAE general provision reserve	-	-	(33,534)	33,534	-	-	-
Balance as at 31 December 2020 - restated	1,737,383	459,125	422,556	(189,876)	2,429,188	61,326	2,490,514

The accompanying notes and appendix form an integral part of these consolidated financial statements.

for the year ended 31 December

	2021 AED '000	2020 AED '000
Cash flows from operating activities		
Profit for the year	130,555	33,678
Adjustments for:		
Depreciation of property and equipment	20,923	19,981
Depreciation of investment property	2,823	3,126
Amortisation of intangible assets	18,288	17,177
Net impairment loss on financial assets	198,021	399,831
Net impairment (gain)/loss on non-financial assets	(564)	37,170
(Gain)/ Loss on disposal of property and equipment	(30,020)	301
Amortisation of financial assets measured at amortised cost	2,259	8,375
Gain on disposal of financial assets measured at amortised cost	(18,891)	-
Gain on financial assets measured at FVTPL	-	(127,515)
Dividend income	(804)	-
Share of results of associates	-	5,324
Write-off of property and equipment	1,317	-
Provision for end of service benefits	3,961	7,003
	327,868	404,451
Changes in operating assets and liabilities:		
Decrease in balances with the Central Bank of the UAE	250,736	1,612,814
(Increase)/decrease in loans and advances to customers	(1,558,546)	1,061,389
Increase in Islamic financing and investing assets	(31,163)	(352,486)
Decrease in property inventory	93,280	-
Increase in receivables and other assets	(771,511)	(289,854)
(Decrease) / increase in due to the Central Bank of the UAE	(289,866)	306,048
Increase / (decrease) in deposits and balances due to banks	969,667	(399,755)
Increase / (decrease) in customers' deposits	1,319,714	(1,229,848)
Increase / (decrease) in Islamic customers' deposits	773,001	(356,218)
Increase in payables and other liabilities	756,131	185,089
Cash generated from operating activities	1,838,911	941,630
End of service benefits paid	(5,924)	(7,299)
Net cash generated from operating activities	1,832,987	934,331
Cash flows from investing activities:		
Purchase of property and equipment	(31,126)	(12,159)
Purchase of intangible assets	(5,083)	(2,417)
Purchase of financial assets measured at amortised cost	-	(577,988)
Proceeds from sale of property and equipment	43,809	162
Proceeds from sale of investment properties	11,895	-
Proceeds from sale/redemption of financial assets measured at amortised cost	196,705	272,886
Proceeds from disposal of financial assets measured at FVTOCI	1,143	-
Net settlement of FVTPL assets	(722)	(293)
Dividend received	804	-
Net cash generated from/(used in) investing activities	217,425	(319,809)

for the year ended 31 December

	Note	2021 AED '000	2020 AED '000
Net increase in cash and cash equivalents		2,050,412	614,522
Cash and cash equivalents at the beginning of the year		997,112	382,590
Cash and cash equivalents at the end of the year	37	3,047,524	997,112
Operational cash flows from:			
Interest received		428,843	631,950
Income from Islamic financing and investing assets received		54,847	35,738
Interest paid		204,383	324,478
Distribution to Islamic depositors paid		7,979	21,819
Non-cash transactions:			
Repossession of real estate assets from loan and advances to property inventory		-	281,958

The accompanying notes and appendix form an integral part of these consolidated financial statements.

1. Status and activities

Commercial Bank International P.S.C. (the "Bank") is a public shareholding company with limited liability incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The registered office of the Bank is at P.O. Box 793, Ras Al-Khaimah. The Bank is listed on the Abu Dhabi Exchange (Ticker "CBI"). The Bank carries on commercial banking activities through its branches in the United Arab Emirates ("the UAE").

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as disclosed below (collectively referred to as the "Group").

Details of the Group's subsidiaries at the end of reporting period is as follows:

Name	Principal Activity	Principal place of business	Place of incorporation	% of ownership 2021	2020
International Financial Brokerage L.L.C.*	Brokerage	Dubai - the UAE	Dubai - the UAE	99.4	99.4
Takamul Real Estate L.L.C.	Real estate	Dubai - the UAE	Dubai - the UAE	100.0	100.0
Al Khaleejiah Property Investments LLC	Real estate	Sharjah - the UAE	Sharjah - the UAE	52.8	52.8
Al Caribi Development Limited	Real estate	Antigua and Barbuda	British Virgin Islands	100.0	100.0
CBI Financial Services Limited	SPV	Dubai - the UAE	Cayman Islands	100.0	100.0
CBI Tier 1 Private Ltd	SPV	Dubai - the UAE	Cayman Islands	100.0	100.0

* *under liquidation*

2. Application of new and revised IFRSs

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Revised 'Conceptual Framework for Financial Reporting'.
- Amendments to IFRS 3 *Business Combinations* to clarify the definition of a business.
- Amendments to IFRS 7 F*inancial Instruments: Disclosures* and IFRS 9 *Financial Instruments* regarding pre-replacement issues in the context of the IBOR reform.
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* regarding the definition of material.

2.2 New and revised IFRSs 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 IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely

2. Application of new and revised IFRSs (continued)

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

New and revised IFRSs	**Effective for annual periods beginning on or after**
Amendments to IAS 1 *Presentation of Financial Statements* regarding the classification of liabilities.	1 January 2023
IFRS 17 *Insurance Contracts* establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.	1 January 2023
Amendments IFRS 3 *Business Combination* updating a reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment* prohibiting 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	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* regarding the costs to include when assessing whether a contract is onerous	1 January 2022
Annual Improvements to IFRS 2018 – 2020 Cycle amending IFRS 1, IFRS 9, IFRS 16 and IAS 41.	1 January 2022

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

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Federal Law No. 32 of 2021 on Commercial Companies (the "New Companies Law") was issued on 20 September 2021 and will come into effect on 2 January 2022, to entirely replace Federal Law No. 2 of 2015 on Commercial Companies, as amended (the "2015 Law"). The Company is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for items which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16 and measurements that have some similarities to fair value but are not fair value such as net realisable value in IAS 2 or value in use in IAS 36.

3. Significant accounting policies (continued)

3.2 Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has:

- power over the investee,
- exposure, or has 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 rights of an investee, it considers that 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 Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company 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 previous shareholders' meetings.

The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Losses applicable to the non-controlling interests in excess of the non-controlling shareholders' interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

3.4 Property and equipment

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

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

Capital work in progress is carried at cost, less any recognised impairment loss. 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.

Depreciation is charged 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. Freehold land is not depreciated. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	25 years
Property improvements	4 - 7 years
Furniture, fixtures, equipment and vehicles	4 years
Right of use assets	2 - 5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, 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. The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated income statement.

3.5 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated so as to write off the cost of investment properties using the straight line method over their estimated useful lives of 25 years.

Investment properties are accounted for as acquisitions on the date when ownership passes to the Group under the contract for the purchase of the relevant property, pending which event payments in respect of investment property acquisitions are included in 'receivable and other assets'.

3. Significant accounting policies (continued)

3.5 Investment properties (continued)

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of asset is recognised in the consolidated income statement in the period of derecognition.

3.6 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

3.7 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives for intangible assets ranges between 4 to 10 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.8 Property inventory

Properties acquired or constructed with the intention of sale are classified as property inventory. These are stated at the lower of cost and net realisable value. Cost includes transaction costs incurred in respect of the acquisition of those properties. Net realisable value represents the estimated selling price for property inventory less all estimated costs necessary to make the sale. Properties acquired through repossession in settlement of loans and advances are recorded at fair value at the date of repossession including transactions costs incurred in respect of such repossession.

3. Significant accounting policies (continued)

3.9 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.

3.10 Leases

3.10.1 The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented in ‘payables and other liabilities’ in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

3. Significant accounting policies (continued)

3.10 Leases (continued)

3.10.1 The Group as lessee (continued)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented in ‘property and equipment’ in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

3. Significant accounting policies (continued)

3.10 Leases (continued)

3.10.2 The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

3.11 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 44 on business segment reporting.

3.12 Acceptances

Acceptances are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3.13 Foreign currencies

The individual financial statements of each group entity are presented in AED, which is the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in AED, which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

Transaction in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in consolidated income in the period in which they arise.

3. Significant accounting policies (continued)

3.14 Net interest income and income from Islamic products net of distribution to depositors

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income and income from Islamic products net of distribution to depositors' as 'Interest income', 'Income from Islamic financing and investing assets', 'Interest expense' and 'Distribution to depositors' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period and is recognised in 'other operating income'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECL)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECL in determining the future cash flows expected to be received from the financial asset.

3.15 Net fee and commission income

Fee and commission income and expense include fees other than those that are an integral part of EIR (see note 3.14).

The fees included in this part of the Group's consolidated income statement include among other things fees charged for servicing a loan, advisory fee (mainly consisting of advising to wholesale clients on loan structuring) and non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement. The Group recognises the fee based on five step model as defined in note 3.18.

3.16 Net income from financial instruments at FVTPL

Net income from other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL. The Group has elected to present the full fair value movement of assets and liabilities at FVTPL in this line, including the related interest income, expense and dividends (if any).

3. Significant accounting policies (continued)

3.17 Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- for equity instruments designated at FVTOCI dividend income is presented in other operating income; and
- for equity instruments not designated at FVTOCI, dividend income is presented as net income from financial instruments at FVTPL.

3.18 Revenue from sale of property

The Group recognises revenue from sale of property based on a five step model:

- Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that create enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Identify the performance obligation in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring promised goods or services to a customer.
- Allocate the transaction price to the performance obligation in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation which is an amount that depicts the amount of consideration to which the Group expects to be entitled to in exchange for satisfying each performance obligation.
- Recognise revenue when (or as) the Group satisfies a performance obligation.

For the sale of property, the performance obligation is satisfied when the title of property is transferred to the customer.

3.19 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including interest rate swaps and foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 41.

Derivatives are initially recognised at fair value at the date the derivative contract is 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 income statement immediately.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability.

3. Significant accounting policies (continued)

3.20 Embedded derivatives

Derivatives embedded in financial liabilities or other non-financial asset host contracts 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 FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

3.21 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as 'ECL allowance' in 'payables and other liabilities'.

The Group has not designated any financial guarantee contracts as at FVTPL.

3.22 Commitments to provide a loan at a below-market interest rate

Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Commitments to provide a loan below market rate not designated at FVTPL are presented as 'ECL allowance' in 'payables and other liabilities'. The Group has not designated any commitments to provide a loan below market rated designated at FVTPL.

3.23 Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to Government-managed retirement benefit plans are accounted for as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period.

3. Significant accounting policies (continued)

3.24 Retirement benefit costs (continued)

Remeasurements comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest, if any) are recognised immediately in the statement of financial position with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurements recognised in the statement of comprehensive income are not reclassified. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs.

Interest is calculated by applying a discount rate to the defined benefit liability. Defined benefit costs are split into three categories:

- service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- interest expense; and
- re-measurements.

The Group recognises service costs within profit or loss as general and administrative expenses (see note 32). Interest expense is recognised within interest expense (see note 28).

3.25 Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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

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

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

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

3.26 Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

3. Significant accounting policies (continued)

3.26 Financial assets (continued)

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

3.26.1 Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset. For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

3. Significant accounting policies (continued)

3.26 Financial assets (continued)

3.26.1 Debt instruments at amortised cost or at FVTOCI (continued)

The Group may have more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See note 39.1.

In the current and prior reporting period, the Group has not classified any debt instrument at FVTOCI. Further, in the current and prior reporting period the Group has not applied the fair value option and so has not designated debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

3.26.2 Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; and/or
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 40.

3. Significant accounting policies (continued)

3.26 Financial assets (continued)

3.26.3 Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on 'Modification and derecognition of financial assets' see note 3.26.10.

3.26.4 Foreign exchange gains and losses

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

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in OCI in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in OCI in the investments revaluation reserve.

3.26.5 Impairment

The Group recognises loss allowances for expected credit losses (ECL) on the financial instruments that are not measured at FVTPL (including loan commitments and financial guarantee contracts). No impairment loss is recognised on equity investments.

With the exception of 'Purchased or Originated Credit-Impaired' (POCI) financial assets (which are considered separately below), ECL are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECL are measured at an amount equal to the 12-month ECL.

ECL are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

3. Significant accounting policies (continued)

3.26 Financial assets (continued)

3.26.5 Impairment (continued)

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

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

More information on measurement of ECL is provided in note 39.1, including details on how instruments are grouped when they are assessed on a collective basis.

3.26.6 Credit-impaired financial assets

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

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

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

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

3.26.7 Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

3. Significant accounting policies (continued)

3.26 Financial assets (continued)

3.26.8 Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECL and the identification of a significant increase in credit risk (see note 39.1).

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in wholesale lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in note 39.1.

3.26.9 Significant increase in credit risk

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. See note 39.1 for more details about forward looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine the ECL.

3. Significant accounting policies (continued)

3.26 Financial assets (continued)

3.26.9 Significant increase in credit risk (continued)

For wholesale lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending, forward looking information includes the same economic forecasts as wholesale lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in credit worthiness of borrowers measured by rating downgrade which result in higher PD as per staging criteria.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL (please refer to note 39.1).

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For wholesale lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL, unless the Group has reasonable and supportable information that demonstrates otherwise.

More information about significant increase in credit risk is provided in note 39.1.

3.26.10 Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

3. Significant accounting policies (continued)

3.26 Financial assets (continued)

3.26.10 Modification and derecognition of financial assets (continued)

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

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

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

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

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

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

3. Significant accounting policies (continued)

3.26 Financial assets (continued)

3.26.10 Modification and derecognition of financial assets (continued)

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

3.26.11 Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off, or in the case of retail loan, when the amounts are over 180 days past due, whichever occurs sooner. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

3.26.12 Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;

3. Significant accounting policies (continued)

3.26 Financial assets (continued)

3.26.12 Presentation of allowance for ECL in the statement of financial position (continued)

- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

3.27 Equity instruments and financial liabilities

Equity and debt instruments issued by a group entity are classified as either equity or as financial liabilities in accordance with the substance of the contractual arrangements and the definitions of an equity instrument and a financial liability.

3.27.1 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3.27.2 Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

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

3.27.2.1 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is 1) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

3. Significant accounting policies (continued)

3.27 Equity instruments and financial liabilities (continued)

3.27.2 Financial liabilities (continued)

3.27.2.1 Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

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

3.27.2.2 Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

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

3.27.2.3 Derecognition of financial liabilities

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

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

3.27.2.4 Sale and Repurchase Agreements

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

4. Islamic financing and investing products and Islamic customers' deposits

In addition to conventional banking products, the Group offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

All Islamic banking products and related transactions are accounted for in accordance with its accounting policies for financial instruments and revenue recognition (see note 3).

4.1 Definitions

The following terms are used in the consolidated financial statements with the meaning specified:

4.1.1 Murabaha

A contract whereby the Group (the "Seller") sells an asset to its customer (the "Purchaser"), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre-agreed profit amount. The Murabaha sale price is paid by the Purchaser to the Seller on an instalment basis over the period of the Murabaha as stated in the contract.

4.1.2 Ijarah

An agreement whereby the Group (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term/periods, payable on fixed or variable rental basis.

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

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value or as a gift by a separate sale or gift contract at the end of the lease period.

4.1.3 Wakala

An agreement between two parties whereby one party is a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to an agent (the "Wakeel"), who invests the Wakala Capital in a Sharia'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration/distribution by the Wakeel.

The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the management is required to make judgements, 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.

5.1 Critical judgments in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

5.1.1 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets accounting policy in note 3.26). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5.1.2 Significant increase of credit risk

As explained in note 3.26.5, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 3.28 and note 39.1 for more details.

5.1.3 Establishing groups of assets with similar credit risk characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 39.1 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECL, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECL but the amount of ECL changes because the credit risk of the portfolios differ.

5. Critical accounting judgments and key sources of estimation uncertainty (continued)

5.1 Critical judgments in applying the Group's accounting policies (continued)

5.1.4 Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3.26 and note 39.1 for more details on ECL and note 40 for more details on fair value measurement.

5.1.5 Determining whether it is reasonably certain that an extension or termination option in a lease agreement will be exercised

Extension and termination options are included in a number of tenancy lease agreement entered into by the Group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

5.1.6 Investment in ACDL

The Group acquired, by means of settlement of a debt by a customer, ACDL, an investment vehicle which owns 80% of issued share capital of ACADL. During the year, the Group reassessed control over ACADL and determined that it does not control ACADL and consequently concluded that the investment by ACDL in ACADL is a financial asset within the scope of IFRS 9. As per IFRS 5, such financial assets are outside the scope of the standard and should be accounted for under IFRS 9.

5.1.7 Investment in MURJAN

AKPI, a subsidiary of the Bank, has investment of 50% equity stake in MURJAN. In 2010, the court, on request of shareholders of MURJAN, issued an order to dissolve the company and approved appointment of liquidators. Since MURJAN is managed by liquidators, AKPI assessed that it does not exercise any control or significant influence over MURJAN and investment in MURJAN is classified as financial assets measured at FVTPL.

5.2 Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

5.2.1 Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 39.1 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

5. Critical accounting judgments and key sources of estimation uncertainty (continued)

5.2 Key sources of estimation uncertainty (continued)

5.2.2 Probability of default

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note 39.1 for more details.

5.2.3 Loss Given Default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note 39.1.

5.2.4 Fair value measurement and valuation process

Certain assets and liabilities are measured at fair value for financial reporting purposes. The management determines the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group uses valuation models or engages third party qualified independent valuers to perform the valuation. Management works closely with the qualified independent valuers to establish the appropriate valuation techniques and inputs to the model. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes 11, 15, 12 and 40.

5.2.5 Impairment of property and equipment and investment properties

The Group determines at each reporting date whether there is any objective evidence that the property and equipment and investment properties are impaired. The management estimates the market value of properties based on the current market conditions and comparative transactions conducted by the Group. Whenever the carrying amount of any property exceeds its recoverable amount, an impairment loss is recognised in profit or loss.

6. Cash and balances with the Central Banks

In the table below, statutory cash ratio requirements with the Central Banks of the UAE represent mandatory reserve deposits and are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest bearing. Monterey bills carry interest rate ranging between 1.2% and 1.5 % per annum. Overnight deposits carry interest rate ranging from 0.10% to 0.15% per annum (2020: 0.10% per annum). Treasury bills carry Discount rate ranging between 1.32% to 1.41% per annum.

	2021 AED '000	2020 AED '000
Cash on hand	58,684	77,151
Balance due from the Central Banks:		
Statutory cash ratio requirements	354,741	205,477
Overnight deposits	1,990,000	840,000
Monetary Bills	740,861	-
Treasury Bills	158,994	-
Certificates of deposit	-	400,000
	3,303,280	1,522,628
Balance due to the Central Banks:		
Current account	16,182	1,048
Repurchase agreement borrowings	-	305,000
	16,182	306,048

7. Deposits and balances due from banks

	2021 AED '000	2020 AED '000
Demand and call deposits	98,985	79,961
ECL allowance	(1,143)	(98)
	97,842	79,863

8. Loans and advances to customers

	2021 AED '000	2020 AED '000
Retail lending:		
Mortgage loans	809,161	937,741
Credit cards	49,328	72,631
Other	408,679	606,044
	1,267,168	1,616,416
ECL allowance	(47,002)	(71,077)
	1,220,166	1,545,339
Wholesale lending:		
Loans	8,963,880	7,078,619
Overdrafts	1,320,118	1,309,144
Trust receipts	358,015	274,272
Bills discounted	357,801	375,758
	10,999,814	9,037,793
ECL allowance	(1,062,633)	(804,773)
	9,937,181	8,233,020
	11,157,347	9,778,359

9. Islamic financing and investing assets

	2021 AED '000	2020 AED '000
Wholesale lending:		
Murabaha	267,502	267,831
Ijarah	363,703	335,053
Others	3,216	-
	634,421	602,884
Deferred income	(6,951)	(6,577)
	627,470	596,307
ECL allowance	(6,047)	(2,822)
	621,423	593,485

10. Receivables and other assets

	Current assets 2021 AED '000	Non-current assets 2021 AED '000	Total 2021 AED '000	Current assets 2020 AED '000	Non-current Assets 2020 AED '000	Total 2020 AED '000
Non-financial assets						
Prepayments	10,413	-	10,413	10,541	-	10,541
Advances to acquire properties (i)	33,013	-	33,013	31,850	-	31,850
	43,426	-	43,426	42,391	-	42,391
Financial assets						
Interest receivable	10,177	-	10,177	7,505	-	7,505
Profit receivable	4,638	-	4,638	6,052	-	6,052
Customer acceptances	3,009,550	-	3,009,550	2,244,740	-	2,244,740
Other	214,118	-	214,118	210,206	-	210,206
	3,238,483	-	3,238,483	2,468,503	-	2,468,503
ECL allowance			(4,607)			(2,395)
			3,233,876			2,466,108
			3,277,302			2,508,499

(i) During the year, the Group has recovered against previously written-down advances to acquire properties, net of impairment charge for the year, of AED 8.9 million (2020: impairment charge of AED 2.6 million) and recognised in 'net impairment loss on non-financial assets'.

11. Property inventory

The property inventory comprises real estate properties held by the Group for the purpose of sale in the ordinary course of business and is carried at lower of cost or net realisable value. The movements in property inventory during the year were as follows:

	2021 AED '000	2020 AED '000
Balance at 1 January	648,615	406,572
Repossessed during the year	-	281,958
Transfer during the year	9,399	-
Net realisable value adjustment during the year (Note # 34)	(5,231)	(39,915)
Disposals during the year	(93,280)	-
Balance at 31 December	559,503	648,615

The net realisable value of the Group's property inventory as at 31 December 2021 and 31 December 2020 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Group. Independent valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The net realisable value was determined based on either the market comparable approach that reflects recent transaction prices for similar properties or on a present value calculation of the estimated future cash flows supported by existing lease and current market rents for similar properties at the same location. The Net realisable value adjustments have been included in profit or loss in the 'Net impairment loss on non-financial assets' line item. All property inventories are within the UAE.

12. Investment securities measured at fair value

The Group has designated the following investments in equity instruments and investment fund as these are investments that the Group plans to hold in the long term for strategic reasons. The Group has also designated investment in equity stake in MURJAN as FVTPL (see note 5.1.7). The table below shows fair value of these investments.

	2021 AED '000	2020 AED '000 (restated)
Investment at FVTOCI		
Investment in quoted shares	15,279	13,752
Investment in unquoted shares (i)	92,420	102,478
Investment in unquoted investment fund	1,391	2,695
	109,090	118,925
Investment at FVTPL		
Investment in unquoted shares (ii)	147,865	129,269
	256,955	248,194

(i) This includes investment in ACDL. During 2018, the Group acquired, by means of settlement of a debt by a customer, ACDL, an investment vehicle which owns 80% of issued share capital of ACADL. During the year, the Group reassessed control over ACADL and determined that it does not control ACADL and consequently concluded that the investment by ACDL in ACADL is a financial asset within the scope of IFRS 9. As per IFRS 5, such financial assets are outside the scope of the standard and should be accounted for under IFRS 9. In 2020 the investment was carried at AED 80.4 million. During the year the fair value of the investment has decreased and the investment is recognized at AED 72.4 million.

(ii) This represents an investment in MURJAN. In 2010, the court, on request of shareholders of MURJAN, issued an order to dissolve the company and approve the appointment of liquidators. Liquidation proceedings were put on hold due to an inheritance dispute over the land owned by Murjan. During 2019, the dispute over land was decided with an order confirming Murjan's title to the land. During 2019, the liquidator placed the land on auction at a price lower than its liabilities, however, no bids were received. The investment was, therefore, carried at Nil value at 31 December 2019. In 2020, to derive the maximum value from the investment in Murjan, the shareholders devised and agreed a plan with the liquidators to subdivide the land into smaller plots and sell them. Consequently, the fair value of value of land was recognised at AED 129.3 million. During the year the fair value of value of land has increased and the investment is recognised at AED 147.8 million.

An analysis of concentration of investment securities measured at fair value by sector and by region is as follows:

	Within the UAE		Outside the UAE	
	2021 AED '000	2020 AED '000 (restated)	2021 AED '000	2020 AED '000 (restated)
Financial institutions	31,563	31,160	3,722	4,611
Real estate	149,256	131,964	72,414	80,459
	180,819	163,124	76,136	85,070

13. Investment securities measured at amortised cost

	2021 AED '000	2020 AED '000
Investment in debt instruments	755,097	704,671
Investment in Islamic Sukuk	583,017	832,407
	1,338,114	1,537,078
ECL allowance	(4,338)	(3,002)
	1,333,776	1,534,076

The Group holds these investment securities with an average yield of 3.0% to 7.5 % per annum (2020: 2.1% to 7.0% per annum). The investment securities are redeemable at par on various maturity dates from 2022 to 2030 (2020: 2021 to 2030). At the end of the reporting period, investment securities aggregating to AED 511.9 Million [fair value of AED 511.9 million] (2020: AED 364.9) were collateralised against borrowings under repurchase agreement with the banks. See note 18.

14. Investment in associate

Details of the Group's associate at the end of the reporting period are as follows:

Name	Principal Activity	Principal place of Business	Place of incorporation	% of ownership 2021	2020
ARZAQ	Real estate	Sharjah - the UAE	Sharjah - the UAE	48.0	48.0

This associate is accounted for using the equity method in these consolidated financial statements.

Pursuant to a shareholder agreement, the Bank has the right to cast 48% of the votes at shareholder meetings of ARZAQ. At the end of reporting period, the net assets of ARZAQ are in deficit position, consequently investment in associate is carried at Nil value.

15. Investment properties

	2021 AED '000	2020 AED '000
Cost:		
Balance at 1 January	95,990	95,990
Disposals during the year	(26,024)	-
Balance at 31 December	69,966	95,990
Accumulated depreciation and accumulated impairment:		
Balance at 1 January	43,713	39,863
Depreciation charge for the year	2,823	3,126
(Reversal)/Impairment during the year	(1,265)	724
Eliminated on disposals	(14,129)	-
Balance at 31 December	31,142	43,713
Carrying value:		
Balance at 31 December	38,824	52,277

15. Investment properties (continued)

Fair value of investment properties

The fair value of the Group's investment property as at 31 December 2021 and 31 December 2020 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Group. Independent valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on a market value comparison / present value calculation of the estimated future cash flows supported by existing lease and current market rents for similar properties at the same locations. The interest rate, which is used to discount the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2021 and 31 December 2020 are as follows:

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Fair value AED '000
31 December 2021	**-**	**-**	**38,824**	**42,600**
31 December 2020	-	-	52,277	52,277

At the end of reporting period, as a result of the indication of increase in the fair value of investment properties, the Group carried out a review of the recoverable amount of its investment properties. The review led to the recognition of an impairment reversal of AED 1.3 million (2020: impairment loss of AED 0.7 million), which has been recognised in profit or loss in the 'net impairment loss on non-financial assets' line item. A 5% decrease in recoverable amount will lead to an impairment charge of AED 1.9 million (2020: AED 2.6 million).

All investment properties are within the UAE. During the year the Group recognised rental income of AED 1.3 million (2020: AED 0.9 million) from investment properties which is included in other operating income in note 31. The group also incurred AED 1.4 million (2020: AED 1.0 million) operating expenses from investment property that generated rental income during the year.

16. Intangible assets

Intangible assets mainly comprise of software and licenses. Significant intangible assets include the 'Core Banking System' and 'Digital Bank Platform'. The cost amount of these intangible assets is AED 27.1 million and AED 10.2 million respectively (31 December 2020: AED 27.1 million and AED 10.2 million respectively) and will be fully amortised in 5.5 years and 0.5 years respectively (31 December 2020: 6.5 years and 1.5 years respectively).

	2021 AED '000	2020 AED '000
Cost:		
Balance at 1 January	120,271	111,180
Additions during the year	5,082	2,417
Transfer from capital work in progress	-	6,674
Balance at 31 December	125,353	120,271
Accumulated amortisation:		
Balance at 1 January	66,889	49,712
Amortisation charge for the year	18,287	17,177
Balance at 31 December	85,176	66,889
Carrying value:		
Balance at 31 December	40,177	53,382

17. Property and equipment

	Freehold land and buildings AED '000	Property Improvem-ents AED '000	Furniture, fixtures, equipment and vehicles AED '000	Right of use assets AED '000	Capital work in progress AED '000	Total AED '000
Cost:						
Balance at 1 January 2020	50,060	26,953	50,691	69,038	14,099	210,841
Additions during the year	-	389	5,501	-	6,269	12,159
Disposals during the year	-	(45)	(1,304)	-	-	(1,349)
Adjustments	-	-	-	(1,283)	-	(1,283)
Transfer	-	1,379	8,125	-	(16,178)	(6,674)
Balance at 31 December 2020	50,060	28,676	63,013	67,755	4,190	213,694
Additions during the year	-	702	1,665	27,242	6,565	36,174
Disposals during the year	(36,737)	(173)	(1,213)	(783)	-	(38,906)
Adjustments	-	(3,404)	(768)	(5,046)	-	(9,218)
Balance at 31 December 2021	13,323	25,801	62,697	89,168	10,755	201,744
Accumulated depreciation and accumulated impairment:						
Balance at 1 January 2020	25,720	18,609	45,329	33,443	-	123,101
Depreciation for the year	1,525	3,738	4,001	10,717	-	19,981
Impairment	(911)	-	-	-	-	(911)
Adjustments	-	-	-	(3,236)	-	(3,236)
Disposals	-	(45)	(841)	-	-	(886)
Balance at 31 December 2020	26,334	22,302	48,489	40,924	-	138,049
Depreciation for the year	1,112	2,001	4,861	12,949	-	20,923
Adjustments	-	(2,091)	(763)	-	-	(2,854)
Disposals	(23,128)	(172)	(1,033)	(783)		(25,116)
Balance at 31 December 2021	4,318	22,040	51,554	53,090	-	131,002
Carrying value:						
Balance at 31 December 2021	9,005	3,761	11,143	36,078	10,755	70,742
Balance at 31 December 2020	23,726	6,374	14,524	26,831	4,190	75,645

18. Deposits and balances due to banks

	2021 AED '000	2020 AED '000
Demand and call deposits	63,023	79,540
Term borrowings	1,351,069	1,213,447
Repurchase agreements with banks (i)	381,257	-
Islamic inter bank borrowings	467,305	-
	2,262,654	1,292,987

(i) The interest paid on the repo agreements ranging between 3.9% to 4.0% per annum.

18. Deposits and balances due to banks (continued)

The geographical analysis of deposits and balances due to banks is as follows:

	2021 AED '000	2020 AED '000
Within the UAE	985,838	183,658
Outside the UAE	1,276,816	1,109,329
	2,262,654	1,292,987

19. Customers' deposits

	2021 AED '000	2020 AED '000
Current accounts	1,969,941	1,890,476
Saving accounts	958,329	1,098,015
Time deposits	8,252,118	6,803,522
Other	163,749	232,410
	11,344,137	10,024,423

The geographical analysis of customers' deposits is as follows:

	2021 AED '000	2020 AED '000
Within the UAE	10,490,402	9,444,939
Outside the UAE	853,735	579,484
	11,344,137	10,024,423

20. Islamic customers' deposits

	2021 AED '000	2020 AED '000
Current accounts	153,251	83,304
Saving accounts	598	-
Investment deposits	1,048,865	344,637
Other	27,319	29,091
	1,230,033	457,032

All Islamic customers' deposits are from customers within the UAE.

21. Payables and other liabilities

	Current liabilities 2021 AED '000	Non-current liabilities 2021 AED '000	Total 2021 AED '000	Current liabilities 2020 AED '000	Non-current Liabilities 2020 AED '000	Total 2020 AED '000
Non-financial liabilities						
Unearned commission	7,345	-	7,345	9,178	-	9,178
Liability arising from defined benefit obligation (see 21.1.2)	36,199	-	36,199	38,162	-	38,162
Value Added Tax (VAT) payable	645	-	645	408	-	408
ECL allowance	31,864	-	31,864	21,619	-	21,619
	76,053	-	76,053	69,367	-	69,367
Financial liabilities						
Interest payable	41,355	-	41,355	68,001	-	68,001
Profit payable	3,022	-	3,022	2,332	-	2,332
Lease liability (see 21.2)	5,920	24,085	30,005	12,576	16,885	29,461
Cheques and drafts payable	28,497	-	28,497	23,022	-	23,022
Customer acceptances	3,009,550	-	3,009,550	2,244,740	-	2,244,740
Zakat payable (see 21.3)	1,178	-	1,178	578	-	578
Other	98,553	-	98,553	84,440	-	84,440
	3,188,075	24,085	3,212,160	2,435,689	16,885	2,452,574
	3,264,128	24,085	3,288,213	2,505,056	16,885	2,521,941

21.1 Retirement benefit plans

21.1.1 Defined contribution plan

The UAE national employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labour Law No. 7 of 1999, the Group is required to contribute 15% of the "contribution calculation salary" of the UAE payroll costs to the retirement benefit scheme to fund the benefits. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement.

21.1.2 Defined benefit plan

The Group sponsors defined benefit plan for qualifying employees as per the UAE Labour Law. Under the plan the employees' entitlement to the benefit is based upon the employees' salary and length of service, subject to completion of minimum service period.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2021 and 31 December 2020 by an independent Actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

21. Payables and other liabilities (continued)

21.1 Retirement benefit plans (continued)

21.1.2 Defined benefit plan (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2021	**2020**
Discount rate	**2.56%**	2.20%
Expected rate of salary increase	**3.00%**	3.00%

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	2021 AED '000	**2020 AED '000**
Service cost:		
Current service cost	5,515	5,934
Interest expense	816	1,069
	6,331	7,003

Amounts recognised in other comprehensive income are as follows:

	2021 AED '000	**2020 AED '000**
Actuarial gains and losses arising from changes in assumptions	1,571	3,134
Other remeasurement of net defined benefit liability	945	-
	2,516	3,134

The amount included in the statement of financial position arising from the Group's obligations in respect of its defined benefit plans is as follows:

	2021 AED '000	**2020 AED '000**
Present value of defined benefit obligation	36,199	38,162

Movements in the present value of defined benefit obligations in the year were as follows:

	2021 AED '000	**2020 AED '000**
Balance at 1 January	38,162	35,324
Service cost	5,515	5,934
Interest expense	816	1,069
Remeasurement (gain) / loss	(2,516)	3,134
Benefits paid during the year	(5,778)	(7,299)
Balance at 31 December	36,199	38,162

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected rate of salary increase and turnover rate. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

21. Payables and other liabilities (continued)

21.1 Retirement benefit plans (continued)

21.1.2 Defined benefit plan (continued)

If the discount rate is 50 basis points higher, the defined benefit obligation would decrease by 4.9% (2020: AED 5.2%) and if the discount rate is 50 basis points lower, the defined benefit obligation would increase by 5.3% (2020: 5.6%).

If the expected rate of salary increase increases by 50 basis points, the defined benefit obligation would increase by 5.1% (2020: AED 5.4% million) and If the expected rate of salary increase decreases by 50 basis points, the defined benefit obligation would decrease by 4.8% (2020: 5.1%).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

21.2 Lease liability

Maturity analysis of lease liability is as follows:

	2021 AED '000	2020 AED '000
Year 1	5,920	12,576
Year 2	7,603	9,331
Year 3	5,810	4,335
Year 4	2,576	3,219
Year 5	2,307	-
Onwards	5,789	-
	30,005	29,461

At the end of reporting period, there are no leases that are committed but not commenced. Discount rate, among others, is the significant assumption that is used in determination of carrying value of right of use assets and lease liability. The sensitivity analyses below have been determined based on a 50 basis points change in discount rate at the end of the reporting period, while holding all other assumptions constant.

	Increase/(decrease) in interest expense		Increase/(decrease) in depreciation expense	
	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
Discount rate is 50 basis points higher	**164**	**136**	**181**	**(112)**
Discount rate is 50 basis points lower	**(136)**	**(137)**	**(179)**	**115**

21.3 Zakat Payable

Zakat calculations are reviewed and approved annually by the Internal Sharia Supervisory Committee (ISSC). Payments for zakat are transferred to the Zakat Fund in the UAE.

22. Share capital

The authorised, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (2020: 1,737,383,050 shares of AED 1 each). Fully paid up shares carry one vote per share and carry a right to dividends.

23. Tier 1 Capital Securities

On 23 December 2015, the Bank issued Tier 1 Capital Securities (the "Capital Securities") through an SPV, CBI Tier 1 Private Ltd, (the "Issuer") amounting to USD 125 million (AED 459.125 million). These Capital Securities are perpetual and carry an interest rate of 6% revised from the earlier rate of 6.5% (calculated based on the relevant Six- Years Mid Swap Rate plus 4.71 percent per annum) during the "initial period". After the initial period, at every reset date, interest would be calculated for the next reset period at the relevant Six-Year Mid Swap Rate plus a margin of 4.71 percent per annum.

Interest is payable semi-annually in arrears on these Capital Securities. The "Initial Period" is the period (from and including) the Issue Date to (but excluding) the First Call Date. The "Reset Date" is the First Call Date and every sixth anniversary thereafter. These Capital Securities are callable by the Bank on 23 June 2022 and every interest payment date thereafter.

Tier 1 Capital Securities are perpetual, subordinated and unsecured. The Bank may elect not to pay a coupon at its own discretion. The holder of the Capital Securities does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default.

24. Reserves

24.1 Statutory reserve

In accordance with UAE Federal Law and the Bank's Articles of Association, a transfer equivalent to at least 10% of the annual net profit is made annually to the statutory reserve until such reserve equals 50% of the paid up share capital.

24.2 General reserve

In accordance with the Bank's Articles of Association, a transfer equivalent to at least 10% of the annual net profit should be made to a general reserve each year until the value of the reserve is equal to 50% of the nominal value of the issued share capital.

24.3 Investments revaluation reserve

The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of financial assets carried at fair value through other comprehensive income.

24.4 CBUAE provision reserve

CBUAE provision reserve comprise of following

	2021 AED '000	2020 AED '000
Specific provision reserve	273,491	215,989
	273,491	215,989

24. Reserves (continued)

24.4 CBUAE provision reserve (continued)

24.4.1 Specific provision reserve

In accordance with the requirements of CBUAE the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance for stage 3 exposures calculated under IFRS 9 is transferred to 'specific provision reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends. Had the Group taken provision in accordance with the requirements of the CBUAE, the profit for the year would have been Lower by 57.5 million (2020: higher by AED 7.3 million).

24.4.2 General provision reserve

In accordance with the requirements of CBUAE the excess of the credit impairment provisions of 1.5% of total credit risk weighted assets calculated in accordance with CBUAE requirements over the ECL allowance of stage 1 and stage 2 exposures calculated under IFRS 9 is transferred to 'general provision reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends. Had the Group taken provision in accordance with the requirements of the CBUAE, the profit for the year would have been Nil (2020: higher by AED 33.5 million).

The movement in these reserves is as follows:

	Statutory reserve AED '000	General reserve AED '000	Investment revaluation reserve AED '000	CBUAE specific provision reserve AED '000	CBUAE general provision reserve AED '000	Total AED '000
2021						
As at 1 January (restated)	272,146	3,368	(68,947)	215,989	-	422,556
Other comprehensive loss	-	-	(8,692)	-	-	(8,692)
Transfers	-	-		57,502	-	57,502
As at 31 December	272,146	3,368	(77,639)	273,491	-	471,366
2020						
As at 1 January (restated)	268,778	11,104	(57,127)	223,377	33,534	481,884
Other comprehensive loss	-	-	(11,820)	-	-	(11,820)
Transfers	3,368	(7,736)	-	(7,388)	(33,534)	(45,290)
As at 31 December (restated)	272,146	3,368	(68,947)	215,989	-	422,556

25. Non-controlling interests

Non-controlling interests in respect of the Group's non-wholly owned subsidiary is set out below.

	% of ownership and voting rights		Profit/(loss) allocated to non-controlling interests for the year		Non-controlling interests	
	2021	2020	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
IFB	**99.4%**	99.4%	1	(1)	312	311
AKPI	**52.8%**	52.8%	8,777	61,015	69,762	61,015
			8,778	61,014	70,104	61,326

25. Non-controlling interests (continued)

Summarised financial information in respect of AKPI that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2021 AED '000	2020 AED '000
Current assets	147,865	129,269
Non-current assets	-	-
Total assets	**147,865**	**129,269**
Current liabilities	-	-
Non-current liabilities	-	-
Equity attributable to the owners of AKPI	147,865	129,269
Non-controlling interests	-	-
Total liabilities and equity	**147,865**	**129,269**
Net income from financial assets at FVTPL	18,596	129,269
Expenses	-	-
Profit for the year	**18,596**	**129,269**
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**18,596**	**129,269**
Profit for the year attributable to:		
Owners of AKPI	9,819	129,269
Non-controlling interests	8,777	-
	18,596	**129,269**
Total comprehensive income for the year attributable to:		
Owners of AKPI	9,819	129,269
Non-controlling interests	8,777	-
	18,596	**129,269**

26. Interest income

	2021 AED '000	2020 AED '000
Loans and overdrafts	472,381	603,479
Bills discounted	8,954	12,247
Debt instruments	29,943	36,792
Placements with banks	1,546	14,011
	512,824	666,529

27. Income from Islamic financing and investing assets

	2021 AED '000	2020 AED '000
Murabaha	11,696	14,711
Ijarah	17,703	12,008
Islamic sukuk	20,231	14,433
Wakala	27	46
	49,657	41,198

28. Interest expense

	2021 AED '000	2020 AED '000
Customers' deposits	137,384	210,678
Borrowings from banks	23,983	51,038
Others	16,370	13,125
	177,737	274,841

29. Distribution to Islamic depositors

	2021 AED '000	2020 AED '000
Islamic customers' deposits	7,635	15,223
Islamic investment deposits from banks	1,034	61
	8,669	15,284

30. Net fee and commission income

	2021 AED '000	2020 AED '000
Fee and commission income:		
Commission on trade finance products	51,067	55,515
Advisory fee	24,639	39,864
Facility processing fee	27,172	23,339
Account service fee	5,270	8,109
Banking fee and commission	6,997	6,484
Insurance commission	4,007	5,680
Credit card related fee	8,607	13,284
Clearing and settlement fee	6,308	5,689
Other	1,897	3,347
	135,964	161,311
Fee and commission expense:		
Credit card related expenses	(7,594)	(8,233)
Other	(7,226)	(7,147)
	(14,820)	(15,380)
	121,144	145,931

31. Other operating income, net

	2021 AED '000	2020 AED '000
Foreign exchange gains	13,377	22,193
Net income from financial assets at FVTPL	18,891	127,515
Amortisation of day 1 profit	7,433	22,300
Gain on sale of properties	30,020	-
Other	4,845	4,582
	74,566	176,590

32. General and administrative expenses

	2021 AED '000	2020 AED '000
Payroll and related expenses	173,705	149,291
Contributions to defined contribution plan	3,593	3,118
Rent	3,622	1,800
Amortisation of intangible assets	18,288	17,177
Depreciation on property and equipment	20,923	19,981
Depreciation on investment properties	2,823	3,126
Directors' expenses	81	233
Insurance expense	9,001	7,886
Consultation fees	13,952	10,317
Maintenance costs	23,071	24,469
Other	33,578	26,722
	302,637	264,120

33. Net impairment loss on financial assets

	2021 AED '000	2020 AED '000
Net ECL charge for the year	240,282	442,576
Recoveries against written off loans	(44,818)	(44,225)
Other	2,557	1,480
	198,021	399,831

34. Net impairment loss on non-financial assets

	2021 AED '000	2020 AED '000
Impairment loss on property inventory	5,231	39,915
Impairment loss on investment properties	(1,265)	724
Reversal of impairment loss on property and equipment	-	(911)
(Reversal)/impairment loss on other non-financial assets	(3,402)	(2,558)
	564	37,170

35. Contingent liabilities and commitments

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to provide a loan. Even though these obligations may not be recognised on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

35.1 Letters of credit and guarantees

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The contractual amounts of contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the end of reporting period if counterparties failed to perform as contracted.

35. Contingent liabilities and commitments (continued)

35.1 Letters of credit and guarantees (continued)

	2021 AED '000	2020 AED '000
Guarantees	2,255,534	2,446,470
Letters of credit	146,235	276,340
	2,401,769	2,722,810

35.2 Other commitments

At any time, the Group has outstanding irrevocable Commitments to provide a loan. These commitments are in the form of approved loan facilities. The amounts reflected in the table below for commitments assume that amounts are fully advanced.

	2021 AED '000	2020 AED '000
Loan commitments	1,766,778	2,183,135
Capital commitments	4,586	1,567
	1,771,364	2,184,702

36. Basic and diluted earnings per share

Earnings per share are calculated by dividing the profit for the year attributed to the owners of the Bank less interest paid on Tier 1 Capital Securities by the weighted average number of shares in issue throughout the period as follows:

	From continuing operations		From continuing and discontinued operations	
	2021	2020	2021	2020
Profit/(loss) for the period attributable to owners of the Bank (AED '000)	121,777	(27,336)	121,777	(27,336)
Interest on Tier 1 Capital Securities (AED '000)	-	-	-	-
	121,777	(27,336)	121,777	(27,336)
Weighted average number of shares in issue ('000)	1,737,383	1,737,383	1,737,383	1,737,383
Basic and diluted earnings per share (AED)	0.070	(0.016)	0.070	(0.016)

37. Cash and cash equivalents

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

	2021 AED '000	2020 AED '000
Cash and balances with the Central Banks	3,303,280	1,522,628
Deposits and balances due from banks	98,985	79,961
	3,402,265	1,602,589
Less: Statutory reserve with the Central Bank of the UAE (note 6)	(354,741)	(205,477)
Less: Certificates of deposit with an original maturity of more than 90 days.	-	(400,000)
	3,047,524	997,112

38. Classification of financial assets and financial liabilities

38.1 Non-derivative financial assets and financial liabilities

	At fair value		At amortised cost		Total	
	2021 AED '000	2020 AED '000 (restated)	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
Non-derivative financial assets						
Cash and balances with the Central Banks	-	-	3,303,280	1,522,628	3,303,280	1,522,628
Deposits and balances due from banks	-	-	98,985	79,961	98,985	79,961
Loans and advances to customers	-	-	12,266,982	10,654,209	12,266,982	10,654,209
Islamic financing and investing assets	-	-	627,470	596,307	627,470	596,307
Receivables and other assets	-	-	3,238,483	2,468,503	3,238,483	2,468,503
Investment securities at fair value	256,955	248,594	-	-	256,955	248,594
Investment securities measured at amortised cost	-	-	1,338,114	1,537,078	1,338,114	1,537,078
	256,955	248,594	20,873,314	16,858,686	21,130,269	17,107,280
Derivative financial assets - FVTPL	16,917	33,506	-	-	16,917	33,506
	273,872	282,100	20,873,314	16,858,686	21,147,186	17,140,786
Non-derivative financial liabilities						
Balance due to the Central Banks	-	-	16,182	306,048	16,182	306,048
Deposits and balances due to banks	-	-	2,262,654	1,292,987	2,262,654	1,292,987
Customers' deposits	-	-	11,344,137	10,024,423	11,344,137	10,024,423
Islamic customers' deposits	-	-	1,230,033	457,032	1,230,033	457,032
Payables and other liabilities	-	-	3,207,785	2,452,574	3,207,785	2,452,574
	-	-	18,060,791	14,533,064	18,060,791	14,533,064
Derivative financial liabilities - FVTPL	17,976	35,584	-	-	17,976	35,584
	17,976	35,584	18,060,791	14,533,064	18,078,767	14,568,648

39. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments. The exposures to these risks and how they arise has remained unchanged from last year.

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The following section discusses the Group's risk management policies which remain unchanged from last year.

39.1 Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

39.1.1 Management of credit risk

The Group's Asset Quality Committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, which is based on an approved risk appetite framework, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.2 Significant increase in credit risk

As explained in note 3 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

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

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

The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For wholesale exposures: information obtained by periodic review of customer files including review of audited financial statements, analysis of market data such as prices of credit default swaps (CDS) or quoted bonds where available, assessment for changes in the financial sector in which the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.2 Significant increase in credit risk (continued)

Risk grade	Description	Moody's rating
1	Low to fair risk	Aaa
2+	Low to fair risk	Aa1
2	Low to fair risk	Aa2
2-	Low to fair risk	Aa3
3+	Low to fair risk	A1
3	Low to fair risk	A2
3-	Low to fair risk	A3
4+	Low to fair risk	Baa1
4	Low to fair risk	Baa2
4-	Standard monitoring	Baa3
5+	Standard monitoring	Ba1
5	Standard monitoring	Ba2
5-	Standard monitoring	Ba3
6+	Watch and special monitoring	B1
6	Watch and special monitoring	B2
6-	Watch and special monitoring	B3
7+	Watch and special monitoring	Caa1
7	Watch and special monitoring	Caa2
7-	Watch and special monitoring	Caa3
8	Default: Substandard	Ca - C
9	Default: Doubtful	Ca - C
10	Default: Impaired	Ca - C

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarises certain indicative qualitative indicators assessed.

	Qualitative indicators assessed
Retail lending	Internal rating downgrade, changes in performance behaviour of borrower or portfolio (past due days), LTV ratio (for mortgage loans), extension to the terms granted, actual or expected forbearance or restructuring, blacklisted employers or loss of job, adverse change in economic conditions, uncollateralised bullet payment loans.
Wholesale lending	Significant change in operating results of a borrower, significant adverse change in regulatory, economic or technological environment, actual or expected forbearance or restructuring, early signs of cash flows and liquidity problems, past due days, internal ratings downgrade, significant increase in exposure at default due to change in collateral value, uncollateralised bullet payment loans.
Due from banks	Significant increase in credit spread, external credit ratings
Debt instruments	Significant increase in credit spread, external credit ratings
Financial guarantee contract	Increase in credit risk of other financial instruments of the borrower

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.2 Significant increase in credit risk (continued)

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a wholesale loan are assessed using similar criteria to wholesale loans.

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

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

39.1.3 Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The expected credit losses have been determined using two forward-looking scenarios – Baseline and Adverse. The ECL is calculated for each scenario and weighted by the likelihood of that scenario occurring.

Based on the historical data on key macroeconomic indicators provided by governmental body and monetary authority, the Group formulates a 'base case' view of the future direction of the economic outlook that drives the default rates of each portfolio of financial instruments. The baseline scenario represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting and other business activities. The adverse scenario represent more pessimistic outcomes.

The Group redeveloped macroeconomic models to address the deficiencies identified in the existing models. Using robust macroeconomic modelling methodology, Group identified and documented the key macroeconomic factors that drives the change in default rates of each portfolio of financial instruments. Following macroeconomic data and forecasts published by governmental bodies and monetary authorities such as the CBUAE, IMF, and World Bank have been utilized by the Group to incorporate forward-looking information into the PD term structure of each of the scenario.

- Real estate AD (average residential price, AED/m2)
- ECI (year-on-year % change)
- Oil Production (thousand barrels per day)
- Average oil price per barrel (USD)
- Inflation, average consumer price index (year-on-year % change)
- Emirates interbank offer rate: EIBOR
- Dubai stock price index: Dubai Financial Market General Index
- Annual UAE real investment (AED billion 2010 prices)
- Annual UAE imports (AED billion 2010 prices)
- Annual UAE real consumption (AED billion 2010 prices)

Predicted relationships between the key macroeconomic indicators and default rates of respective portfolios of financial assets have been developed based on analyzing historical data over the past 8 years. Models are reviewed and monitored for appropriateness at the end of each reporting period.

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.3 Incorporation of forward-looking information (continued)

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2021 for the years 2022 to 2024, for the UAE, which is the country where the Group operates and therefore is the country that has a material impact on ECL.

December 2021

	2022	2023	2024
Real estate AD (average residential price, AED/m2)			
▪ Base scenario	10,292	10,682	11,106
▪ Adverse scenario	8,761	9,275	9,728
ECI (year-on-year % change)			
▪ Base scenario	3.26%	3.31%	3.30%
▪ Adverse scenario	0.05%	3.14%	3.14%
Oil Production (thousand barrels per day)			
▪ Base scenario	2,840	2,912	2,99
▪ Adverse scenario	2,655	2,721	2,803
Average oil price per barrel (USD)			
▪ Base scenario	59.75	60.00	61.20
▪ Adverse scenario	37.47	41.83	48.25
Inflation, average consumer price index (year-on-year % change)			
▪ Base scenario	2.00%	2.00%	2.00%
▪ Adverse scenario	1.36%	1.63%	1.95%
Emirates interbank offer rate: EIBOR			
▪ Base scenario	0.69%	1.00%	1.46%
▪ Adverse scenario	0.36%	0.60%	0.88%
Dubai stock price index: Dubai Financial Market General Index			
▪ Base scenario	2,843	3,004	3,154
▪ Adverse scenario	1,488	1,635	1,831
Annual UAE real investment (AED billion 2010 prices)			
▪ Base scenario	50.12	51.51	52.93
▪ Adverse scenario	41.36	42.26	43.35
Annual UAE imports (AED billion 2010 prices)			
▪ Base scenario	282.68	290.65	298.79
▪ Adverse scenario	238.52	244.06	250.54
Annual UAE real consumption (AED billion 2010 prices)			
▪ Base scenario	125.14	128.66	132.26
▪ Adverse scenario	107.13	109.68	112.61

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2020 for the years 2021 to 2023, for the United Arab Emirates, which is the country where the Group operates and therefore is the country that has a material impact on ECL.

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.3 Incorporation of forward-looking information (continued)

December 2020

	2021	2022	2023
Real estate AD (average residential price, AED/m2)			
▪ Base scenario	9,889	11,253	11,453
▪ Adverse scenario	8,091	9,240	9,499
ECI (year-on-year % change)			
▪ Base scenario	1.30%	2.20%	2.60%
▪ Adverse scenario	1.17%	1.72%	2.56%
Oil Production (thousand barrels per day)			
▪ Base scenario	3,035	3,144	3,092
▪ Adverse scenario	2,686	3,054	3,090
Average oil price per barrel (USD)			
▪ Base scenario	44.01	45.66	64.11
▪ Adverse scenario	37.41	38.81	60.15
Inflation, average consumer price index (year-on-year % change)			
▪ Base scenario	1.50%	2.00%	2.00%
▪ Adverse scenario	0.50%	1.53%	1.85%
Emirates interbank offer rate: EIBOR			
▪ Base scenario	0.79%	1.92%	3.74%
▪ Adverse scenario	0.94%	2.30%	4.49%
Dubai stock price index: Dubai Financial Market General Index			
▪ Base scenario	2,104	2,434	2,451
▪ Adverse scenario	1,619	1,623	1,634
Annual UAE real investment (AED billion 2010 prices)			
▪ Base scenario	44	50	52
▪ Adverse scenario	37	41	42
Annual UAE imports (AED billion 2010 prices)			
▪ Base scenario	247	283	291
▪ Adverse scenario	212	239	244
Annual UAE real consumption (AED billion 2010 prices)			
▪ Base scenario	110	125	129
▪ Adverse scenario	95	107	110

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.3 Incorporation of forward-looking information (continued)

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key macroeconomic indicators used to calculate ECL change by 5%. The table below outlines the total ECL per portfolio as at 31 December 2021 and 31 December 2020, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 5%. The changes are applied in isolation and are applied to each probability weighted scenario used to develop the estimate of expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

	Retail lending AED '000	Wholesale lending AED '000	Due from banks AED '000	Investment securities AED '000
December 2021				
Real estate AD (average residential price, AED/m2)				
▪ +5%	**(884)**	**-**	**-**	**-**
▪ -5%	**1,008**	**-**	**-**	**-**
Real GDP (year-on-year % change)				
▪ +5%	**(224)**	**-**	**-**	**-**
▪ -5%	**204**	**-**	**-**	**-**
Average oil price per barrel (USD)				
▪ +5%	**(0.28)**	**(3,105)**	**(46)**	**(-171)**
▪ -5%	**0.40**	**4,483**	**66**	**245**
Oil Production (thousand barrels per day)				
▪ +5%	**(40)**	**-**	**-**	**-**
▪ -5%	**50**	**-**	**-**	**-**
Annual UAE real investment (AED billion 2010 prices)				
▪ +5%	**(0.39)**	**(5,424)**	**(81)**	**(300)**
▪ -5%	**0.36**	**5,547**	**82**	**304**
Annual UAE imports (AED billion 2010 prices)				
▪ +5%	**(0.16)**	**(1,755)**	**(26)**	**(97)**
▪ -5%	**0.22**	**2,476**	**37**	**135**

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.3 Incorporation of forward-looking information (continued)

December 2020	Retail lending AED '000	Wholesale lending AED '000	Due from banks AED '000	Investment securities AED '000
Real estate AD (average residential price, AED/m2)				
▪ +5%	(956)	-	-	-
▪ -5%	1,135	-	-	-
Real GDP (year-on-year % change)				
▪ +5%	(449)	(1)	-	-
▪ -5%	422	1	-	-
Average oil price per barrel (USD)				
▪ +5%	(1)	(1,341)	(3)	(89)
▪ -5%	-	1,153	3	77
Oil Production (thousand barrels per day)				
▪ +5%	(50)	-	-	-
▪ -5%	62	-	-	-
Annual UAE real investment (AED billion 2010 prices)				
▪ +5%	(5)	(12,297)	(25)	(765)
▪ -5%	6	16,194	33	1,003
Annual UAE imports (AED billion 2010 prices)				
▪ +5%	-	(20)	-	-
▪ -5%	-	24	-	1

If the weightage assigned to base scenario is changed by 20%, the impact on ECL would range between AED 10 million to AED 15 million. Retail lending and wholesale lending in the table above include loan commitments and financial guarantee contracts.

39.1.4 Measurement of ECL

Following risk parameters have been used by the Bank to measure the ECL:

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

As explained above these parameters are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is the predicted probability that a pool of obligors will default over the predefined future time horizon. For each portfolio of financial instruments, PDs are estimated using robust statistical models – rating models for wholesale facilities and roll rate models for retail facilities. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Macroeconomic adjustment of the PD has been carried out as described above to reflect forward-looking information

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.4 Measurement of ECL (continued)

LGD is an estimate of the loss arising on default. The Group estimates the LGD based on the difference between contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted using the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

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

39.1.5 Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics such as instrument type, credit risk grade, utilisation band and collateral type. The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

39.1.6 Credit quality

Credit risk concentrations

An analysis of the Group's credit risk concentrations per class of financial asset, subject to impairment, is provided in the following tables. The amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

Concentration by sector	**2021 AED '000**	**2020 AED '000**
Balances with Central Banks		
Central banks	3,244,596	1,445,477
Deposits and balances due from banks		
Other banks	98,984	79,961
Loans and advances to customers		
Retail lending		
Mortgages	802,912	937,741
Unsecured lending	464,257	678,675
	1,267,169	1,616,416
Wholesale lending		
Real estate	556,277	2,666,704
Construction	2,782,264	740,800
Trade	1,962,327	1,553,648
Manufacturing	665,741	512,257
Transport, storage and communication	129,718	238,681
Gas, electricity and water	942,703	511,003
Other	3,960,784	2,814,700
	10,999,814	9,037,793
Islamic financing and investing assets		
Wholesale lending		
Real estate	175,467	165,508
Construction	82,184	42,481
Trade	93	17,887
Manufacturing	47,006	51,867
Transport, storage and communication	-	-
Other	322,720	318,564
	627,470	596,307
Receivables and other assets		
Construction	55,051	92,383
Trade	2,708,665	1,998,558
Manufacturing	242,261	143,510
Other	232,506	234,052
	3,238,483	2,468,503
Investment securities measured at amortised cost		
Sovereign	1,265,069	1,367,439
Other	73,045	169,639
	1,338,114	1,537,078
Loan commitments, letters of credit and financial guarantee contracts		
Retail lending	173,265	213,922
Real estate	92,405	271,851
Construction	2,425,561	2,603,861
Trade	307,615	520,751
Manufacturing	348,367	463,013
Transport, storage and communication	32,523	62,192
Gas, electricity and water	30,183	58,184
Other	758,628	712,171
	4,168,547	4,905,945
	24,983,177	21,687,480

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

Concentration by region

	2021 AED ’000	2020 AED ’000
The UAE	23,308,511	19,594,829
The GCC	1,128,940	816,928
Other Arab countries	2,674	11,798
Europe	68,020	58,642
The USA	45,280	15,331
Asia	280,063	932,063
Other	149,689	257,889
	24,983,177	21,687,480

Credit risk exposure per class of financial asset, internal rating and stage

An analysis of the Group’s credit risk exposure per class of financial asset (subject to impairment), internal rating and stage without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. These amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

- **Balances with Central Banks**

	Stage 1 12 months ECL AED ’000	Stage 2 Life time ECL AED ’000	Stage 3 Life time ECL AED ’000	POCI Life time ECL AED ’000	Total AED ’000
31 December 2021					
Low to fair risk	3,244,596	-	-	-	3,244,596
Gross carrying amounts	**3,244,596**	**-**	**-**	**-**	**3,244,596**
ECL allowance	-	-	-	-	-
Carrying amount	**3,244,596**	**-**	**-**	**-**	**3,244,596**
31 December 2020					
Low to fair risk	1,445,477	-	-	-	1,445,477
Gross carrying amounts	1,445,477	-	-	-	1,445,477
ECL allowance	-	-	-	-	-
Carrying amount	1,445,477	-	-	-	1,445,477

- **Deposits and balances due from banks**

	Stage 1 12 months ECL AED ’000	Stage 2 Life time ECL AED ’000	Stage 3 Life time ECL AED ’000	POCI Life time ECL AED ’000	Total AED ’000
31 December 2021					
Low to fair risk	98,985		-	-	98,985
Gross carrying amounts	**98,985**	**-**	**-**	**-**	**98,985**
ECL allowance	(1,143)	-	-	-	(1,143)
Carrying amount	**97,842**	**-**	**-**	**-**	**97,842**

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Deposits and balances due from banks** (continued)

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2020					
Low to fair risk	79,961	-	-	-	79,961
Gross carrying amounts	79,961				79,961
ECL allowance	(98)	-	-	-	(98)
Carrying amount	79,863	-	-	-	79,863

- **Loans and advances to customers - retail lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2021					
Low to fair risk	1,008,251	-	-	-	1,008,251
Standard monitoring	52,639	-	-	-	52,639
Watch	-	98,626	-	-	98,626
Substandard	-	-	7,093	-	7,093
Doubtful	-	-	6,445	-	6,445
Impaired	-	-	94,115	-	94,115
Gross carrying amounts	**1,060,890**	**98,626**	**107,653**	**-**	**1,267,169**
ECL allowance	(10,794)	(15,562)	(20,646)	-	(47,002)
Carrying amount	**1,050,096**	**83,064**	**87,007**	**-**	**1,220,167**
31 December 2020					
Low to fair risk	782,303	-	-	-	782,303
Standard monitoring	28,010	-	-	-	28,010
Watch	-	702,297	-	-	702,297
Substandard	-	-	54,691	-	54,691
Doubtful	-	-	7,725	-	7,725
Impaired	-	-	41,390	-	41,390
Gross carrying amounts	810,313	702,297	103,806	-	1,616,416
ECL allowance	(9,041)	(41,263)	(20,773)	-	(71,077)
Carrying amount	801,272	661,034	83,033	-	1,545,339

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Loans and advances to customers - wholesale lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2021					
Low to fair risk	2,989,024	-	-	-	2,989,024
Standard monitoring	3,931,402	-	-	-	3,931,402
Watch	-	1,986,748	-	-	1,986,748
Substandard	-	-	240,335	-	240,335
Doubtful	-	-	896,344	-	986,344
Impaired	-	-	955,961	-	955,961
Gross carrying amounts	**6,920,426**	**1,986,748**	**2,092,640**	**-**	**10,999,814**
ECL allowance	(53,295)	(113,247)	(896,091)	-	(1,062,633)
Carrying amount	**6,867,131**	**1,873,501**	**1,196,549**	**-**	**9,937,181**
31 December 2020					
Low to fair risk	1,766,802	-	-	-	1,766,802
Standard monitoring	3,604,063	-	-	-	3,604,063
Watch	-	1,942,183	-	-	1,942,183
Substandard	-	-	701,463	-	701,463
Doubtful	-	-	74,295	-	74,295
Impaired	-	-	948,987	-	948,987
Gross carrying amounts	5,370,865	1,942,183	1,724,745	-	9,037,793
ECL allowance	(28,041)	(120,540)	(656,192)	-	(804,773)
Carrying amount	5,342,824	1,821,643	1,068,553	-	8,233,020

- **Islamic financing and investing assets - wholesale lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2021					
Low to fair risk	63,628	-	-	-	63,628
Standard monitoring	372,541	-	-	-	372,541
Watch	-	191,301	-	-	191,301
Gross carrying amounts	**436,169**	**191,301**	**-**	**-**	**627,470**
ECL allowance	(3,960)	(2,087)	-	-	(6,047)
Carrying amount	**432,209**	**189,214**	**-**	**-**	**621,423**
31 December 2020					
Low to fair risk	79,907	-	-	-	79,907
Standard monitoring	516,400	-	-	-	516,400
Gross carrying amounts	596,307	-	-	-	596,307
ECL allowance	(2,822)	-	-	-	(2,822)
Carrying amount	593,485	-	-	-	593,485

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Receivables and other assets**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2021					
Low to fair risk	2,559,738		-	-	2,559,738
Standard monitoring	634,196		-	-	634,196
Watch		44,551	-	-	44,551
Gross carrying amounts	3,193,934	44,551	-	-	3,238,485
ECL allowance	(3,131)	(1,476)			(4,607)
Carrying amount	3,190,803	43,075	-	-	3,233,878
31 December 2020					
Low to fair risk	1,499,818	-	-	-	1,499,818
Standard monitoring	966,034	-	-	-	966,034
Watch	-	2,651	-	-	2,651
Gross carrying amounts	2,465,852	2,651	-	-	2,468,503
ECL allowance	(2,328)	(67)			(2,395)
Carrying amount	2,463,524	2,584	-	-	2,466,108

- **Investment securities measured at amortised cost**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2021					
Low to fair risk	797,865	-	-	-	797,865
Standard monitoring	540,249	-	-	-	540,249
Gross carrying amounts	**1,338,114**	**-**	**-**	**-**	**1,338,114**
ECL allowance	(4,338)	-	-	-	(4,338)
Carrying amount	**1,333,776**	**-**	**-**	**-**	**1,333,776**
31 December 2020					
Low to fair risk	1,005,343	-	-	-	1,005,343
Standard monitoring	531,735	-	-	-	531,735
Gross carrying amounts	1,537,078	-	-	-	1,537,078
ECL allowance	(3,002)	-	-	-	(3,002)
Carrying amount	1,534,076	-	-	-	1,534,076

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Loan commitments, letters of credit and financial guarantee contracts**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
31 December 2021					
Low to fair risk	1,863,354	-	-	-	1,863,354
Standard monitoring	1,853,678	-	-	-	1,853,678
Watch	-	435,406	-	-	435,406
Substandard	-	-	15,851	-	15,851
Doubtful	-	-	256	-	256
Impaired	-	-	2	-	2
Gross carrying amounts	**3,717,032**	**435,406**	**16,109**	**-**	**4,168,547**
ECL allowance	(12,874)	(11,989)	(7,001)	-	(31,864)
Net exposure	**3,704,158**	**423,417**	**9,108**	**-**	**4,136,683**
31 December 2020					
Low to fair risk	2,182,538	-	-	-	2,182,538
Standard monitoring	2,505,566	-	-	-	2,505,566
Watch	-	192,273	-	-	192,273
Substandard	-	-	3,780	-	3,780
Doubtful	-	-	600	-	600
Impaired	-	-	21,188	-	21,188
Gross carrying amounts	4,688,104	192,273	25,568	-	4,905,945
ECL allowance	(12,210)	(4,421)	(4,988)	-	(21,619)
Net exposure	4,675,894	187,852	20,580	-	4,884,326

The carrying amounts of the Group's financial assets at fair value (not subject to impairment) as disclosed in note 38 best represents the assets' maximum exposure to credit risk.

Expected credit loss allowance

This table summarises the ECL allowance/impairment allowance at the end of reporting period by class of financial asset.

	2021 AED '000	2020 AED '000
Deposits and balances due from banks	1,143	98
Loans and advances to customers - retail lending	47,002	71,077
Loans and advances to customers - wholesale lending	1,062,633	804,773
Islamic financing and investing assets - wholesale lending	6,047	2,822
Receivables and other assets	4,607	2,395
Other financial assets measured at amortised cost	4,338	3,002
Contingencies and commitments	31,864	21,619
	1,157,634	905,786

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

The tables below analyse the movement of the ECL allowance during the year per class of financial assets.

- **Deposits and balances due from banks**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2021	98	-	-	-	98
Change in credit risk	1,045	-	-	-	1,045
As at 31 December 2021	1,143	-	-	-	1,143
As at 1 January 2020	-	-	-	-	-
Financial assets derecognised	98	-	-	-	98
As at 31 December 2020	98	-	-	-	98

- **Loans and advances to customers - retail lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2021	9,041	41,263	20,773	-	71,077
Transfer to stage 1	19,624	(19,624)	-	-	-
Transfer to stage 2	(396)	2,767	(2,371)	-	-
Transfer to stage 3	(110)	(1,638)	1,748	-	-
Change in credit risk	(16,362)	2,715	9,250	-	(4,397)
Write-offs	(159)	(8,333)	(8,705)	-	(17,197)
New financial assets recognised	486	368	124	-	978
Financial assets derecognised	(1,330)	(1,956)	(173)	-	(3,459)
As at 31 December 2021	10,794	15,562	20,646	-	47,002
As at 1 January 2020	13,091	19,405	34,148	-	66,644
Transfer to stage 1	3,221	(3,136)	(85)	-	-
Transfer to stage 2	(4,857)	11,176	(6,319)	-	-
Transfer to stage 3	(361)	(1,644)	2,005	-	-
Change in credit risk	(202)	19,269	10,009	-	29,076
Write-offs	(410)	(4,946)	(18,735)	-	(24,091)
New financial assets recognised	82	1,385	-	-	1,467
Financial assets derecognised	(1,523)	(246)	(250)	-	(2,019)
As at 31 December 2020	9,041	41,263	20,773	-	71,077

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Loans and advances to customers - wholesale lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2021	28,041	120,540	656,192	-	804,773
Transfer to stage 1	3,428	(3,428)	-	-	-
Transfer to stage 2	(2,064)	2,064	-	-	-
Transfer to stage 3	(59)	(17,780)	17,839	-	-
Change in credit risk	7,097	16,412	219,678	-	243,187
Write-offs	-	-	-	-	-
New financial assets recognised	22,012	1,429	5,744	-	29,185
Financial assets derecognised	(5,160)	(5,990)	(3,362)	-	(14,512)
As at 31 December 2021	**53,295**	**113,247**	**896,091**	**-**	**1,062,633**
As at 1 January 2020	24,927	91,888	623,306	-	740,121
Transfer to stage 1	7,834	(7,834)	-	-	-
Transfer to stage 2	(4,825)	20,409	(15,584)	-	-
Transfer to stage 3	(237)	(10,234)	10,471	-	-
Change in credit risk	1,925	28,092	352,421	-	382,438
Write-offs	-	(824)	(314,292)	-	(315,116)
New financial assets recognized	120	-	-	-	120
Financial assets derecognized	(1,703)	(957)	(130)	-	(2,790)
As at 31 December 2020	28,041	120,540	656,192	-	804,773

- **Islamic financing and investing assets - wholesale lending**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2021	2,822	-	-	-	2,822
Transfer to stage 1	(200)	200	-	-	-
Change in credit risk	1,126	1,887	-	-	3,013
New financial assets recognized	215				215
Write-offs		-	-	-	
Financial assets derecognised	(3)	-	-	-	(3)
As at 31 December 2021	3,960	2,087	-	-	6,047
As at 1 January 2020	2,726	-	-	-	2,726
Change in credit risk	(691)	-	-	-	(691)
Write-offs	971	-	-	-	971
Financial assets derecognised	(184)	-	-	-	(184)
As at 31 December 2020	2,822	-	-	-	2,822

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Receivables and other assets**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2021	2,328	67	-	-	2,395
Transfer to stage 1	-	-	-	-	
Transfer to stage 2	-	-	-	-	
Change in credit risk	956	179	-	-	1,135
New financial assets recognized	2,134	1,297	-	-	3,431
Financial assets derecognised	(2,287)	(67)	-	-	(2,354)
As at 31 December 2021	3,131	1,476	**-**	**-**	4,607
As at 1 January 2020	2,963	17	-	-	2,980
Transfer to stage 1	8	(8)	-	-	-
Transfer to stage 2	(256)	256	-	-	-
Change in credit risk	(389)	(198)	-	-	(587)
New financial assets recognized	2	-	-	-	2
As at 31 December 2020	2,328	67	-	-	2,395

- **Investment securities measured at amortised cost**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2021	3,002	-	-	-	3,002
Change in credit risk	1,479	-	-	-	1,479
New financial assets recognised	622	-	-	-	622
Financial assets derecognised	(765)	-	-	-	(765)
As at 31 December 2021	4,338	-	-	-	4,338
As at 1 January 2020	2,937	-	-	-	2,937
Change in credit risk	371	-	-	-	371
New financial assets recognised	310	-	-	-	310
Financial assets derecognised	(616)	-	-	-	(616)
As at 31 December 2020	3,002	-	-	-	3,002

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Loan commitments, letters of credit and financial guarantee contracts**

	Stage 1 12 months ECL AED '000	Stage 2 Life time ECL AED '000	Stage 3 Life time ECL AED '000	POCI Life time ECL AED '000	Total AED '000
As at 1 January 2021	12,210	4,421	4,988	-	21,619
Transfer to stage 1	234	(234)			
Transfer to stage 2	(2,230)	2,247	(17)	-	-
Transfer to stage 3	(3)	(309)	312	-	-
Change in credit risk	2,012	6,296	1,400	-	9,708
New financial guarantees and commitments recognised	3,820	72	318	-	4,210
Financial guarantees and commitments derecognized	(3,169)	(504)		-	(3,673)
As at 31 December 2021	**12,874**	**11,989**	**7,001**	**-**	**31,864**
As at 1 January 2020	12,923	6,679	4,479	-	24,081
Transfer to stage 1	557	(557)	-	-	-
Transfer to stage 2	(172)	177	(5)	-	-
Transfer to stage 3	(230)	(142)	372	-	-
Change in credit risk	(1,075)	(1,735)	145	-	(2,665)
New financial guarantees and commitments recognised	696	-	-	-	696
Financial guarantees and commitments derecognized	(489)	(1)	(3)	-	(493)
As at 31 December 2020	12,210	4,421	4,988	-	21,619

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided in the table below:

- **Balances with the Central Banks**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2021	1,445,477	-	-	-	1,445,477
Change in exposure	1,799,119	-	-	-	1,799,119
As at 31 December 2021	3,244,596	**-**	**-**	**-**	3,244,596
As at 1 January 2020	2,327,982	-	-	-	2,327,982
Change in exposure	(882,505)	-	-	-	(882,505)
As at 31 December 2020	1,445,477	-	-	-	1,445,477

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Deposits and balances due from banks**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2021	79,961	-	-	-	79,961
Change in exposure	19,024	-	-	-	19,024
New financial assets recognized	-	-	-	-	-
Financial assets derecognised	-	-	-	-	-
As at 31 December 2021	98,985	-	-	-	98,985
As at 1 January 2020	190,313	-	-	-	190,313
Change in exposure	(112,928)	-	-	-	(112,928)
New financial assets recognized	5,849	-	-	-	5,849
Financial assets derecognised	(3,273)	-	-	-	(3,273)
As at 31 December 2020	79,961	-	-	-	79,961

- **Loans and advances to customers - retail lending**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2021	810,313	702,297	103,806	-	1,616,416
Transfer to stage 1	426,989	(426,989)	-	-	-
Transfer to stage 2	(15,443)	24,426	(8,983)	-	-
Transfer to stage 3	(8,496)	(27,056)	35,552	-	-
Change in exposure	(111,092)	(18,196)	(3,029)	-	(132,317)
Write-offs	(3,866)	(38,877)	(18,914)	-	(61,657)
New financial assets recognised	79,637	3,883	260	-	83,780
Financial assets derecognised	(117,152)	(120,862)	(1,039)	-	(239,053)
As at 31 December 2021	1,060,890	98,626	107,653	-	1,267,169
As at 1 January 2020	1,831,549	175,602	101,390	-	2,108,541
Transfer to stage 1	35,499	(35,314)	(185)	-	-
Transfer to stage 2	(659,321)	674,897	(15,576)	-	-
Transfer to stage 3	(43,195)	(20,967)	64,162	-	-
Change in exposure	(164,452)	(73,905)	(3,966)	-	(242,323)
Write-offs	(10,664)	(17,310)	(41,578)	-	(69,552)
New financial assets recognised	9,630	11,674	-	-	21,304
Financial assets derecognised	(188,733)	(12,380)	(441)	-	(201,554)
As at 31 December 2020	810,313	702,297	103,806	-	1,616,416

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Loans and advances to customers - wholesale lending**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2021	5,370,865	1,942,183	1,724,745	-	9,037,793
Transfer to stage 1	185,826	(185,826)	-	-	-
Transfer to stage 2	(832,465)	832,465	-	-	-
Transfer to stage 3	(6,537)	(318,390)	324,927	-	-
Change in exposure	120,010	(115,617)	41,311	-	45,704
Write-offs	-	-		-	-
New financial assets recognised	2,698,044	31,276	7,235	-	2,736,555
Financial assets derecognised	(615,317)	(199,343)	(5,578)	-	(820,238)
As at 31 December 2021	6,920,426	1,986,748	2,092,640	-	10,999,814
As at 1 January 2020	6,842,027	1,880,300	1,500,222	-	10,222,549
Transfer to stage 1	317,933	(317,933)	-	-	-
Transfer to stage 2	(708,041)	774,351	(66,310)	-	-
Transfer to stage 3	(284,649)	(118,520)	403,169	-	-
Change in exposure	74,584	(229,995)	203,874	-	48,463
Write-offs	-	(4,285)	(316,210)	-	(320,495)
New financial assets recognised	42,837	-	-	-	42,837
Financial assets derecognised	(913,826)	(41,735)	-	-	(955,561)
As at 31 December 2020	5,370,865	1,942,183	1,724,745	-	9,037,793

- **Islamic financing and investing assets - wholesale lending**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2021	596,307	-	-	-	596,307
Transfer to stage 2	(179,254)	179,254	-	-	
Change in exposure	8,945	12,047	-	-	20,992
New financial assets recognized	32,917	-	-	-	32,917
Financial assets derecognised	(22,746)	-	-	-	(22,746)
As at 31 December 2021	436,169	191,301	-	-	627,470
As at 1 January 2020	243,821	-	-	-	243,821
Change in exposure	36,715	-	-	-	36,715
New financial assets recognized	323,207	-	-	-	323,207
Financial assets derecognised	(7,436)	-	-	-	(7,436)
As at 31 December 2020	596,307	-	-	-	596,307

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Receivables and other assets**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2021	2,465,852	2,651	-	-	2,468,503
Transfer to stage 1	-		-	-	-
Transfer to stage 2			-	-	
Change in exposure	5,172		-	-	5,172
New financial assets recognized	2,964,999	44,551			3,009,550
Financial assets derecognized	(2,242,089)	(2,653)	-	-	(2,244,742)
As at 31 December 2021	3,193,934	44,549	-	-	3,238,483
As at 1 January 2020	2,178,467	1,898	-	-	2,180,365
Transfer to stage 1	867	(867)	-	-	-
Transfer to stage 2	(30,215)	30,215	-	-	-
Change in exposure	548,297	(28,595)	-	-	519,702
Financial assets derecognised	(231,564)	-	-	-	(231,564)
As at 31 December 220	2,465,852	2,651	-	-	2,468,503

- **Investment securities measured at amortised cost**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2021	1,537,078	-	-	-	1,537,078
Change in exposure	(2,829)	-	-	-	(2,829)
New financial assets recognised	179,978	-	-	-	179,978
Financial assets derecognised	(376,113)	-	-	-	(376,113)
As at 31 December 2021	1,338,114	-	-	-	1,338,114
As at 1 January 2020	1,240,351	-	-	-	1,240,351
Change in exposure	(79,312)	-	-	-	(79,312)
New financial assets recognised	576,777	-	-	-	576,777
Financial assets derecognised	(200,738)	-	-	-	(200,738)
As at 31 December 2020	1,537,078	-	-	-	1,537,078

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Loan commitments, letters of credit and financial guarantee contracts**

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	POCI AED '000	Total AED '000
As at 1 January 2021	4,688,104	192,273	25,568	-	4,905,945
Transfer to stage 1	31,113	(31,113)		-	-
Transfer to stage 2	(381,177)	381,553	(376)	-	-
Transfer to stage 3	(209)	(9,393)	9,602	-	-
Change in exposure	(452,326)	(42,994)	(64)	-	(495,384)
New financial guarantees and commitments recognised	1,188,519	7,923	69	-	1,196,511
Financial guarantees and commitments derecognised	(1,356,992)	(62,843)	(18,690)	-	(1,438,525)
As at 31 December 2021	3,717,032	435,406	16,109	-	4,168,547
As at 1 January 2020	5,314,114	327,833	19,200	-	5,661,147
Transfer to stage 1	153,150	(153,131)	(19)	-	-
Transfer to stage 2	(58,337)	59,236	(899)	-	-
Transfer to stage 3	(42,295)	(12,536)	54,831	-	-
Change in exposure	(914,684)	(28,520)	(47,525)	-	(990,729)
New financial guarantees and commitments recognised	237,977	-	-	-	237,977
Financial guarantees and commitments derecognised	(1,821)	(609)	(20)	-	(2,450)
As at 31 December 2020	4,688,104	192,273	25,568	-	4,905,945

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

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

- **Past due but not impaired**

	Loans and advances to customers		Islamic financing and investing assets	
	2021 AED '000	**2020 AED '000**	**2021 AED '000**	**2020 AED '000**
Low to fair risk				
Past due up to 30 days	23,018	22,525	-	-
Standard monitoring				
Past due up to 30 days	511,448	254,271	-	-
Past due 31 - 60 days		-	-	-
Watch				
Past due up to 30 days	60,049	164,457	-	-
Past due 31 - 60 days	124,907	100,349	-	-
Past due 61 - 90 days	74,864	288,427	-	-
Past due 91 - 180 days	-	4,237	-	-
Past due of more than 180 days	583,268	256,651	-	-
	1,377,554	1,090,917	-	-

- **Neither past due nor impaired**

	Loans and advances to customers		Islamic financing and investing assets	
	2021 AED '000	**2020 AED '000**	**2021 AED '000**	**2020 AED '000**
Low to fair risk	3,974,368	2,526,582	62,702	79,908
Standard monitoring	3,483,744	3,380,872	376,682	516,400
Watch	1,724,416	1,830,358	188,086	-
	9,182,528	7,737,812	627,470	596,308

Modified financial assets

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

	2021 AED '000	**2020 AED '000**
Financial assets (with ECL allowance based on lifetime ECL) modified during the period		
Gross carrying amount before modification	536,266	780,587
ECL allowance before modification	(10,863)	(56,179)
Net amortised cost before modification	525,403	724,408
Net modification gain/(loss)	-	-
Net amortised cost after modification	**525,403**	724,408

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.6 Credit quality (continued)

	2021 AED '000	2020 AED '000
Financial assets modified since initial recognition at a time when ECL allowance was based on lifetime ECL		
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifessstime to 12-month ECL cost after modification	-	-

39.1.7 Identification of SICR event

As explained in note 40.1.2, if there is a significant increase in credit risk since initial recognition, the Group measures the loss allowance based on lifetime rather than 12-month ECL i.e. financial assets are migrated from stage 1 to stage 2. A SICR event occurs when there has been a significant increase in the risk of a default occurring, over the expected life of a financial instrument. The Group continuously reviews its portfolio for other indicators of unlikeliness to meet its financial obligations, any financial deterioration beyond temporary liquidity stress and whether it is likely to be short term, because of Covid-19, or longer term.

Reasonableness of Forward-Looking Information and probability weights

As noted in the CBUAE guidance on Treatment of IFRS9 Expected Credit Loss in the context of the Covid-19 crisis, dated 27 October 2020, Group has re-introduced the macroeconomic scenarios in ECL with an effective date of 30 September 2020. As explained in note 39.1.3, through robust modelling technique, the Group has identified key macroeconomic variables influencing credit risk of each portfolio. Forecasts for these economic variables (for both baseline and adverse economic scenario) are obtained from governmental bodies and monetary authorities such as the CBUAE, IMF, and World Bank, which reflect the current and forecasted economic impacts in the fallout of Covid. In line with the Joint Guidance, the Group has applied judgmental overlays on the forecasts to commensurate with economic impact observed so far, with the near-term outlook and with the ongoing nature of the pandemic. Additionally, Expert judgmental overlay has been exercised on wholesale portfolio in line with the CBUAE guidance to incorporate uncertainty in measuring ECL.

The bank has not extended any TESS relief to customer as at 31 December 2021.

39.1.8 Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The Group holds financial instruments of AED 5,241 million (2020: AED 5,206 million) for which no loss allowance is recognised because of collateral at the end of the reporting period. The estimated value of collaterals held at end of the reporting period is AED 10,308 million (2020: AED 10,145 million). This value of the collateral is only considered to the extent that mitigates the credit risk. There was no change in the Group's collateral policy during the year. The main types of collateral and the types of assets these are associated with are listed below.

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.8 Collateral held as security and other credit enhancements (continued)

Derivatives

The Group enters into derivatives bilaterally under International Swaps and Derivative Association (ISDA) master netting agreements. ISDA master netting agreements give either party the legal right of offset on termination of the contract or on default of the other party. No financial instruments subject to master netting agreements are setoff in the statement of financial position. The Group executes a credit support annex in conjunction with each ISDA agreement, which requires the Group and each counterparty to post collateral to mitigate credit risk. Collateral is also posted daily in respect of derivatives transacted. The collateral posted with regards to open derivatives is cash or marketable securities.

Reverse sale and repurchase agreements (Reverse REPO)

Reverse sale and repurchase agreement (Reverse REPO) lending are collateralised by marketable securities. These lending agreements require the Group and each counterparty to post collateral to mitigate credit risk. Collateral is also posted daily in respect of shortfall in value of collaterals. The collateral posted with regards to Reverse REPO is cash or marketable securities.

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan, or the amount committed for loan commitments, to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. At 31 December 2021 the net carrying amount of credit impaired mortgage lending was AED 87.1 million (2020: AED 69.0 million) and the value of the respective collateral was AED 128.4 million (2020: AED 83.2 million).

Personal lending

The Group's personal lending portfolio consists of unsecured loans and credit cards.

Wholesale lending

The Group requests collateral (including properties, equity shares and cash margins) and guarantees for wholesale lending (including loan commitments and financial guarantee contract). The most relevant indicator of wholesale customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason, the valuation of collateral held against wholesale lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

For credit-impaired loans the Group obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2021 the net carrying amount of credit impaired loans and advances to wholesale customers was AED 2,123.1 million (2020: AED 1,747.5 million) and the value of the respective collateral was AED 2,050.1 million (2020: AED 1,086.3 million).

Investment securities

The Group holds investment securities measured at amortised cost. The investment securities held by the Group are sovereign bonds which are not collateralised.

39. Financial risk management (continued)

39.1 Credit risk (continued)

39.1.8 Collateral held as security and other credit enhancements (continued)

Assets obtained by taking possession of collateral

The Group obtained the following financial and non-financial assets during the year by taking possession of collateral held as security against loans and advances and held at the year end. The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

	2021 AED '000	2020 AED '000
Property	-	258,791
	-	258,791

39.2 Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events.

39.2.1 Management of liquidity risk

Liquidity risk is managed by the Treasury in line with the regulatory and internal policies and guidelines.

The Group's approach to managing liquidity risk is to ensure that it has adequate funding from diversified sources at all times and that it can withstand any major shocks to its liquidity position. Funds are raised using a broad range of instruments including customer deposits, money market instruments and capital. The Treasury monitor the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions. The Group's liquidity policy is set by the Board of Directors and is subject to annual review. Adherence to the policies is monitored by the Group Risk Management Department and Assets and Liability Committee (ALCO).

39.2.2 Exposure to liquidity risk

The key measures used by the Group for measuring liquidity risk are advances to stable resources (which is a regulatory measure) as well as the ratio of net liquid assets, i.e., total assets by maturity against total liabilities by maturity.

The Bank performs product-wise behavioural analysis for its financial instruments (including financial guarantee contracts) in order to analyse and ascertain appropriate level of liquidity requirements.

The following table summarises the maturity profile of the cash flows of the Group's financial assets and financial liabilities at the end of the reporting period based on their carrying amounts. The amounts disclosed in the table are determined on the basis of their earliest possible contractual maturity.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the management expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

39. Financial risk management (continued)

39.2 Liquidity risk (continued)

39.2.2 Exposure to liquidity risk (continued)

- **As at 31 December 2021**

	Less than 3 months AED '000	3 to 6 months AED '000	6 to 12 months AED '000	More than 1 year AED '000	No fixed Maturity AED '000	Total AED '000
Non-derivative financial assets						
Cash and balances with the Central Banks	3,235,539	67,741	-	-	-	3,303,280
Deposits and balances due from banks	98,985	-	-	-	-	98,985
Loans and advances to customers including Islamic financing and investing assets	1,645,692	588,675	870,505	7,026,584	2,769,948	12,901,404
Receivables and other assets	671,080	1,164,660	1,402,743	-	-	3,238,483
Investment securities at fair value	-	-	-	-	256,995	256,995
Investment securities measured at amortised cost	43,880	-	-	1,294,234	-	1,338,114
	5,695,176	1,821,076	2,273,248	8,320,818	3,026,943	21,137,263
Derivative financial assets	812	-	177	15,928	-	16,917
	5,695,988	1,821,076	2,273,425	8,336,746	3,026,943	21,154,178
Non-derivative financial liabilities						
Balance due to the Central Banks	16,182	-	-	-	-	16,182
Deposits and balances due to banks	1,343,339	366,341	97,657	455,317	-	2,262,654
Customers' deposits including Islamic customers' deposits	5,640,576	2,952,650	3,831,847	149,097	-	12,574,170
Payables and other liabilities	608,344	1,184,909	1,413,900	632	-	3,207,785
	7,608,441	4,503,900	5,343,404	605,046	-	18,060,791
Derivative financial liabilities	957	-	-	17,019	-	17,976
Issued financial guarantee contacts	1,488,379	408,331	284,560	74,264	-	2,255,534
Loan commitments	620,310	134,105	291,376	720,987	-	1,766,778
	9,718,087	5,046,336	5,919,340	1,417,316	-	22,101,079
Liquidity gap	(4,022,099)	(3,225,260)	(3,645,915)	6,919430	3,026,943	(946,901)

39. Financial risk management (continued)

39.2 Liquidity risk (continued)

39.2.2 Exposure to liquidity risk (continued)

- **As at 31 December 2020**

	Less than 3 months AED '000	3 to 6 months AED '000	6 to 12 months AED '000	More than 1 year AED '000	No fixed Maturity AED '000	Total AED '000
Non-derivative financial assets						
Cash and balances with the Central Banks	1,522,628	-	-	-	-	1,522,628
Deposits and balances due from banks	79,961	-	-	-	-	79,961
Loans and advances to customers including Islamic financing and investing assets	2,279,348	782,972	866,749	4,816,103	2,505,344	11,250,516
Receivables and other assets	987,112	1,018,472	462,919	-	-	2,468,503
Investment securities at fair value **(restated)**	-	-	-	-	167,735	167,735
Investment securities measured at amortised cost	165,198	15,328	195,588	1,160,964	-	1,537,078
	5,034,247	1,816,772	1,525,256	5,977,067	2,673,079	17,026,421
Derivative financial assets	33,506	-	-	-	-	33,506
	5,067,753	1,816,772	1,525,256	5,977,067	2,673,079	17,059,927
Non-derivative financial liabilities						
Balance due to the Central Banks	306,048	-	-	-	-	306,048
Deposits and balances due to banks	152,300	367,314	330,584	367,315	75,474	1,292,987
Customers' deposits including Islamic customers' deposits	1,992,559	2,465,502	2,863,678	85,271	3,074,445	10,481,455
Payables and other liabilities	947,678	1,021,025	466,986	16,885	-	2,452,574
	3,398,585	3,853,841	3,661,248	469,471	3,149,919	14,533,064
Derivative financial liabilities	35,584	-	-	-	-	35,584
Issued financial guarantee contacts	1,614,988	489,837	266,227	75,418	-	2,446,470
Loan commitments	-	-	1,913,809	269,326	-	2,183,135
	5,049,157	4,343,678	5,841,284	814,215	3,149,919	19,198,253
Liquidity gap	18,596	(2,526,906)	(4,316,028)	5,162,852	(476,840)	(2,138,326)

39. Financial risk management (continued)

39.2 Liquidity risk (continued)

The table below presents a maturity analysis of the Group's financial liabilities. The sum of the balances depicted in the maturity analysis do not reconcile with the carrying amount of the liabilities as disclosed in the consolidated statement of financial position. This is because the maturity analysis incorporates, on an undiscounted basis, all cash flows relating to principal and future interest payments.

	Less than 3 months AED '000	3 to 6 months AED '000	6 to 12 months AED '000	More than 1 year AED '000	No fixed Maturity AED '000	Total AED '000
31 December 2021						
Non-derivative financial liabilities						
Balance due to the Central Bank of the UAE	16,182	-	-	-	-	16,182
Deposits and balances due to banks	1,343,339	366,341	97,657	455,317	-	2,262,654
Customers' deposits including Islamic customers' deposits	5,640,576	2,952,650	3,831,847	149,097	-	12,574,170
Payables and other liabilities	625,781	1,211,650	1,514,374	12,515	-	3,364,320
	7,625,878	4,530,641	5,443,878	616,929	-	18,217,326
Derivative financial liabilities	957			17,019	-	17,976
Issued financial guarantee contacts	1,488,379	408,331	284,560	74,264	-	2,255,534
Loan commitments	620,310	134,105	291,376	720,987	-	1,766,778
	9,735,524	5,073,077	6,019,814	1,429,199	-	22,257,614
31 December 2020						
Non-derivative financial liabilities						
Balance due to the Central Banks	306,048	-	-	-	-	306,048
Deposits and balances due to banks	152,301	370,410	336,433	377,733	75,474	1,312,351
Customers' deposits including Islamic customers' deposits	1,996,838	2,489,684	2,903,112	89,480	3,074,445	10,553,559
Payables and other liabilities	947,678	1,021,025	466,986	16,885	-	2,452,574
	3,402,865	3,881,119	3,706,531	484,098	3,149,919	14,624,532
Derivative financial liabilities	35,584	-	-	-	-	35,584
Issued financial guarantee contacts	1,614,988	489,837	266,227	75,418	-	2,446,470
Loan commitments	-	-	1,913,809	269,326	-	2,183,135
	5,053,437	4,370,956	5,886,567	828,842	3,149,919	19,289,721

39. Financial risk management (continued)

39.3 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income and/or the value of the financial instrument. The Group manages its market risk in order to achieve an optimum return while maintaining market risk exposure within prudent limits.

39.3.1 Management of market risk

The Board of directors has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Department, reported frequently to Senior Management and discussed monthly by the ALCO.

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

39.3.2 Exposure to interest rate risk

The principal risk to which interest bearing financial instruments are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities. The ALCO monitors compliance with these limits and is assisted by the Risk Management Department for day to day monitoring of activities. The table below analyses the Group's interest rate risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

- **As at 31 December 2021**

	Less than 3 months AED '000	3 to 6 months AED '000	6 to 12 months AED '000	More than 1 year AED '000	Total AED '000
Interest sensitive financial assets					
Cash and balances with the Central Banks	2,822,127	67,728	-	-	**2,889,855**
Deposits and balances due from banks	-	-	-	-	**-**
Loans and advances to customers including Islamic financing and investing assets	7,112,828	1,129,496	-	-	**8,242,324**
Investment securities measured at amortised cost	39,567	-	-	1,298,547	**1,338,114**
	9,974522	1,197,224	-	1,298,547	**12,470,293**
Interest sensitive financial liabilities					
Deposits and balances due to banks	1,337,045	367,305	99,172	459,131	**2,262,654**
Customers' deposits including Islamic customers' deposits	3,417,229	2,899,138	3,799,141	144,401	**10,259,909**
	4,754,274	3,266,443	3,898,313	603,532	**12,522,562**
Effect of derivatives held	(1,064)				(1,064)
Net interest gap	**5,219,184**	**(2,069,219)**	**(3,898,313)**	**690,676**	**(53,333)**
Impact on profit and loss if interest rates had been 200 bps higher	**92,340**	**(26,078)**	**(20,293)**	**33,095**	**79,064**

39. Financial risk management (continued)

39.3 Market risk (continued)

39.3.2 Exposure to interest rate risk (continued)

- **As at 31 December 2020**

	Less than 3 Months AED '000	3 to 6 months AED '000	6 to 12 months AED '000	More than 1 year AED '000	Total AED '000
Interest sensitive financial assets					
Cash and balances with the Central Banks	400,000	-	-	-	400,000
Deposits and balances due from banks	-	-	-	-	-
Loans and advances to customers including Islamic financing and investing assets	5,705,061	905,947	-	-	6,611,008
Investment securities measured at amortised cost	165,198	15,328	195,587	1,160,965	1,537,078
	6,270,259	921,275	195,587	1,160,965	8,548,086
Interest sensitive financial liabilities					
Deposits and balances due to banks	(1,292,987)	-	-	-	(1,292,987)
Customers' deposits including Islamic customers' deposits	(2,982,342)	(2,415,680)	(2,820,455)	(74,697)	(8,293,174)
	(4,275,329)	(2,415,680)	(2,820,455)	(74,697)	(9,586,161)
Effect of derivatives held	(1,312)	-	-	-	(1,312)
Net interest gap	1,993,618	(1,494,405)	(2,624,868)	1,086,268	(1,039,387)
Impact on profit and loss if interest rates had been 200 bps higher	25,106	(18,834)	(13,664)	43,629	36,237

39.3.3 Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the AED. The Board of Directors has set limits on positions by currency. Positions are closely monitored to ensure positions are maintained within established limits. At the end of the reporting period, the Group had the following significant net exposure denominated in foreign currencies:

	Net spot position		Forward position		Total	
	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
Currency						
USD	(360,243)	(185,503)	(79)	(3,145)	(360,322)	(188,648)
GBP	81	1	-	40	81	41
JPY	322	90	-	-	322	90
EUR	169	(948)	751	900	920	(48)
BHD	159,100	-	-		159,100	-
Other	1,149	2,096	(670)	70	479	2,166

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% adverse change in the relevant foreign currency position against AED both for a long and short position in order to assess the impact of loss on profit and loss.

39. Financial risk management (continued)

39.3 Market risk (continued)

39.3.3 Exposure to currency risk (continued)

	2021 AED '000	**2020** **AED '000**
GBP	8	4
JPY	32	9
EUR	92	5
BHD	15,910	-

There are no exchange rate risks relating to financial assets and financial liabilities denominated in USD, which is pegged to the AED.

39.3.4 Other price risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, profit or loss and other comprehensive income for the year would have been higher/lower by AED 7.4 million (2020: 6.4) and AED 5.9 million (2020: AED 5.9 million) respectively.

40. Fair value of financial instruments

This note provides information about how the Group determines the fair value of various financial assets and financial liabilities.

40.1 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The fair value of financial assets and financial liabilities are determined as follows:

- Fair value of all quoted investments measured at fair value through profit or loss and at fair value through other comprehensive income (note 12) are based on quoted bid prices in an active market;
- Fair value of all unquoted equity investments and unquoted investment funds measured at fair value through other comprehensive income (note 12) is mainly based on market approach based valuation technique using price/book value multiple of trading peers and precedent transactions. These price/book values multiples and precedent transactions are unobservable inputs. Fair value of investment in MURJAN is calculated by taking proportionate share of the fair value of its assets (real estate) and liabilities; and
- Fair value of all derivatives (note 41) is calculated using discounted cash flows. Discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Derivatives are measured using quoted rates and yield curves derived from quoted rates matching maturities of the contracts.

40. Fair value of financial instruments (continued)

40.1 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

The table below summarises the Group's financial instruments fair value according to fair value hierarchy:

	Level 1		Level 2		Level 3	
	2021 AED '000	**2020 AED '000**	**2021 AED '000**	**2020 AED '000**	**2021 AED '000**	**2020 AED '000**
Financial assets at fair value through other comprehensive income						
Equity shares	15,279	13,752	-	-	92,420	102,478
Investment funds	-	-	-	-	1,391	2,695
Financial assets at fair value through profit or loss						
Equity shares	-	-	-	-	147,865	129,269
Positive fair value of derivatives financial assets	-	-	16,915	33,506	-	-
Financial liabilities at fair value through profit or loss						
Negative fair value of derivatives financial liabilities	-	-	17,976	35,584	-	-

For level 3 fair valuation measured using price/book value multiple, the higher the unobservable input of price/book value multiple, the higher is fair value. The price/book value multiple used in valuation ranges between 0.90X to 0.91X (2019: 0.91X to 0.95X). For level 3 fair valuation of MURJAN measured using proportionate share of the fair value of its assets (real estate) and liabilities, the higher the net asset value, the higher is fair value.

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

Reconciliation of Level 3 fair value measurements of financial assets

	2021 AED '000	**2020 AED '000 (restated)**
Balance at January 1	234,442	116,270
Total gains/(losses) in profit or loss	18,596	129,269
Total gains/(losses) in other comprehensive income	(10,219)	(11,097)
Redemption	(1,143)	-
Balance at December 31	241,676	234,442

The financial liabilities subsequently measured at fair value are classified as level 2 in the fair value hierarchy. There are no financial liabilities classified at fair value as level 3 in the fair value hierarchy.

All gains and losses included in other comprehensive income relate to FVTOCI (quoted investments or unquoted investments) held at the end of the period and are reported as changes in 'Investment revaluation reserve'.

40.2 Fair value of the Group's financial assets and financial liabilities that are measured at amortised cost

Except as detailed below, the directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

40. Fair value of financial instruments (continued)

40.2 Fair value of the Group's financial assets and financial liabilities that are measured at amortised cost (continued)

	Carrying amount		Fair value	
	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
Investment securities measured at amortised cost	1,333,776	1,534,076	1,352,409	1,574,703

Investment securities measured at amortised cost are quoted instruments and categorised as level 1 in the fair value hierarchy. The fair value is determined using unadjusted quoted market prices.

41. Derivative financial instruments

Derivative financial instruments are utilised by the Group primarily to satisfy the requirements of its customers and are also used to a limited extent to manage the Group's own exposure to currency, interest rate and other market risks. The derivatives most frequently used by the Group are as follows:

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. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

Foreign exchange forwards contracts

Foreign exchange forwards contracts are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customised contracts transacted in the over-the counter market.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	Foreign exchange forward contracts		Interest rate swaps		Total	
	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
Positive fair value	2	1	16,915	33,505	16,917	33,506
Negative fair value	-	3	17,976	35,581	17,976	35,584
Maturity of notional amount						
Upto 3 months	1,587	11,553	-	-	1,587	11,553
3 to 6 months	-	-	6,329	-	6,329	-
6 to 12 months	-	-	239,330	140,000	239,330	140,000
1 to 5 years	-	-	557,140	59,260	557,140	59,260
More than 5 years	-	-	-	309,004	-	309,004
	1,587	11,553	802,799	508,264	804,386	519,817

42. Capital management

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

The Group's objectives when managing capital are:

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

In implementing current capital requirements, the Group calculates its capital adequacy ratio in accordance with the Basel III guidelines issued by the Central Bank of the UAE. Under these regulations, minimum capital requirements are monitored at three levels, namely Common Equity Tier 1 (‘CET1’), Tier 1 (‘T1’) and Total Capital.

42.1 Regulatory capital

The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the UAE.

The Group’s regulatory capital is analysed into different tiers:

- Common Equity Tier 1 Capital, which includes Common shares issued by a bank, Share premium resulting from the issue of instruments included in CET1, retained earnings, legal reserves, statutory reserves, accumulated other comprehensive income and other disclosed reserves, minority interest, which are eligible for inclusion in CET1 and regulatory adjustments applied in the calculation of CET1;
- Additional Tier 1 Capital (AT1);
- Tier 1 capital, which is the total of Common equity Tier 1 (CET1) Capital and Additional Tier 1 (AT1) capital;
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of credit ‘Risk Weighted Assets’ (RWA)), perpetual equity instruments not included in Tier 1 capital and Instruments which are eligible for inclusion of Tier 2 e.g. subordinated loan.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced under Basel III guidelines are over and above the minimum CET1 requirement of 7%.

For the purpose of Basel III capital adequacy reporting, only financial subsidiaries are consolidated. Commercial subsidiaries are excluded from consolidated reporting.

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

The Group has complied with all externally imposed capital requirements throughout the period.

42. Capital management (continued)

42.1 Regulatory capital (continued)

The Group's regulatory capital position at the end of reporting period under Basel III is as follows:

	2021 AED '000	2020 AED '000
Capital base		
Share capital	1,737,383	1,737,383
Statutory reserve	269,376	269,376
General reserve	3,368	3,368
Accumulated other comprehensive income	(71,772)	(61,915)
IFRS transitional arrangement: Partial addback of ECL impact to CET1	2,146	46,271
CBUAE Regulatory deductions: (e.g. amount exceeding Large Exposure threshold)	-	-
Accumulated losses	(304,210)	(244,320)
Non-controlling interests	311	200
CET1 capital (prior to regulatory deductions)	1,636,602	1,750,363
Intangible assets	(40,177)	(53,382)
Total CET1 capital	1,596,425	1,696,981
Additional Tier 1 (AT1) Capital	459,125	459,125
Total AT1 capital	459,125	459,125
Total Tier 1 Capital	2,055,550	2,156,106
Eligible general provision	175,059	158,761
Total Tier 2 (T2) Capital	175,059	158,761
Total capital base	2,230,609	2,314,867
Risk weighted assets		
Credit risk	13,686,012	12,700,872
Market risk	9,838	8,468
Operational risk	1,366,301	1,489,725
Total risk weighted assets	15,062,151	14,199,065
CET1 capital ratio	10.60%	11.95%
Tier 1 capital ratio	13.65%	15.18%
Total capital ratio	14.78%	16.30%

42.2 Capital allocation

The Group also assesses internally its capital requirements taking into consideration its growth requirements and business plans and quantifies its regulatory and risk/economic capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk on the banking book, concentration risk, stress testing, strategic risk, legal and compliance risk, and reputational risk are all part of the ICAAP. The Group also calculates Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis.

43. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in IAS 24 *Related Party Disclosures*. Related parties comprise companies under common ownership and/or common management and control, their shareholders and key management personnel. Transactions with associate and other related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties.

43. Related party transactions (continued)

	Terms %	2021 AED '000	2020 AED '000
Balances at the end of the reporting period			
Subsidiaries			
Financial guarantee contract		5,009	5,000
Associate			
Loans and advances to customers	**3.3**	93,130	92,576
Receivables and other assets	**-**	16,910	16,910
Key management personnel (including directors)			
Loans and advances to customers	**2.85 - 3.0**	17,245	13,778
Customers' deposits	**2.5**	7,399	7,722
Other related parties			
Loans and advances to customers	**-**		-
Deposits and balances due from banks	**-**	135	-
Deposits and balances due to banks	**-**	53,111	31,501
Customers' deposits	**-**		-
Interest rate swaps (Notional amount)	**-**	36,750	36,730
Tier 1 Capital Securities	**6.5**	459,125	459,125
Transactions during the reporting period			
Associate			
Interest income		3,100	3,850
Key management personnel (including directors)			
Interest income		617	519
Interest expense		122	117
Directors' expenses		81	233
Compensation of key management personnel (i)		17,785	21,166
Other related parties			
Interest income		**-**	-
Interest expense		**-**	-
Interest paid on Tier 1 Capital Securities		**-**	-

(i) These include long-term benefits amounting to AED 0.75 million (2020: AED 1.7 million) and termination benefits of Nil million (2020: Nil million).

44. Operating segments

Operating Segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO in order to allocate resources to the segment and to assess its performance. The Group's reportable segments under IFRS 8 are therefore as follows:

- Wholesale banking;
- Retail banking;
- Treasury;
- Real estate;
- Other

44. Operating segments (continued)

The segmental information provided to the Group's CEO for the reportable segments for the years ended 31 December 2021 and 31 December 2020 were as follows:

	Wholesale banking AED '000	Retail banking AED '000	Treasury AED '000	Real estate AED '000	Other AED '000	Total AED '000
Year ended 31 December 2021						
Net interest income from external customers	271,402	55,160	50,643		(1,130)	376,075
Inter-segmental net interest income	(42,523)	17,125	47,844	(6,909)	(15,537)	-
Fee and commission income	118,933	17,013	18			135,964
Fee and commission expense	(1,426)	(12,964)	(421)		(9)	(14,820)
Other operating income, net	73,750	2,056	4,492	2,156	50,976	133,430
Impairment losses and provisions, net	(178,968)	(22,232)	1,971	1,674	98	(197,457)
General and administrative expenses excluding depreciation and amortisation	(162,454)	(82,243)	(17,252)	(1,924)	3,270	(260,603)
Depreciation and amortisation	(17,467)	(19,692)	(2,051)	(2,824)		(42,034)
Profit/(loss) for the period	61,247	(45,777)	85,244	(7,827)	37,668	130,555
As at 31 December 2021						
Assets	13,841,347	1,220,166	4,859,512	251,535	601,528	20,774,088
Liabilities	13,728,316	1,859,779	2,296,812	394	273,894	18,159,195

Non-current asset held for sale and associated liabilities are presented in 'Wholesale banking' segment.

44. Operating segments (continued)

	Wholesale Banking AED '000	Retail banking AED '000	Treasury AED '000	Real estate AED '000	Other AED '000	Total AED '000
Year ended 31 December 2020						
Net interest income from external customers	284,585	70,344	63,718	-	(1,045)	417,602
Inter-segmental net interest income	(5,383)	21,125	5,462	(6,936)	(14,268)	-
Fee and commission income	136,638	24,641	32	-	-	161,311
Fee and commission expense	(1,908)	(12,646)	(817)	-	(9)	(15,380)
Other operating income, net	39,075	3,457	3,482	130,161	415	176,590
Impairment losses and provisions, net	(366,792)	(57,010)	1,045	(14,074)	(170)	(437,001)
General and administrative expenses excluding depreciation and amortisation	(127,150)	(89,709)	(13,203)	(1,238)	7,464	(223,836)
Depreciation and amortisation	(21,399)	(13,873)	(1,886)	(3,126)	-	(40,284)
Share of results of associates	(5,324)	-	-	-	-	(5,324)
Loss from discontinued operations	-	-	-	-	-	-
Profit/(loss) for the period	(67,658)	(53,671)	57,833	104,787	(7,613)	33,678
As at 31 December 2020 (restated)						
Assets	11,151,704	1,545,339	3,208,539	397,268	825,679	17,128,529
Liabilities	10,592,572	2,166,200	1,634,619	480	244,144	14,638,015

Non-current asset held for sale and associated liabilities are presented in 'Wholesale banking' segment. The Group conducted all of its operation in the UAE, there is no operation outside the UAE apart from non-current asset held for sale and associated liabilities.

45. Transfer of financial assets

The Group enters into transactions resulting in transfers of financial assets. As explained in note 3.28.10, a transfer of a financial asset may result in derecognition of the asset in its entirety, recognition of the Group's retained interest in the asset and an associated liability for amounts it may have to pay, or continued recognition of the financial asset in its entirety and recognition of a collateralised borrowing for the proceeds received.

Transfers of financial assets that are not derecognised in their entirety

When the transfer does not result in derecognition, it is viewed as a secured financing transaction, with any consideration received resulting in a corresponding liability. The Group is not entitled to use these financial assets for any other purposes. The most common transactions under which the Group has continued involvement of the transferred assets are:

- **Sale and repurchase agreements:** under these agreements the Group may sell securities subject to a commitment to repurchase them. The securities are retained on the balance sheet as the Group retains substantially all the risks and rewards of ownership. The consideration received is accounted for as a financial liability at amortised cost.

45. Transfer of financial assets (continued)

	Carrying amount		Fair value	
	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
Assets transferred	511,873	342,939	543,610	364,931
Associated liabilities	381,257	305,000	381,257	305,000
Net position	130,616	37,939	162,353	59,931

46. Restatement

During 2018, the Group acquired, by means of settlement of a debt by a customer, ACDL, an investment vehicle which owns 80% of issued share capital of ACADL, exclusively with a view of subsequent disposal and classified the investment as 'non-current asset held for sale' and 'Liabilities associated with non-current asset held for sale' under IFRS 5. However, the disposal of the investment did not happen as anticipated. During the period, the Group reassessed control over ACADL and determined that it does not control ACADL (see note 26.1.1) and consequently concluded that the investment by ACDL in ACADL is a financials asset within the scope of IFRS 9. As per IFRS 5, such financial assets are outside the scope of the standard and should be accounted for under IFRS 9.

The Group has applied change in classification of the financial asset using the full retrospective approach, with restatement of the comparative information. Additional critical judgement in applying the Group's accounting policies and financial impact of change in restatement is described below.

46.1 Critical judgement in applying the Group's accounting policies

46.1.1 Control assessment of ACDL over ACADL

The Group has an 80% interest in the share capital of ACADL. When the Group performed its control assessment, it has determined that it is unable to direct the relevant activities of the entity and therefore does not control the entity.

ACADL holds land in Antigua and in accordance with an agreement with the Government of Antigua and Barbuda is required to commence development of this land prior to April 2023. The Group is unable to comply with the requirements of this agreement because of certain restrictions contained in the UAE Banking Regulations preventing it from developing this land. Therefore, the Group has determined that it is unable to direct the relevant activities of ACADL and therefore does not control the entity. The Group has classified its investment in ACADL as a financial asset in accordance with IFRS 9.

46. Restatement (continued)

46.2 Financial impact of restatement

The table below shows the amount of adjustment for each financial statement line item affected by restatement for prior periods.

	As previously reported AED '000	Restatement AED '000	As restated AED '000
As at 1 January 2020			
Impact on assets, liabilities and equity			
Investment securities measured at fair value	50,286	80,459	130,745
Non-current asset held for sale	93,782	(93,782)	-
Net impact on total assets	**18,607,308**	**(13,323)**	**18,593,985**
Liabilities associated with non-current asset held for sale	13,323	(13,323)	-
Net impact on total liabilities	**16,135,518**	**(13,323)**	**16,122,195**
Reserves	481,884	(2,218)	479,666
Accumulated losses	(206,914)	2,218	(204,696)
Net impact on total equity	**2,490,514**	**-**	**2,490,514**
As at 31 December 2020			
Impact on assets, liabilities and equity			
Investment securities measured at fair value	167,735	80,459	248,194
Non-current asset held for sale	92,665	(92,665)	-
Net impact on total assets	**17,140,735**	**(12,206)**	**17,128,529**
Liabilities associated with non-current asset held for sale	12,206	(12,206)	-
Net impact on total liabilities	**14,650,221**	**(12,206)**	**14,638,015**
Reserves	424,774	(2,218)	422,556
Accumulated losses	(192,094)	2,218	(189,876)
Net impact on total equity	**2,471,790**	**-**	**2,471,790**

There is no impact of restatement on income statement, statement of comprehensive income, statement of cash flows and earnings per share.

47. Net gain from derecognition of financial asset measured at amortised cost

During the year ended 31 December 2021, the Group sold certain financial assets measured at amortised cost. The table below summarises the carrying amount of derecognised financial assets measured at amortised cost and the gain/(loss) on derecognition.

	Carrying amount		Gain/(loss) from derecognition	
	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
Loans and advances to customers	**69,623**	-	**58,864**	-

48. Impact of the initial application of Interest Rate Benchmark Reform

In the current year, the Group adopted the Phase 2 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of equity as at 1 January 2021.

Both the Phase 1 and Phase 2 amendments are not relevant to the Group because it does not apply hedge accounting to its interest rate benchmark exposures.

The amendments are relevant for lease liabilities which reference LIBORs and are subject to the interest rate benchmark reform all of which extend beyond 2021 lease liabilities which reference LIBORs and are subject to the interest rate benchmark reform.

The application of the amendments affects the Group's accounting in the following way:

When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Group remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

49. Approval of the financial statements

The consolidated financial statements for the year ended 31 December 2021 were approved by the Board of Directors and authorised for issue on 31 January 2022.

Glossary of abbreviations

ACADL	Al Caribi Antigua Development Limited
ACDL	Al Caribi Development Limited
AED	United Arab Emirates Dirham
AKPI	Al Khaleejiah Property Investments LLC
ARZAQ	Arzaq Holdings (Private J.S.C.)
AT1	Additional Tier 1
Basel III	Basel III: International regulatory framework for banks
CBI	Commercial Bank International PSC
CBUAE	the Central Bank of the UAE
CDs	Certificates of Deposit
CDS	Credit Default Swaps
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
ECL	Expected Credit Losses
EIR	Effective Interest Rate
EPS	Earnings Per Share
EUR	Euro
FVTOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
GBP	British pound sterling
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASs	International Accounting Standards
IFB	International Financial Brokerage LLC
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IFRSs	International Financial Reporting Standards
JPY	Japanese yen
LGD	Loss Given Default
LLC	Limited Liability Company
MURJAN	Al Murjan Real Estate LLC
OCI	Other Comprehensive Income
PD	Probability of Default
POCI	Purchased or Originated Credit Impaired
SCA	Securities and Commodities Authority of the UAE
SIC	Standard Interpretations Committee
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest on the principal amount outstanding
SPV	Special Purpose Vehicle
T2	Tier 2
the GCC	the Gulf Cooperation Council
the UAE	the United Arab Emirates
the USA	the United States of America
TRE	Takamul Real Estate LLC
USD	United States dollar