National Bank of Kuwait
United Arab Emirates Branches

Report and financial statements
for the year ended 31 December 2021

National Bank of Kuwait - United Arab Emirates Branches

Contents **Pages**

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INDEPENDENT AUDITOR'S REPORT

The Directors
National Bank of Kuwait
United Arab Emirates Branches

Report on the audit of the financial statements

Opinion

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

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

Basis for opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

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

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INDEPENDENT AUDITOR'S REPORT
to the Directors of National Bank of Kuwait, United Arab Emirates Branches (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

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INDEPENDENT AUDITOR'S REPORT

to the Directors of National Bank of Kuwait, United Arab Emirates Branches (continued)

Report on Other Legal and Regulatory Requirements as at 31 December 2021

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 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 Branch has maintained proper books of account;
- Investments during the year are disclosed in note 4 to the financial statements;
- Note 20 reflects material related party transactions and the terms under which they were conducted; and
- Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Branch has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) which would have a material impact on its activities or its financial position as at 31 December 2021.
- Note 23 reflects the social contributions made during the year.

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

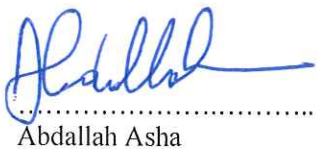
Deloitte & Touche (M.E.)

Mohammad Jallad
Registration No: 1164
29 March 2022
Dubai
United Arab Emirates

National Bank of Kuwait - United Arab Emirates Branches

Statement of financial position
as at 31 December 2021

	Notes	2021 AED'000	2020 AED'000
ASSETS			
Cash and short-term funds	3	**1,201,215**	948,167
Deposits with banks and other financial institutions		**-**	920,033
Investments securities - at amortised cost	4	**324,981**	-
Loans and advances to customers	5	**3,717,644**	4,103,531
Premises and equipment		**37,031**	39,446
Other assets	6	**13,766**	11,394
Total Assets		**5,294,637**	6,022,571
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions		**1,147,982**	909,027
Customer deposits	7	**2,135,673**	3,156,904
Other liabilities	8	**55,499**	64,645
Total Liabilities		**3,339,154**	4,130,576
Equity			
Allocated capital		**1,420,113**	1,420,113
Statutory reserve	9	**64,672**	58,324
Retained earnings		**414,948**	357,808
General impairment reserve	9	**55,750**	55,750
Total Equity		**1,955,483**	1,891,995
Total Liabilities and Equity		**5,294,637**	6,022,571



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Abdallah Asha
Acting General Manager

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Pawankumar Vyas
Head of Finance

The accompanying Notes 1 to 25 form part of these financial statements

National Bank of Kuwait - United Arab Emirates Branches

Statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Notes	2021 AED'000	2020 AED'000
Interest income	10	**93,532**	146,739
Interest expense	11	**(14,340)**	(52,401)
Net interest income		**79,192**	94,338
Net fees and commission income	12	**16,634**	16,862
Net gains from dealing in foreign currencies		**3,831**	3,172
Total operating income		**99,657**	114,372
Staff expenses		**(25,737)**	(22,796)
Depreciation of premises and equipment		**(2,486)**	(2,731)
Other administrative expenses		**(9,453)**	(11,439)
Net operating expense		**(37,676)**	(36,966)
Operating profit before provision for credit loses		**61,981**	77,406
Net impairment recovery/(losses) on credit facilities and other financial assets	13	**1,507**	(240,794)
Profit/(loss) for the year, representing total comprehensive comprehensive income/(loss) for the year		**63,488**	(163,388)

National Bank of Kuwait - United Arab Emirates Branches

Statement of changes in equity
for the year ended 31 December 2021

	Allocated capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	General impairment reserve AED'000	Total AED'000
As at 1 January 2020	1,420,113	58,324	517,197	59,749	2,055,383
Loss for the year, representing total comprehensive loss for the year	-	-	(163,388)	-	(163,388)
Transfer to impairment reserve (Note 21.1.1)	-	-	3,999	(3,999)	-
As at 31 December 2020	1,420,113	58,324	357,808	55,750	1,891,995
Profit for the year, representing total comprehensive income for the year	-	-	63,488	-	63,488
Transfer to statutory reserve (Note 9)	-	6,348	(6,348)	-	-
As at 31 December 2021	**1,420,113**	**64,672**	**414,948**	**55,750**	**1,955,483**

The accompanying notes 1 to 25 form part of these financial statements

National Bank of Kuwait - United Arab Emirates Branches

Statement of cash flows
for the year ended 31 December 2021

	Note	2021 AED'000	2020 AED'000
Operating activities			
Profit/(loss) for the year		**63,488**	(163,388)
Adjustment for non-cash items:			
- Depreciation of premises and equipment		**2,486**	2,731
- Impairment (recovery)/loss on credit facilities and other financial assets	13	**(1,507)**	240,794
		64,467	80,137
Changes in working capital:			
Decrease in deposits with banks and other financial institutions		**920,033**	50,873
Decrease in loans and advances to customers		**387,394**	701,647
(Increase)/decrease in other receivables		**(2,372)**	18,027
(Increase)/decrease in reserve account with Central Bank of UAE		**(927)**	87,519
Increase in amounts due to banks and other financial institutions		**238,955**	162,326
Decrease in customer deposits		**(1,021,231)**	(1,182,622)
Decrease in other payables		**(9,146)**	(7,583)
Net cash generated from/(used in) operating activities		**577,173**	(89,676)
Investing activities			
Purchase of premises and equipment		**(71)**	-
Proceeds from sale of premises and equipment		**-**	94
Purchase of investment securities	4	**(324,981)**	-
Net cash (used in)/generated from investing activities		**(325,052)**	94
Net increase/(decrease) in cash and cash equivalents		**252,121**	(89,582)
Cash and cash equivalents at the beginning of the year		**885,961**	975,543
Cash and cash equivalents at the end of the year	3	**1,138,082**	885,961

1. Incorporation and principal activities

National Bank of Kuwait - United Arab Emirates branches (the "Branch") relates to the activities of the Dubai and Abu Dhabi Branches of National Bank of Kuwait S.A.K (the "Head Office"), a public shareholding company incorporated in Kuwait in 1952 and registered as a commercial bank with the Central Bank of Kuwait.

These financial statements reflect the activities of the Dubai and Abu Dhabi Branches only and exclude all transactions, assets and liabilities of the Head Office and its other branches.

The Branch operates under a separate license issued by the UAE Central Bank and is engaged in commercial banking activities. The activities of the Branch are also governed by the provisions of the Federal Law No. 2 of 2015 (as amended) and the Decretal Federal Law No. (14) of 2018. 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.

The registered addresses of each of the UAE branches and Head office are as follows:

- Dubai Branch: P.O. Box 9293, Dubai, United Arab Emirates
- Abu Dhabi Branch: P.O. Box 113567 Abu Dhabi, United Arab Emirates
- Head office: P.O. Box 95, Abdullah Al Ahmed Street, Safat, 13001, Kuwait

2. Significant accounting policies

2.1 Basis of Preparation

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Interpretations ("IFRIC") issued by the International Accounting Standard Board ("IASB") and applicable requirements of the United Arab Emirates laws.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.5.

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement of derivative financial instruments and fair value through other comprehensive income (FVOCI) investments at fair value.

The financial statements are presented in UAE Dirhams (AED), which is the functional and presentation currency of the Branch and all the values are rounded to the nearest thousand AED except where otherwise stated.

2.2 Changes in accounting policies and disclosures

New and amended IFRS standards and interpretations that are effective for the current year

The Branch applied the following amendments effective from 1 January 2021. The Branch has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

New and amended IFRS standards and interpretations that are effective for the current year (continued)

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16
In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a risk-free rate ("RFR").

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to RFR. As a practical expedient, changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the branch's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the branch to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place.

These amendments had no material impact on the financial statements of the Branch. The Branch intends to use the practical expedients when they become applicable (Note 25).

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2021 did not have any impact on the accounting policies, financial position or performance of the Branch.

2.3 New and revised IFRS Standards and interpretations that are issued but not yet effective

At the date of authorisation of these financial statements, a number of amendments to IFRS standards and interpretations have been issued, but not yet effective. The Branch intends to adopt these standards, if applicable, when they become effective. The Branch does not expect these IFRS standards and interpretations to have a significant effect on the Branch's financial statements.

2. Significant accounting policies (continued)

2.4 Summary of Significant Accounting Policies

2.4.1 Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency at rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into functional currency at rates of exchange prevailing at the reporting date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to UAE Dirhams at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose changes in fair values are recognised directly in comprehensive income, related foreign exchange differences are also recognised directly in comprehensive income. For other non-monetary assets foreign exchange differences are recognised directly in the statement of income.

2.4.2 Revenue recognition

Interest income and interest expenses

Interest income and expense for all interest-bearing financial instruments are recognised within ‘interest income’ and ‘interest expense’ in the statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Fees which are considered an integral part of the effective yield of a financial asset are recognised using effective yield method. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4.3 Fees and commission income

Fees and commission income are recognised when the Branch satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Branch determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

2.4.4 Impairment of financial assets

The Branch computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- loans and advances to customers including credit commitments
- letters of credit and financial guarantee contracts including commitments
- investment in debt securities measured at amortised cost or FVOCI
- balances and deposits with banks

Equity investments are not subject to Expected Credit Losses.

2. Significant accounting policies (continued)

2.4 Summary of Significant Accounting Policies (continued)

2.4.4 Impairment of financial assets (continued)

Impairment of credit facilities

Credit facilities granted by the Branch consists of loans and advances to customers, letters of credit and financial guarantee contracts and commitments to grant credit facilities. Impairment on credit facilities shall be recognised in the statement of financial position at an amount equal to the ECL under IFRS 9.

Impairment of financial assets other than credit facilities

The Branch recognises ECL on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks.

Expected Credit Losses

The Branch applies a three-stage approach to measure the expected credit loss as follows:

Stage 1: *12-month ECL*

The Branch measures loss allowances at an amount equal to 12 month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Branch considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: *Lifetime ECL - not credit impaired*

The Branch measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: *Lifetime ECL - credit impaired*

The Branch measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life-time ECL is the ECL that result from all possible default events over the expected life of a financial instrument. The 12-month ECL is the portion of life-time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated either on an individual basis or on a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of Expected Credit Loss

At each reporting date, the Branch assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 90 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.4 Impairment of financial assets (continued)

Determining the stage of Expected Credit Loss (continued)

At each reporting date, the Branch also assesses whether a financial asset or group of financial assets is credit impaired. The Branch considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

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

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs

ECL is probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Branch in accordance with the contract and the cash flows that the Branch expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Branch estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macroeconomic scenarios etc.

Incorporation of forward looking information

The Branch considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Modification of loans to customers

Under certain circumstances, the Branch seeks to restructure loans to customers rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or interest and the agreement of new loan or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12-month ECL except in rare occasions where the new facility is considered to be originated and credit impaired. Management continuously reviews modified loans to customers to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3. When loans to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.4 Impairment of financial assets (continued)

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) when the Branch determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Branch's procedures for recovery of amounts due.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Branch recognises the ECL charge in the statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the statement of financial position. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. When the Branch is unable to identify the ECL on the undrawn portion of credit commitments separately from drawn portion of commitments, the combined amount of ECL is presented as a deduction from the gross carrying amount of the drawn portion.

2.4.5 Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Branch becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through statement of income.

Classification and measurement of financial assets

The Branch determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

Business model assessment

The Branch determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Branch's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.5 Recognition of financial assets and financial liabilities (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Branch assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Branch considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Branch considers:

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

Contractual terms that introduce a more than the minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

The Branch classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets carried at Amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and charge for expected credit losses are recognised in the statement of income. Any gain or loss on de-recognition is recognised in the statement of income.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.5 Recognition of financial assets and financial liabilities (continued)

Financial assets carried at fair value through other comprehensive income (FVOCI):

Debt Securities at FVOCI

A debt security is carried at FVOCI if it meets both of the following conditions:

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

Debt Securities at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the statement of income.

Financial assets carried at fair value through profit or loss:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the statement of income when the right to the payment has been established.

The Branch's financial assets are classified and measured as follows:

Cash and cash equivalent

Cash and cash equivalents include cash on hand, unrestricted balances held with UAE Central Bank and other banks and highly liquid financial assets with original maturities of less than three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value, and are used by the Branch in the management of its short term commitments.

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

Deposits with banks

Deposits with banks are classified and carried at amortised cost using the effective interest method.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.5 Recognition of financial assets and financial liabilities (continued)

The Branch's financial assets are classified and measured as follows (continued)

Loans and advances to customers

Loans and advances are stated at amortised cost using the effective interest method.

Financial investments

Branch's financial investments consist of debt securities, equity investments and other investments.

Debt securities are classified as either at amortised cost or at fair value through other comprehensive income based on the business model in which these securities are managed.

Equity investments are generally carried at fair value through profit or loss except for those specific investments for which the Branch has made an election to classify at fair value through other comprehensive income.

Other investments are carried at fair value through profit or loss.

2.4.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Branch has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

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

If there is no quoted price in an active market, then the Branch uses valuation techniques that include the use of valuation models that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

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

The Branch measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.6 Fair value measurement (continued)

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

Valuation techniques include discounted cash flow models, comparison with similar instruments for which market observable prices exist, recent transaction information and net asset values. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

2.4.7 De-recognition of financial assets and financial liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired, or
- the Branch retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Branch has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branch has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branch's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branch could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability.

2.4.8 Derivative financial instruments

The Branch deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Branch deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Branch are recorded in the statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.9 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Branch commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2.4.10 Premises and equipment

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

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Leasehold improvements	5
Building on free hold land	50
Furniture and fixtures and other equipment	5
Computers	3

Residual values and useful lives of assets are reviewed, and adjusted prospectively if appropriate, at each reporting date. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of income.

2.4.11 Leases

At inception of a contract, the Branch assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Branch recognises a right-of-use asset and a lease liability at the lease commencement date. The Branch elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value.

Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any.

Lease Liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Branch's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.12 Due to Banks and Financial Institutions, and Customer deposits

Due to Banks and Financial Institutions, Customer Deposits & Certificates of deposit issued are stated at amortised cost using effective interest method.

2.4.13 Employees' end of service benefits

With respect to its national employees, the Branch makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of employees' salaries. The Branch's obligations are limited to these contributions, which are expensed when due.

The Branch also provides end of service benefits to its expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

2.4.14 Provisions

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

2.4.15 Financial guarantees

In the ordinary course of business, the Branch gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the statement of income in 'net fees and commissions' on a straight line basis over the life of the guarantee. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee is likely to become payable, the present value of the expected net payments less the unamortised premium is charged to the statement of income.

2.5 Significant accounting judgements and estimates

In the process of applying the Branch's accounting policies, management has used judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows.

Accounting Judgements

Business model assessment

The Branch determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Branch also applies judgment to assess if there is a change in business model in circumstances when the assets with in that business model are realised differently than the original expectations.

Significant increase in credit risk

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 Branch takes into account qualitative and quantitative reasonable and supportable forward-looking information.

2. Significant accounting policies (continued)

2.5 Significant accounting judgements and estimates (continued)

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Expected Credit Losses on financial assets

The Branch estimates Expected Credit Loss (ECL) for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

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

Information about significant judgements and estimates made by the Branch in the above areas is set out in Note 21.

3. Cash and short-term funds

	2021 **AED'000**	2020 AED'000
Cash on hand	**7,192**	8,382
Balances with the UAE Central Bank:		
- Current accounts	**44,487**	39,613
- Cash reserve	**63,133**	62,206
Current account with banks	**127,341**	41,606
Deposits with banks and other financial institutions	**959,062**	796,360
	1,201,215	948,167

The cash reserve requirements, which are kept in UAE Dirhams, are determined in accordance with the directives of the Central Bank of UAE. Cash reserve amounts are determined and maintained on a bi weekly basis, based on customer deposits position as of the end of the previous two weeks and reserve on lending to non-resident banks are refunded on a weekly basis and new amounts are kept based on each week's Dirham lending position to external banks, if any.

4. Cash and short-term funds

For the purpose of statement of cash flows, cash and cash equivalents includes the following:

	2021 **AED'000**	2020 AED'000
Cash and short-term funds	**1,201,215**	948,167
Less: Balances with the Central Bank of UAE		
- Cash reserve	**(63,133)**	(62,206)
	1,138,082	885,961

5. Investment Securities - at amortised cost

During the year Bank has invested in UAE Treasury Bills, amounting to AED 325 million (2020: NIL). These Bills are purchased at the value of AED 324.98 million.

6. Loans and advances to customers

The composition of loan and advances to customer is as follows:

	Corporate AED'000	Retail AED'000	Total AED'000
2021			
Loans	**3,414,253**	**93,880**	**3,508,133**
Overdrafts	**73,573**	**36,049**	**109,622**
Bills discounted	**51,831**	**-**	**51,831**
Trust receipts	**76,440**	**-**	**76,440**
	3,616,097	**129,929**	**3,746,026**
Expected credit losses			**(28,382)**
			3,717,644
2020			
Loans	3,708,213	120,614	3,828,827
Overdrafts	174,961	-	174,961
Bills discounted	25,043	-	25,043
Trust receipts	164,877	-	164,877
	4,073,094	120,614	4,193,708
Expected credit losses			(90,177)
			4,103,531

6.1 Classification of loans and advances

The table below shows the credit quality (as guided by Note 21.1) and the maximum exposure to credit risk based on the Branch's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and interest in suspense:

In AED '000	**2021**				*2020*
Internal rating grade	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	*Total*
Performing					
High grade	**1,326,547**	**256,463**	**-**	**1,583,010**	1,414,721
Standard grade	**1,894,303**	**258,066**	**-**	**2,152,369**	2,696,842
Non-performing					
Individually impaired	**-**	**-**	**10,647**	**10,647**	82,145
Total	**3,220,850**	**514,529**	**10,647**	**3,746,026**	4,193,708

6. Loans and advances to customers (continued)

6.1 Classification of loans and advances (continued)

An analysis of changes in the gross carrying amount in relation to Loans and Advances is, as follows:

In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2021	**3,267,785**	**842,673**	**83,250**	**4,193,708**
New assets originated	**893,335**	**161,818**	**-**	**1,055,153**
Assets derecognized or repaid (excluding write-offs)	**(862,080)**	**(557,516)**	**(1,091)**	**(1,420,687)**
Transfers to Stage 1/3	**46,441**	**(57,077)**	**10,636**	**-**
Transfers to Stage 2	**(124,631)**	**124,631**	**-**	**-**
Write off during the year	**-**	**-**	**(82,148)**	**(82,148)**
At 31 December 2021	**3,220,850**	**514,529**	**10,647**	**3,746,026**
In AED'000				
Gross carrying amount as at 1 January 2020	4,396,057	669,066	817	5,065,940
New assets originated	494,722	48,473	-	543,195
Assets derecognized or repaid (excluding write-offs)	(1,109,012)	(129,847)	(4,359)	(1,243,218)
Transfers to Stage 1	535,822	(535,822)	-	-
Transfers to Stage 2/3	(1,049,804)	790,803	259,001	-
Write off during the year	-	-	(172,209)	(172,209)
At 31 December 2020	3,267,785	842,673	83,250	4,193,708

6.2 Impairment allowance for loans and advances

Loans and advances in the statement of financial position are stated net of impairment allowances. The movements for impairment allowances are as follows:

In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL Allowance as at 1 January 2021	**12,377**	**10,904**	**66,896**	**90,177**
New assets originated	**12,108**	**3,120**	**-**	**15,228**
Assets derecognized or repaid (excluding write-offs)	**(9,915)**	**(4,185)**	**(1,091)**	**(15,191)**
Write off during the year	**-**	**-**	**(82,148)**	**(82,148)**
Specific provision	**-**	**-**	**20,316**	**20,316**
Transfers to Stage 1/3	**995**	**(7,669)**	**6,674**	**-**
Transfers to Stage 2	**(251)**	**251**	**-**	**-**
At 31 December 2021	**15,314**	**2,421**	**10,647**	**28,382**

6. Loans and advances to customers (continued)

6.2 Impairment allowance for loans and advances (continued)

In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL Allowance as at 1 January 2020	14,688	5,631	817	21,136
New assets originated	69,770	10,378	-	80,148
Assets derecognized or repaid (excluding write-offs)	(6,227)	(4,720)	(160)	(11,107)
Write off during the year	-	-	(172,209)	(172,209)
Specific provision	-	-	172,209	172,209
Transfers to Stage 1	3,340	(3,340)	-	-
Transfers to Stage 2/3	(69,194)	2,955	66,239	-
At 31 December 2020	12,377	10,904	66,896	90,177

7. Other assets

	2021 AED'000	2020 AED'000
Interest receivable	**7,386**	10,261
Sundry debtors and prepayments	**6,242**	1,094
Positive fair value derivatives (Note 19)	**138**	39
	13,766	11,394

8. Customer deposits

	2021 AED'000	2020 AED'000
Current accounts	**493,360**	487,884
Savings accounts	**73,498**	66,242
Time and call deposits	**1,568,815**	2,602,778
	2,135,673	3,156,904

9. Other liabilities

	2021 AED'000	2020 AED'000
Interest payable	**2,497**	7,749
Fees received in advance	**14,874**	18,876
Accrued expenses	**22,944**	26,380
Lease liabilities	**1,732**	2,686
Negative fair value of derivatives (Note 19)	**150**	5,799
Expected Credit losses	**13,302**	3,155
	55,499	64,645

Expected Credit loss comprise expected credit losses for non- cash facilities and Deposits with banks and other financial institutions of AED 13.1 million (2020: AED 1.8 million) and AED 0.2 million (2020: AED 1.3 million), respectively.

10. Reserves

a) Statutory reserves

In accordance with Article 103 of Federal Law No. 2 of 2015 and the Head Office's Articles of Association, a transfer equivalent to 10% of the annual profit is made annually to the statutory reserve until such reserve equals 50% of the allocated capital.

b) General impairment reserve

The reserve consists of impairment reserve of AED 55.7 million (2020: 55.7) [Note 21.1.1] in accordance with the Central Bank of UAE IFRS 9 guidance issued in March 2019 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE.

11. Interest income

	2021	2020
	AED'000	AED'000
Interest income on:		
- Loans and advances to customers	**88,915**	127,552
- Deposits with banks and other financial institutions	**4,452**	19,187
- Investment securities	**165**	-
	93,532	146,739

12. Interest expense

	2021	2020
	AED'000	AED'000
Interest expense on:		
- Customer deposits	**7,812**	43,665
- Due to banks and other financial institutions	**6,528**	8,736
	14,340	52,401

13. Net fees and commission income

	2021	2020
	AED'000	AED'000
Fees and commissions income	**17,336**	17,738
Fees and commissions related expenses	**(702)**	(876)
Net fees and commissions	**16,634**	16,862

14. Net impairment (recovery)\losses on credit facilities and other financial assets

	2021	2020
	AED'000	AED'000
Expected Credit loss charges on loans and advances (Note 5)	**20,353**	239,626
Recoveries	**(32,007)**	-
Expected Credit loss charges on other financial assets (Note 8)	**10,147**	1,168
	(1,507)	240,794

15. Fair value and categories of financial instruments

Financial assets and liabilities are designated at amortised cost. In the opinion of management, their carrying amounts of the financial assets and liabilities approximate their fair values as most of the assets and liabilities are short term in nature or repriced immediately based on market movement in interest rates.

Derivatives are designated at fair value through profit and loss. The positive fair value of derivative which are valued using significant inputs of observable market data amounted to AED 138 thousand (2020: AED 39 thousand) and the negative fair value of derivative amounted to AED 150 thousand (2020: AED 5.8 million) [Note 19]. The methodologies and assumptions used to determine fair values of financial instruments are described in the fair value section of Note 2: Significant Accounting Policies. The Fair value of derivatives fall under Level 2 (2020: Level 2).

16. Maturity analysis of assets and liabilities

The table below summarises the maturity profile of Branch's assets and liabilities based on contractual cash flows and maturity dates:

	Up to 3 months AED'000	***3 to 12 months AED'000***	***Over 1 year AED'000***	***Total AED'000***
31 December 2021				
Assets				
Cash and short-term funds	**1,201,215**	**-**	**-**	**1,201,215**
Investment securities	**324,981**	**-**	**-**	**324,981**
Loans and advances to customers	**492,666**	**491,924**	**2,733,054**	**3,717,644**
Premises and equipment	**-**	**-**	**37,031**	**37,031**
Other assets	**13,766**	**-**	**-**	**13,766**
	2,032,628	**491,924**	**2,770,085**	**5,294,637**
Liabilities				
Due to banks and other financial Institutions	**200,342**	**947,640**	**-**	**1,147,982**
Customer deposits	**2,126,509**	**9,164**	**-**	**2,135,673**
Other liabilities	**40,625**	**-**	**-**	**40,625**
	2,367,476	**956,804**	**-**	**3,324,280**
Net liquidity gap	**(334,848)**	**(464,880)**	**2,770,085**	**1,970,357**
Represented by equity				**1,970,357**
31 December 2020				
Assets				
Cash and short-term funds	948,167	-	-	948,167
Deposits with banks and other financial Institutions	920,033	-	-	920,033
Loans and advances to customers	661,688	632,813	2,809,030	4,103,531
Premises and equipment	-	-	39,446	39,446
Other assets	11,394	-	-	11,394
	2,541,282	632,813	2,848,476	6,022,571

16. Maturity analysis of assets and liabilities (continued)

	Up to 3 months AED'000	*3 to 12 months AED'000*	*Over 1 year AED'000*	*Total AED'000*
31 December 2020				
Liabilities				
Due to banks and other financial Institutions	560,139	348,888	-	909,027
Customer deposits	2,645,154	511,750	-	3,156,904
Other liabilities	64,645	-	-	64,645
	3,269,938	860,638	-	4,130,576
Net liquidity gap	(728,656)	(227,825)	2,848,476	1,891,995
Represented by equity				1,891,995

17. Commitments and contingent liabilities

	2021 AED'000	2020 AED'000
Letters of credit	**243,132**	185,298
Guarantees	**420,634**	460,001
	663,766	645,299
Irrevocable commitments to extend credit	**263,737**	321,759
	927,503	967,058
Less: Expected credit losses	**(13,096)**	(1,858)
	914,407	965,200

In the normal course of business, the Branch has exposure to various credit commitments which, though not reflected in the statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures. These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

As at 31 December 2021, the gross balance of contingent liabilities in Stage 1 and Stage 2 amounted to AED 524 million (2020: AED 572 million) and AED 129 million (2020: AED 73 million) and in Stage 3 of AED 10.7 million (2020: Nil) respectively. The ECL for Stage 1 and Stage 2 amounted to AED 2.1 million (2020: AED 1.6 million) and AED 326 thousand (2020: AED 266 thousand), in Stage 3 of AED 10.7 million (2020: Nil) respectively.

18. Taxation

In accordance with the UAE Tax Regulation number (2) issued by the Government of Dubai, on 31 December 1996 for the assessment of tax on the branches of foreign banks operating in the Emirate of Dubai and regulation Number (2) of 2007 for the assessment of Fees on the Bank of Foreign Banks Operating in the Emirate of Abu Dhabi, dated 30 August 2007, all foreign branches of banks operating in the Emirates of Dubai and Abu Dhabi are required to pay tax at 20% on taxable income. However, the Economic Agreement between GCC states requires all GCC natural and legal citizens to be treated uniformly in all economic activities including tax. Management of the Branch has applied this Economic Agreement and has not accounted for any tax on the profits for the current or prior years.

19. Derivative financial instruments

Derivatives are financial instruments that derive their value by referring the interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations.

The Branch enters into interest rate swaps to manage its fair value interest rate risk and forward foreign exchange contracts to manage its foreign currency exposures and cash flows:

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time.

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a specific future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts as at the reporting date is as follows:

	Positive fair value AED'000	***Negative fair value AED'000***	***Notional AED'000***
2021			
Forward foreign exchange contracts	**138**	**150**	**839,178**
2020			
Forward foreign exchange contracts	39	5,799	1,098,860

20. Related party transactions and balances

The Branch enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard (IAS) 24: Related Party Disclosures. Related parties represent the Head Office, its other branches and subsidiaries, associated companies, major shareholders, directors and key management personnel of the Head Office, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the management.

20. Related party transactions and balances (continued)

Balances of related parties at 31 December as included in the statement of financial position are as follows:

	2021 **AED'000**	2020 AED'000
Deposits with the Head Office, other branches and subsidiaries of the Head Office:		
- Maturing within seven days	**23,422**	311,925
- Maturing after seven days	**-**	-
Bill discounted - Head office	**2,263**	674
Interest receivable on deposits	**1**	439
	25,686	313,038
Due to Head Office, other branches and subsidiaries of the Head Office	**740,857**	558,734
Interest payable on deposits	**207**	3,206
	741,064	561,940
Customer deposits of related parties	**7,672**	7,803

Related party transactions included in the statement of income are as follows:

	2021 **AED'000**	2020 AED'000
Interest income -Head Office and branches abroad	**577**	2,547
Interest expense - Head Office and branches abroad	**6,188**	5,716
Head Office management charges	**2,479**	2,754

The Head Office remunerates key management personnel and such remuneration is not specifically recharged to the Branch.

21. Risk management

Risk is inherent in the Branch's activities but is managed in a structured, systematic manner through the Head Office's global risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors with the support of the Management Executive Committee and the Board Audit Committee at the Head Office level together with the Head Office Risk Management and Internal Audit functions.

The Branch is exposed to credit risk, liquidity risk, market risk and operational risk.

The Branch has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

21. Risk management (continued)

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non- quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

21.1 Credit risk

As part of its overall risk management, the Branch uses instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Branch's credit risks.

Credit risk is the risk that counterparty will cause a financial loss to the Branch by failing to discharge an obligation. Credit risk arises in the Branch's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors of the Head Office.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Branch's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the Head Office or International Credit Control Division pending submission to the appropriate Credit Committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

The Branch has formed an internal committee comprising competent professional staff to study and evaluate existing credit facilities of each customer of the Branch. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and assess appropriate expected credit losses. The committee meets regularly throughout the year and studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

Assessment of expected credit losses

Definition of default

The Branch considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Branch in full, without recourse by the Branch to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Branch; or
- borrower is considered as credit impaired based on qualitative assessment for internal credit risk Management purposes
- retail facilities from commencement of legal recourse.

Any credit impaired or stressed facility that has been restructured would also be considered as in default.

The Branch considers investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Branch considers externally-rated portfolio with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

The Branch considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

21. Risk management (continued)

21.1 Credit risk (continued)

Assessment of expected credit losses (continued)

Definition of default (continued)

The Branch considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year (except for retail facilities), or as determined by the Branch for consideration for classifying the facility in stage 2/stage 1.

Significant increase in credit risk

The Branch continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Branch assess as whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 90 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk. Retail facilities however, migrate to stage 2 based on days past due movement and the IFRS 9 presumption of 30 days past due is rebuttable but not rebutted.

The Branch considers a financial instrument with an external rating of "investment grade" (high grade) as at the reporting date to have low credit risk. In addition to the above quantitative criteria, the Branch applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Branch in accordance with the contract and the cash flows that the Branch expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Branch estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

The Branch calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying applicable haircuts.

The Branch in estimating ECL for credit facilities has taken into consideration the following key parameters:

- Floor for estimating PDs for specific portfolios
- Eligible collateral with haircuts for determining LGD
- Deemed maturity for exposures in Stage 2
- Credit Conversion Factor on utilized and un-utilized portions for cash and non-cash facilities

Internal rating and PD estimation process

In managing its portfolio, the Branch utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Branch uses industry-standard rating tools for assessing ratings/scores that are then leveraged for PD estimation process. The tool provides the ability to analyse a business and produces risk ratings at both the obligor and facility levels. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Branch also uses external ratings by recognised rating agencies for externally-rated portfolios.

21. Risk management (continued)

21.1 Credit risk (continued)

Assessment of expected credit losses (continued)

Internal rating and PD estimation process (continued)

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Branch's estimate of the future asset quality. The through-the-cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Branch converts the TTC PDs to point-in-time (PIT) PD term structures using appropriate models and techniques.

The Branch assesses the PD for its retail portfolio through behavioural scorecards. The Consumer portfolio is further segmented statistically and risk pools with shared risk characteristics are addressed with different scorecards relevant for each of the risk pool. The segmentation is based on demographic, behavioural and financial variables which distinctly rank order risk. The scorecards were developed using statistical techniques. Executing the scorecard will return an associated PD value for each of the facility. The term structure PDs are then derived using a base PD.

Exposure at default

Exposure at default (EAD) represents the amount which the obligor will owe to the Branch at the time of default. The Branch considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, credit conversion factors, etc. EAD for retail loans incorporate prepayment assumptions whereas for credit cards portfolio, credit conversion factors are applied to estimate the future drawdowns.

Loss given default

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

Incorporation of forward-looking information

The Branch considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward-looking information into the ECL models. Key economic variables include, but not limited to, Gross Domestic Product, Equity price index, Oil prices, and Government expenditure. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Branch employs statistical models to incorporate macro-economic factors on historical default rates. The Branch considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographical segments and appropriate probability weights are applied to these scenarios to derive a probability-weighted outcome of expected credit loss. The ECL estimates have been assessed for sensitivity to changes to forecasts of macro-variables and together with changes to the weights assigned to the scenarios.

21. Risk management (continued)

21.1 Credit risk (continued)

Assessment of expected credit losses (continued)

The Branch also considered the effect of the Covid-19 pandemic taking into account economic support and relief measures of the UAE Government and Central Bank of UAE. The Branch also considered the notices issued by the CBUAE with regards to the 'Targeted Economic Support Scheme (TESS)' and 'Treatment of IFRS 9 Expected Credit Loss in the context of Covid-19 crisis' as well as the guidance issued by the International Accounting Standards Board (IASB). The Branch did not access any support scheme as implemented by the CBUAE. The Branch, however, granted payment deferrals for 21 customers who faced substantial liquidity issues. A total amount of payment deferrals of AED 159 million was granted, out of which AED 145 million was accordingly recovered. As at 31 December 2021, the total outstanding loans from these customers was AED 331 million (Stage 1: AED 258 million, stage 2: AED 73 million)

The impact on ECL is not material. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis

Maximum exposure to credit risk against items where collaterals are held

An analysis of loans and advances to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements is as follows:

	2021		*2020*	
	Gross maximum exposure AED'000	***Net exposure AED'000***	*Gross maximum exposure AED'000*	*Net exposure AED'000*
Loans and advances to customers (Note 5)	**3,717,644**	**3,441,948**	4,103,531	3,748,596
Commitments and contingent liabilities (Note 16)	**927,503**	**906,184**	967,058	965,404
	4,645,147	**4,348,132**	5,070,589	4,714,000

Collateral and other credit enhancements

The amount, type and valuation of collateral is based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and Branch guarantees. The custody of collaterals is held and their revaluation is performed independent of the business units.

Risk concentration of the maximum exposure to credit risk

Concentration of credit risk arises from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

The Branch has significant credit concentration whereby 13 customers represent 70% of the total portfolio of loans and advances to customers as at 31 December 2021 (2020: 13 customers representing 64%). The management of the Branch is making all efforts to mitigate the risk of credit concentration.

21. Risk management (continued)

21.1 Credit risk (continued)

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

The Branch's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

Geographic region	UAE AED'000	Other Middle East and North African countries AED'000	North America AED'000	Europe AED'000	Asia AED'000	Total AED'000
31 December 2021						
Cash and short term funds	607,620	480,813	95,450	10,033	107	1,194,023
Investment securities - at amortized cost	324,981	-	-	-	-	324,981
Loans and advances to customers	3,158,132	118,437	293,382	146,791	902	3,717,644
Other assets	13,766	-	-	-	-	13,766
	4,104,499	**599,250**	**388,832**	**156,824**	**1,009**	**5,250,414**
Commitments and contingent liabilities	624,204	253,772	20,044	27,621	1,862	927,503
	4,728,703	**853,022**	**408,876**	**184,445**	**2,871**	**6,177,917**
31 December 2020						
Cash and short-term funds	251,818	662,571	14,123	11,185	87	939,784
Deposits with banks and other financial institutions	425,000	495,033	-	-	-	920,033
Loans and advances to customers	3,479,316	107,269	417,027	96,561	3,358	4,103,531
Other assets	8,987	1,437	-	-	-	10,424
	4,165,121	1,266,310	431,150	107,746	3,445	5,973,772
Commitments and contingent liabilities	659,969	212,852	27,252	66,985	-	967,058
	4,825,090	1,479,162	458,402	174,731	3,445	6,940,830

21. Risk management (continued)

21.1 Credit risk (continued)

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

The Branch's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2021	2020
	AED'000	AED'000
Industry sector		
Banks and other financial institutions	**2,315,111**	2,396,362
Trading	**1,940,891**	2,348,215
Real Estate	**257,157**	276,327
Retail	**4,526**	6,315
Government	**1,660,232**	1,913,611
	6,177,917	6,940,830

Credit quality per class of financial assets

In managing its portfolio, the Branch follows the Head office methodology. The Head office utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of assets carried on statement of financial position, based on the Branch's credit rating system:

	Neither past due nor impaired			
	High	***Standard***	***Past due or impaired***	***Total***
	AED'000	***AED'000***	***AED'000***	***AED'000***
31 December 2021				
Balances with the UAE Central Bank	**607,620**	**-**	**-**	**607,620**
Deposits and current account with banks and other financial Institutions:				
- Original maturity within seven days	**586,296**	**107**	**-**	**586,403**
- Original maturity after seven days	**-**	**-**	**-**	**-**
Loans and advances to customers	**1,583,010**	**2,152,369**	**10,647**	**3,746,026**
Investment securities	**324,981**	**-**	**-**	**324,981**
Other assets	**13,766**	**-**	**-**	**13,766**
	3,115,673	**2,152,476**	**10,647**	**5,278,796**

21. Risk management (continued)

21.1 Credit risk (continued)

Credit quality per class of financial assets (continued)

	Neither past due nor impaired			
	High	*Standard*	*Past due or impaired*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
31 December 2020				
Balances with the UAE Central Bank	676,818			676,818
Deposits and current account with banks and other financial Institutions:				
- Original maturity within seven days	632,879	55,087	-	687,966
- Original maturity after seven days	-	495,033	-	495,033
Loans and advances to customers	1,414,721	2,696,842	82,145	4,193,708
Investment securities	-	-	-	-
Other assets	11,394	-	-	11,394
	2,735,812	3,246,962	82,145	6,064,919

21.1.1 Impairment Reserve under the Central Bank of UAE

The Central Bank of UAE issued its IFRS 9 guidance in March 2019 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE. The guidance states that if the specific provision along with suspended interest and general provisions (1.5% of Total CRWA) as per CBUAE requirements (Circular 28/2010), is higher than the impairment allowance computed under IFRS 9, the difference individually shall be transferred to an Impairment reserve as an appropriation from the retained earnings. This Impairment reserve shall further be split into specific provision difference (Impairment Reserve: Specific) and the collective/general provision difference (Impairment Reserve: General). This Impairment reserve shall not be available for payment of dividend. Also, the regulation specifies that the Impairment Reserve: General shall be allowed to be included in regulatory capital up to a maximum of 1.25% of Risk weighted assets as per Basel, where this is not already utilized.

	2021	2020
	AED'000	AED'000
Impairment Reserve: General		
General provisions under Circular 28/2010 of CBUAE (at 1.5%)	**76,152**	82,055
Stage 1 and Stage 2 provision under IFRS 9	**(20,402)**	(26,305)
General provision transferred to the impairment reserve*	**55,750**	55,750
Impairment Reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**-**	-
Stage 3 Provision under IFRS 9 (net collateral value exceeds loan)	**(21,281)**	(67,027)
General provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**55,750**	55,750

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

In addition, restricted category of facilities specific provisions under Circular 28/2010 of CBUAE is computed net of the value of collateral.

21. Risk management (continued)

21.2 Liquidity risk

Liquidity risk is the risk that the Branch will be unable to meet its liabilities when they fall due, to limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The liquidity profile of non-derivative financial liabilities excluding other liabilities reflects the projected undiscounted cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

The liquidity profile of financial liabilities and contingent liabilities at 31 December was as follows:

	Up to 3 months AED'000	*3 to 12 months AED'000*	*Over 1 year AED'000*	*Total AED'000*
31 December 2021				
Financial liabilities				
Due to banks and other financial Institutions	**200,348**	**953,406**	**-**	**1,153,754**
Customer deposits	**2,124,573**	**12,411**	**-**	**2,136,984**
	2,324,921	**965,817**	**-**	**3,290,738**
Contingent liabilities and commitments				
Contingent liabilities	**201,973**	**356,915**	**104,878**	**663,766**
Irrecoverable commitments	**734**	**-**	**263,002**	**263,737**
	202,707	**356,915**	**367,880**	**927,503**
31 December 2020				
Financial liabilities				
Due to banks and other financial Institutions	560,296	350,629	-	910,925
Customer deposits	2,646,086	512,720	-	3,158,806
	3,206,382	863,349	-	4,069,731
Contingent liabilities and commitments				
Contingent liabilities	244,015	335,882	65,402	645,299
Irrecoverable commitments	22,545	36,725	262,489	321,759
	266,560	372,607	327,891	967,058

Refer Note 15 'Maturity analysis of assets and liabilities' which specifies maturities of the financial liabilities shown above. The financial liabilities shown in Note 15 exclude future interest payments.

21.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

21. Risk management (continued)

21.4 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Branch is not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and exposures arising on any medium term fixed rate lending or fixed rate borrowing are covered by derivative financial instruments. Furthermore, the reverse cumulative interest rate gap is carefully monitored on a periodic basis and adjusted where necessary to reflect changing market conditions.

Interest rate sensitivity

Interest rate sensitivity measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This excludes loan commitments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Branch's financial assets and liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Branch's results as follows:

	Movement in basis points	***2021 AED'000***	*2020 AED'000*
USD	+25	**(4,745)**	6,986
AED	+25	**(2,050)**	1,439
GBP	+25	**-**	(2)
EUR	+25	**(354)**	556

A 200 basis points upward shift in yield curve would have a net interest income impact of AED 57,020 and the equity would be AED 2.01 billion (2020: AED 80.5 million and AED 1.97 billion, respectively).

21.5 Foreign exchange risk

Foreign exchange risk is the risk that the fair value / future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

The table below analyses the effect on results and equity of an assumed 5% strengthening in value of the currency rate against the UAE Dirham from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase in profit:

	2021		2020	
	% change in currency rate	***Effect on profit*** **AED'000**	*% change in currency rate*	*Effect on profit* AED'000
KWD	**+5**	**18**	+5	18
Other	**+5**	**(1,559)**	+5	270

There is no other impact of foreign exchange risk on the Branch's equity.

21. Risk management (continued)

21.6 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, and systems failure or from external events. The Branch has a set of policies and procedures, which are approved by the Head Office management and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Branch. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

22. Basel III - Pillar III Disclosure

Introduction

The Central Bank of the UAE ('CBUAE") sets and monitors capital requirements for the Branch. Effective from 2017, the capital is computed at the Branch level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from I February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CETI'), Tier 1 ('Tl') and Total Capital. The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced are over and above the minimum CETI requirement of 7%.

For 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the Capital base. For 2019, CCB will be required at 1.88% and from 2021; it will be required to be maintained at 2.5% of the Capital base CCyB is not yet in effect and is not required to be maintained for 2021.

The Branch's total capital adequacy ratio as at 31 December 2021 was 45.39% against regulatory requirements of 13% and Tier 1 ratio was 44.22% (2020: 37.68% against regulatory requirements of 13% and Tier 1 ratio was 36.51%).

Branch structure

The core activities of the Branch are corporate, retail and private banking. The financial statements and capital adequacy regulatory reports of the Branch have been prepared on a consistent basis save as otherwise disclosed.

Capital structure

The Branch's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes assigned capital, statutory reserve and retained earnings, after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes qualifying subordinated liabilities.

During the year ended 31 December 2021, the Branch had complied with the CBUAE minimum capital requirements.

22. Basel III - Pillar III Disclosure (continued)

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

	2021	2020
	AED'000	AED'000
Tier 1 Capital		
Allocated capital	**1,420,113**	1,420,113
Statutory reserves	**64,672**	58,324
Retained earnings	**414,948**	357,808
Total	**1,899,733**	1,836,245
Tier 2 capital		
Impairment provision (1.25% of Risk weighted assets)	**50,111**	59,297
Total capital base	**1,949,844**	1,895,542
Risk weighted assets		
Credit risk	**4,008,870**	4,743,798
Market risk	**4,099**	1,921
Operational risk	**282,467**	284,218
Total risk weighted assets	**4,295,436**	5,029,937
Risk asset ratio (%)	**45.39%**	37.68%

23. Other information

Social contributions amounting to AED Nil were made during the year ended 31 December 2021 (2020: AED Nil).

24. Impact of Covid - 19

The Novel Coronavirus (Covid-19) pandemic, confirmed in January 2020, has caused widespread business disruptions around the world resulting in a consequential negative impact on economic activities. This has continued in 2021. In response, governments and central banks have launched economic support and relief measures (including payment deferrals) to minimize the impact on individuals and corporates. The Branch, however, did not access any support scheme (Note 21.1). The Branch cannot reasonably determine the quantitative impact of the pandemic as at the date of issuance of these financial statements because the situation is fluid and rapidly evolving.

The effect of the Covid-19 pandemic has been considered in the current year assessment of expected credit losses on financial assets in accordance with IFRS 9 Financial Instruments. The Branch has also taken into account economic support and relief measures of the UAE government and central bank. In addition, economic uncertainty and market volatility have been exacerbated by a decline in oil prices, stock prices and interest rates both regionally and globally. This requires the Branch to continuously re-assess its critical judgements and estimates, particularly judgements and estimates on the valuation of its financial assets. The Branch will continue to monitor the situation and keep re-assessing and adjusting its critical judgements and estimates, as necessary.

25. Changes in reference rates (IBOR)

The branch has significant exposure to the London Interbank offered rates (LIBOR), the benchmark interest rate, through its financial instruments, which will be replaced as part of the fundamental reform of various major interest rate benchmarks. The branch has undertaken a project under the oversight of a cross-functional IBOR Committee to manage its transition from LIBORs to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which assets and liabilities are referenced to LIBOR cash flows, whether such contracts need to be amended as a result of those reforms and how to manage communication about LIBOR reform with counterparties. The new contracts to be entered by the branch on or after 1st January 2022 will be based on using various alternative benchmark interest rates including certain “risk-free” rates.

Transition away from LIBORs to the risk-free or alternative “reference rate” regime will affect the pricing of deposits, loans, hedging instruments and floating rate debt securities and the valuation of collateral.

The following risk-free rates (RFRs) are widely used to replace LIBORs as the benchmark in their respective currencies:

USD - SOFR (Secured overnight funding rate)

GBP - SONIA (Sterling overnight index average)

EUR - ESTER (Euro short term rate)

CHF - SARON (Swiss average rate overnight)

JPY - TONAR (Tokyo overnight average rate)

Financial assets and liabilities

The Branch’s exposure to its floating-rate financial assets and liabilities is mainly through USD LIBOR. The Branch will perform transition of these contracts to RFRs through bilateral agreements not later than June 2023. The Branch’s exposure to financial assets that are based on USD LIBOR maturing after June 2023 is AED 2,222 Million as at 31 December 2021. The Branch’s exposure to IBOR linked financial liabilities is relatively insignificant. Similarly, the non-USD floating rate exposures are also relatively insignificant. The Branch is in discussion with the counterparties/ clients to effect an orderly transition of USD exposures to the relevant RFR.